



# GIFIP

Global Islamic Finance and  
Impact Investing Platform

## IICPSD- IRTI Joint Study: “Mapping the Impact Investing Ecosystem in the OIC Region”



Empowered lives.  
Resilient nations.

# Background

The launch of the 2030 Agenda for Sustainable Development confirmed that the world is in need of innovative engagements with all stakeholders, particularly with the private sector, in order to cope with the urgent and pressing problems we are facing. The implementation of this ambitious agenda will require a significant increase in investments to fill the financing gap in key Sustainable Development Goal (SDG) sectors in developing countries, estimated at US\$2.5 trillion.

The Islamic finance industry has been experiencing strong growth rates for the past 40 years in response to increasing demand for *shariah* compliant finance. Islamic finance assets totalled US\$2.2 trillion in 2016 and are estimated to reach US\$3.8 trillion in 2022. The Islamic finance industry has been growing in depth and breadth over the years. A growing number of countries, including non-Muslim countries, are adopting Islamic finance in their financial markets, suggesting that the wide appeal of Islamic finance resides in its global values of participatory and inclusive development. Islamic finance is offering innovative financial intermediation through multiple channels including banking, capital markets, insurance and asset management. Although the banking sector dominates the global Islamic finance industry, the Islamic capital markets, especially fixed income investments, are catching up fast. *Shukūk*, equity-based certificates of investment, provide fixed income investment opportunities in various areas including infrastructure, green and socially responsible investments.

Impact investments aim to generate social and environmental impact together with financial returns. These investments distinguish themselves by defining their intended positive social or environmental impact

from the beginning and measuring their progress with clear indicators against declared goals. In response to the growing needs of societies and increasing awareness on the topic, impact investments have been experiencing significant growth. The Global Impact Investing Network's (GIIN) 2018 Annual Impact Investor Survey results show that impact investors are managing assets amounting to US\$228 billion, while total ODA in 2017 amounted to US\$146.6 billion.

The principles of Islamic finance and impact investing, with their rigorous moral, social and environmental criteria, as well as their emphasis on inclusiveness and broader understanding of business-society relations, are in harmony with each other. Thus, Islamic finance represents a large potential market for impact investors interested in accessing alternative sources of finance and for closing the funding gap for achieving the SDGs through impact investing, especially in the Organisation of Islamic Cooperation (OIC) region.

Bridging these two sectors offers a promising avenue of response to the growing challenges related to development financing, through collaboration and cross-learning, and by reaching new markets.

The primary objective of the study is to map the key stakeholders of the Islamic finance-based impact investing ecosystem in the OIC region and to recommend ways to advance it. It also identifies the needs of key SDG sectors in the OIC region, demand for investments as well as opportunities for impact investing. In addition, it reviews recent developments and key regional impact investment activities, highlights the synergies between Islamic finance and impact investing, and formulates recommendations for solid actions to advance the ecosystem.

## Unfolding impact investing in the OIC region

### Regional needs and demand for impact investing

The OIC consists of a wide array of member countries (MCs), three of which are in the G-20, while a large number of them are still considered least developed countries (LDCs). Building a more inclusive and sustainable future for almost two billion people in the OIC region would require innovative and inclusive financial approaches as well as private sector investments in key SDG sectors.

### The impact investing ecosystem in the OIC region

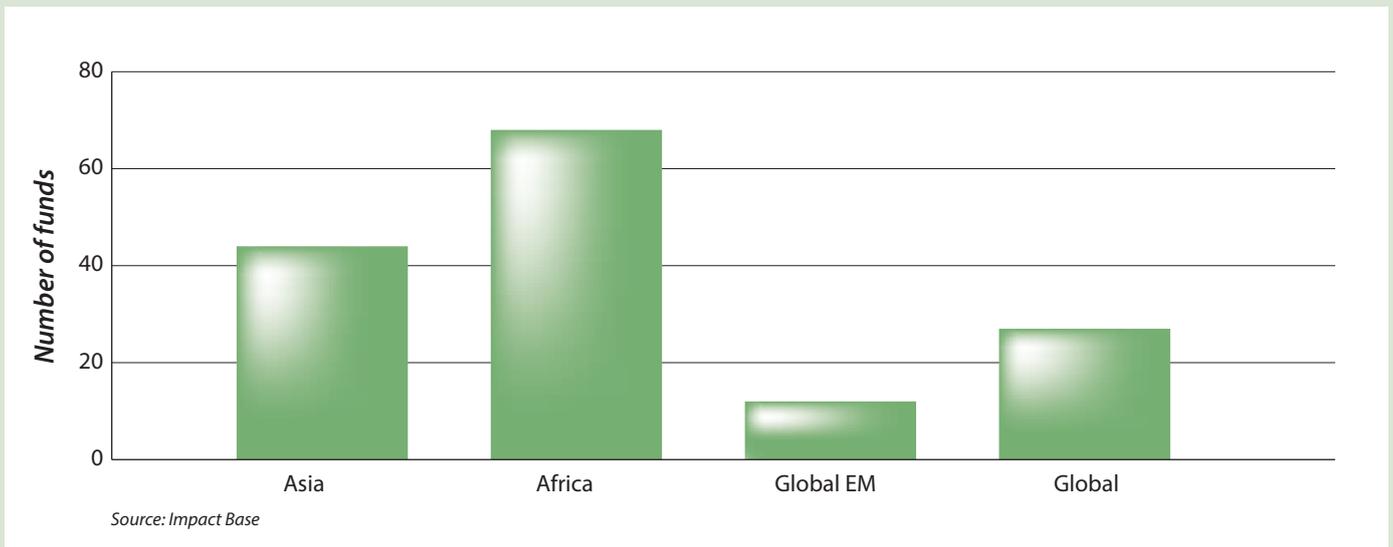
While the impact investing sector currently manages US\$228 billion assets worldwide, US\$68.4 billion impact

assets are allocated to geographic areas with a heavy OIC presence and to SDG-relevant themes such as microfinance, energy, housing, food and agriculture, and healthcare.

### A snapshot of the impact investment funds in Asia and Africa

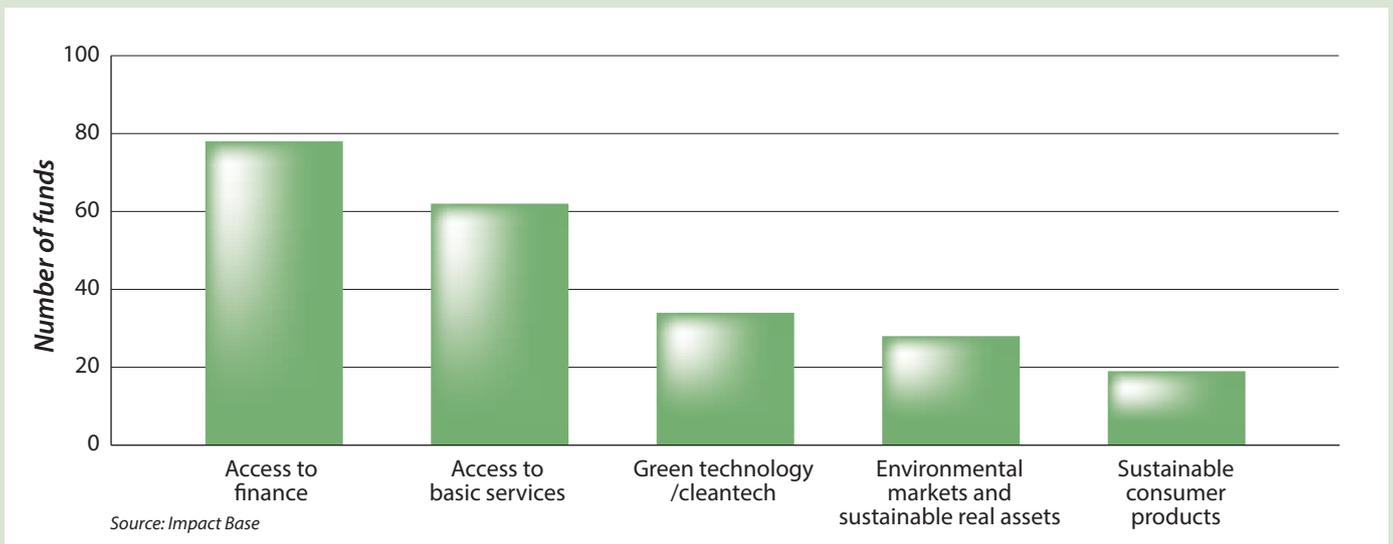
There are more than 400 impact investment funds registered to the GIIN and two other network and mapping initiatives. In order to illustrate the impact investment activity and to analyse the impact investment fund behaviour in the OIC region, this study reviews the sample of funds that are investing in Africa (68) and Asia (44) where most OIC countries are located and investing in emerging markets (12) and globally (27).

**Figure 1: Geographic focus of the impact investment funds**



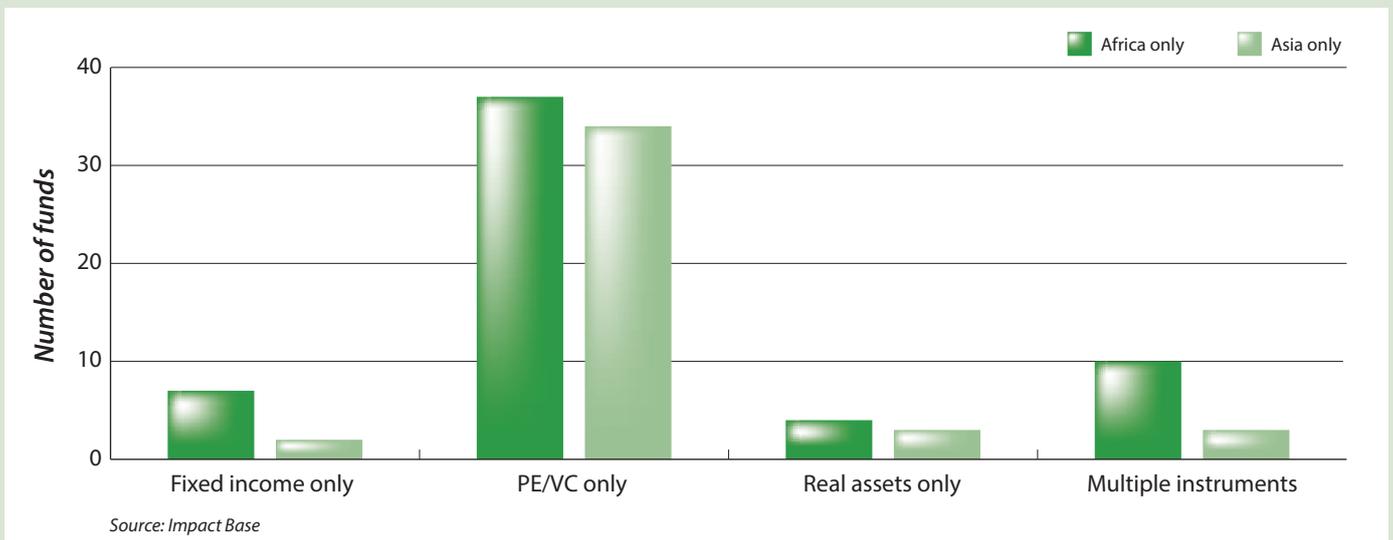
*In Asia and Africa, there is a preference for investing in initiatives related to access to finance, followed by those dealing with the provision of basic services.*

**Figure 2: Impact themes across Africa and Asia**



*Private equity/venture capital (PE/VC) is the most common investment method across all regions, followed by either fixed income (FI) funds or funds using multiple investing instruments.*

**Figure 3: Regional asset class allocation**



# Experience of Islamic finance in responsible investing

## Trends in Islamic finance for responsible investing

The Islamic finance industry is responding to the financial needs within the key SDG sectors such as microfinance, renewable energy, housing, food and agriculture, and healthcare.

### Microfinance

The benefits of microfinance schemes are the possibilities of higher rates of return than market rates. Islamic microfinance helps to mobilize external funds and savings for potential beneficiaries. One pioneer example of conducting microfinance operations based on the principles of Islamic finance is the Abu Halima Greenhouses Project, aimed at generating economic opportunities for Sudanese low-income graduates in the modern agricultural sector.

### Renewable energy

Green *ṣukūk* emerged as a socially responsible investment (SRI) instrument for renewable energy projects. The green *ṣukūk* aim to fulfil socially responsible and environment focused investors' financial needs in the OIC region without contravening *shariah* principles. Malaysia, being the pioneer, issued the first Green *Ṣukūk* Tadau with a nominal value of US\$64 million in 2017 to finance a 50 MW solar project facility.

### Housing

There are several Islamic finance modalities for housing finance in the market that could provide promising ways to bridge the gap between income and loan affordability. For example, Ethis Crowd, a *ḥalāl* property investment start-up, develops affordable housing solutions. It works

on the philosophy of crowding funds from socially responsible investors' and invests in *shariah* compliant real estate projects to make positive social impacts.

### Food and agriculture

Capital insufficiency is a major impediment to agricultural development, since modern farm inputs require adequate financial resources for all value chain stakeholders throughout the production cycle. Akhuwat, the biggest interest-free microfinance institution in Pakistan, has emerged as a competitive and prosperous model for creating real and sustainable solutions to poverty by helping the needy.<sup>1</sup>

### Healthcare

SRI *ṣukūk* are another Islamic finance vehicle that can be used to channel funds towards the life-critical needs of the nations. The very first SRI *ṣukūk* issued in 2014 was the Vaccine *Ṣukūk*, based on a *ṣukūk murābahah* contract, which raised over US\$500 million for children's immunization and the strengthening of health systems in developing countries.

1 Haider, Syed Hussain, and Jayyeda Taimoor. 2018. "Stepping on the Field: Akhuwat and Government of Punjab Providing Agricultural Loans to Small Farmers." In *Case Studies in Islamic Finance and Shariah Compliance*, edited by Ahmed Ali Siddiqui, Sarwat Ahson, and Shazia Farooq. Karachi: Institute of Business Administration (IBA)-Centre for Excellence in Islamic Finance (CEIF).

## Recommendations to advance Islamic finance for impact investing

1. Impact investing activities are key for the achievement of the SDGs. Moreover, for several reasons, such as consumer preferences and the availability of funds, the establishment of the Islamic finance-based impact investment sector would significantly advance the SDGs in the OIC region.
2. Microfinance and renewable energy are the most promising sectors that are high in demand by the impact investors. Islamic finance-based impact investing could easily offer products and services for the microfinance sector in the OIC region.
3. Using fixed income instruments such as green *ṣukūk* in financing for infrastructure development would also cater to the needs of the Islamic finance sector. Consequently, while contributing to the achievement of SDGs, green *ṣukūk* could be an initial key step in advancing impact investing ecosystem in the OIC region.
4. Ten of the 20 largest sovereign wealth funds are based in the OIC region. These funds could become an important source of patient capital for financing the long-term financial needs of key SDG sectors.<sup>2</sup>
5. Impact measurement is an essential component of impact investing activities. Impact investors prefer standardized metrics and frameworks that are aligned to the SDGs. There is also a keen demand for an impact measurement framework that would integrate *shariah* principles with the SDGs.

2 Sovereign Wealth Fund Rankings (SWFI) (n.d.). Sovereign Wealth Fund Rankings. <https://www.swfinstitute.org/sovereign-wealth-fund-rankings>.

UNDP's Istanbul International Centre for Private Sector in Development (IICPSD) and the Islamic Development Bank's Islamic Research and Training Institute (IRTI) invite interested institutions to partner with the Global Islamic Finance and Impact Investing Platform (GIFIIP) on the mapping study for jointly collecting data on Islamic finance-based impact investing, generating ideas and identifying good practices. For more information and expression of interest, please contact us at: [gifiip@undp.org](mailto:gifiip@undp.org)

Please visit [gifiip.org](http://gifiip.org) for updates.