



# Islamic Finance and Development Financial Institutions (DFIs)

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## Question

*Are development financial institutions bringing in private capital from Islamic investors, and if so, how? How is the Islamic Development Bank group involved or planning to be involved in this space? What is the profile of infrastructure and developmental capital investments currently at the Islamic Development Bank group?*

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## 1. Overview

Development financial institutions (DFIs), eager to mobilise private sector financing for their activities, seem to increasingly look towards Islamic investors, although currently it is almost exclusively the Islamic Development Bank Group (IsDB) that is active in this realm. IsDB Group attracts sharia-compliant institutions and high net worth individuals through issuing *sukuk* (“Islamic bonds” or financial certificates) and other sharia-compliant products, and offer competitive returns such as *murabaha*<sup>1</sup>. The investments of the IsDB Group are mostly in credit financing (equity participation was made use of in one fifth of the projects), with over one fourth of funds directed towards infrastructure projects.

DFIs’ interest in Islamic finance, while gaining strength, is still rather limited, with the World Bank Group, European Bank for Reconstruction and Development (EBRD), African Development Bank (AfDB), and Asian Development Bank (ADB) among the few actively working towards attracting sharia-compliant investors e.g. by virtue of issuing *sukuk*. Many DFIs have entered into partnerships with the IsDB Group.

The Islamic Development Bank Group mobilises private funds mostly through two of its members: the Islamic Development Bank (IsDB) and the Group’s private sector arm, the Islamic Corporation for Development of the Private Sector (ICD). While IsDB predominantly focuses on issuing *sukuk*, ICD offers a range of sharia-compliant instruments from *murabaha* and *wakala*<sup>2</sup> to *ijara*<sup>3</sup> and *istisna’a*<sup>4</sup>, through four capital market funds that it manages:

- Unit Investment Fund (UIF),
- Trade Premium Fund (TPF),
- Corporate Premium Fund (CPF), and
- Monetary Market Fund (MMF).

In the future, in order to mobilise resources more effectively, the IsDB Group plans to develop a “concessional resource mobilisation concept” and establish a “dedicated resource mobilisation unit” (IsDBG, 2016a: 14-15).

The private sector is both a source of funding for the IsDB Group and a recipient of financing. The Group has a number of entities launched to assist the private sector, among them the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), the Islamic Corporation for the Development of the Private Sector (ICD), and the International Islamic Trade Finance Corporation (ITFC). Funding is provided through grants and loans, as well as through Islamic instruments (*ijarah*, *istisna’a*, instalment sales, restricted *mudaraba*, and sharia-compliant

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<sup>1</sup> A mark-up sale or cost-plus financing, one of the most popular sharia-compliant financial instruments on the market.

<sup>2</sup> An agency contract.

<sup>3</sup> Sharia-compliant leasing contract.

<sup>4</sup> Manufacturing contract with deferred delivery (unlike in a similar *salam* contract, full advanced payment is not necessary, but possible).

equity participation). In 2016, the Islamic Development Bank Group's net approvals amounted to USD 10.5 billion, and it held equity investment in more than 80 companies and funds in 29 countries.

Through ICD, the Group provides funding mostly through credit financing (69% of all projects supported since IsDBG's inception), equity participation (20%), and funds (11%). [Taking a sectoral view](#), investments in ~~financial products industry and mining related projects~~ amounted to ~~43.3%~~ [22.2%](#) of all approvals, [in industry and mining related projects – 22.2%, followed by investments in funds \(10.6%\), and real estate \(7.8%\). 4.5% of total approvals were in health and other social services](#), energy and information and communication projects accounted for 2.8% of funding each, transportation – 2.3%, trade – 2.1%, with the remaining 1.4% allocated to agriculture, education, and water, sanitation and waste management projects (ICD, 2016a: 10). [By the end of 2016](#), ~~t~~he ~~majority-plurality (36%)~~ of funds ~~were~~ allocated to projects in the Middle East and North Africa (MENA) region, 19% – in the Commonwealth of Independent States (CIS) and Europe, ~~165%~~ [65%](#) to those in Sub-Saharan Africa, and 14% in Asia (with the remaining 15% being global or regional).

IsDB Group pays significant attention to the role of women in development; apart from awarding annually DB Prize for Women's Contribution to Development (IsDB), IsDB makes it its policy to note how many jobs were created for female employees when evaluating its projects and a separate line of financing is dedicated to women-led initiatives (see Tables in Section 4).

## 2. Development financial institutions and Islamic investors

The leading multilateral development finance institution in the field of Islamic finance is the Islamic Development Bank Group (IsDB), supporting the economic development and social progress of its 57 member countries. The Group is not only actively engaged in mobilising private funds from the Islamic money and capital markets, but also works towards building and scaling up partnerships with fellow DFIs; between 2009 and 2016, IsDB signed 85 Memoranda of Understanding (MoUs) and cooperation agreements. In 2016 alone, 16 new MoUs were signed, among others with the Bill & Melinda Gates Foundation (BMGF), Qatar Development Fund (QDF), King Salman Humanitarian Aid & Relief Centre (KSRelief), Abu Dhabi Fund for Development (ADFD), ECOWAS, Borsa Istanbul, Japan Bank for International Cooperation (JBIC), Russia, United Nations Development Fund (UNDP), United Nations Environment Programme (UNEP), International Atomic Energy Agency (IAEA), Arabic Language International Council (ALIC) and the World Bank (Concessional Financing Facility—CFF) (IsDB, 2016a: 13, 58).

Interest in Islamic finance on the part of the world's leading DFIs has become noticeable during the past few years. In May 2016 the United Nations called for “a greater role for Islamic finance to reach humanitarian goals” during the annual World Humanitarian Summit (IRTI & UNDP, 2017: 68). Similar recommendations were made by the Group of Twenty (G20) during a 2015 seminar “Mobilising Islamic Finance for Long-Term Investment Financing” organised jointly by the World Bank (WB) Group, Capital Markets Board of Turkey, and Borsa Istanbul (WB, 2015). Utilising *sukuk* financing for infrastructure and Small and Medium Enterprises (SMEs) development was also part of guidance published jointly in September 2016 by the G20 and the Organisation for Economic Co-operation and Development (OECD) (OECD, 2016).

The move is part of a wider strategy calling for tapping into the private sector for funds; in 2016 a number of DFIs issued a Joint MDB (Multilateral Development Banks) Statement of Ambitions for Crowding in Private Finance committing themselves to pursuing a number of actions aimed at attracting private finance. They agreed to increase private sector mobilisation by 25%-35% over the following three years and to report progress on annual basis. Apart from the IsDB, among the signatories were the AfDB, the Asian Infrastructure Investment Bank (AIIB), ADB, EBRD, European Investment Bank (EIB), Inter-American Development Bank (IADB), New Development Bank (NDB), and the World Bank (WB) Group (AIIB et al., 2016: 1; AfDB et al., 2017: 3).

In 2016 alone, Multilateral Development Banks (AfDB, ADB, AIIB, EBRD, EIB, IADB, IsDB, NDB, WB Group, IADB Group, Islamic Corporation for the Development of the Private Sector, and Multilateral Investment Guarantee Agency) managed to mobilise USD 3.7 billion from private and institutional investors through short-term direct mobilisation, USD 49.9 billion in long-term direct mobilisation, and USD 113.7 billion in long term indirect mobilisation (AfDB et al., 2017: 4). No data is available to assess what portion of this sum came from Islamic investors though.

## **African Development Bank (AfDB)**

In 2013, AfDB signed an MoU with the International Islamic Liquidity Management Corporation (IILM) to enable the IILM to assist AfDB in building its knowledge base and capacity in the field of Islamic finance. AfDB and its member countries were also to look into *sukuk* markets for funds mobilisation (AfDB).

## **Asian Development Bank (ADB)**

ADB worked with IsDB to develop a private equity Islamic Infrastructure Fund, making investments in infrastructure in countries having dual ADB and IsDB membership (Afghanistan, Azerbaijan, Bangladesh, Indonesia, Kazakhstan, Kyrgyz Republic, Malaysia, Maldives, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan) (ADB).

## **European Bank for Reconstruction and Development (EBRD)**

Following the signing of an MoU with the Islamic Corporation for the Development of the Private Sector (ICD), the EBRD set up a USD 120 million investment fund aimed at assisting development of SMEs in Egypt, Jordan, Morocco, and Tunisia, offering various equity- and quasi-equity based products. Both institutions contribute to the fund, while at the same time working to attract additional institutional investors and donors (EBRD).

## **World Bank (WB) Group**

The WB Group has been actively engaged both in the evaluation of the potential of Islamic finance for boosting development and in the implementation of its findings, notably through collaboration on a lengthy 2016 report *Islamic Finance: A Catalyst for Shared Prosperity?* and other reports. The WB Group also regularly organises events promoting Islamic finance and its potential role for developmental purposes (WB, WB Blog). It has also established a Global Islamic Finance Development Center in Istanbul, which “acts as a knowledge hub, provide[s] technical advisory and assistance services to World Bank client countries and conduct[s] research” (IRTI & UNDP, 2017: 68).

In a less theoretical vein, in 2004, the International Finance Corporation (IFC), a member of the WB Group, issued a MYR 500 million, three-year Wawasan-Islamic Bond in Malaysia. This was awarded “Malaysia Bond of the Year” in 2005 by WAN-IFRA (World Association of Newspapers and News Publishers) Asia. On October 2009, IFC issued a USD 100 million sukuk for term funding<sup>5</sup> in the Middle East as the first non-Islamic institution in the world. In 2010, this release won IFC the EMEA Finance Most Innovative Islamic Bond Deal award (IFC). Five years later, in 2015, the IFC released another USD 100 million sukuk through its special purpose vehicle, IFC Sukuk Company. The five-year wakala<sup>6</sup>-based sukuk is to “support IFC’s developmental financing activities” in the MENA region and elsewhere (IFC, 2013).

### 3. Bringing in private capital from Islamic investors – IsDB

#### Islamic Development Bank Group’s financing overview

The Islamic Development Bank Group (IsDBG) consists of the Islamic Development Bank (IsDB), financed through ordinary capital resources (OCR), and affiliated entities and trust funds which are not consolidated in the Bank’s accounts, although they are sometimes included on its balance sheet as equity stakes:

- Islamic Corporation for Development of the Private Sector (ICD),
- Islamic Research & Training Institute (IRTI),
- Islamic Corporation for Insurance of Investment and Export Credit (ICIEC),
- Islamic Solidarity Fund for Development (ISFD), and
- International Islamic Trade Finance Corporation (ITFC),

as well as the Waqf Fund and the Awqaf Properties Investment Fund (APIF).

In the group, it is mainly IsDB and ICD that are responsible for resource mobilisation. IsDB derives its resources from paid-in capital (bank equity) and resources mobilised from the financial markets (see Figure 1). Under its Resource Mobilisation Strategy, resources are mobilised from the Islamic capital and money market (the former for medium- and long-term funding requirements, the latter – for the short-term ones). On the capital market, funds are mobilised through sukuk on both a public and private placement basis, and on the money markets using commodity murabaha placements (IsDB, 2014: 63). Resources mobilised from the market are usually utilised to finance projects in the middle-income and high-income countries, while OCR – in low-income ones (IsDB).

Under IsDB’s strategy, sukuk issuance has a dual role; apart from serving fund raising purposes, it is also geared at promoting the bank and “the development of Islamic finance industry in general and the sukuk markets in particular by increasing the supply of high quality sukuk which can be actively traded in the secondary markets” (IsDB).

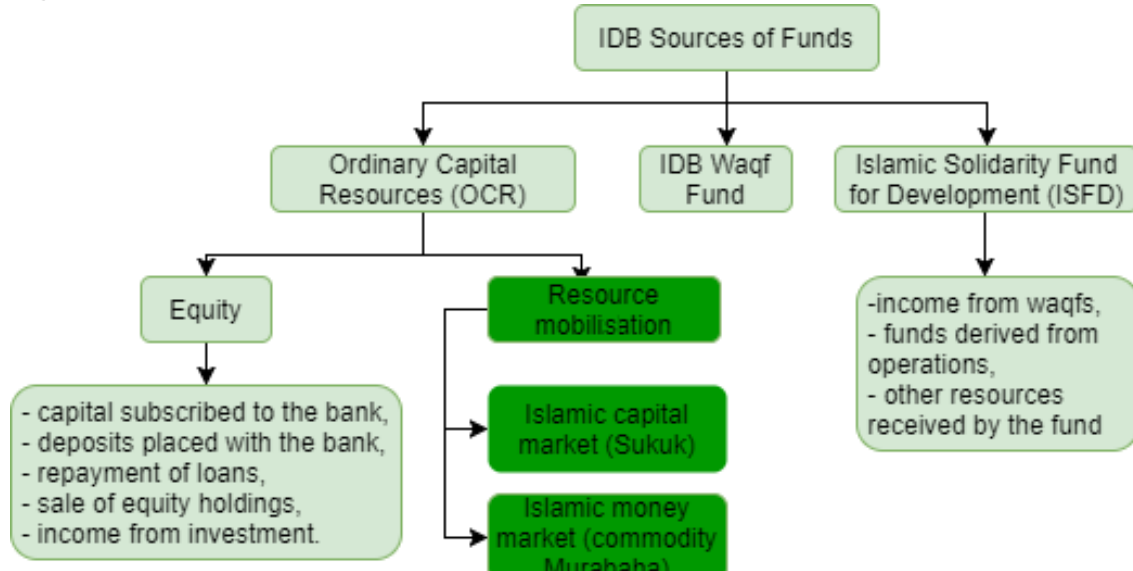
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<sup>5</sup> Financing for a specific period of time arranged in order to meet specific needs of the borrower.

<sup>6</sup> An agency contract.

ICD, as a private-sector arm of the group, is responsible for mobilising resources from

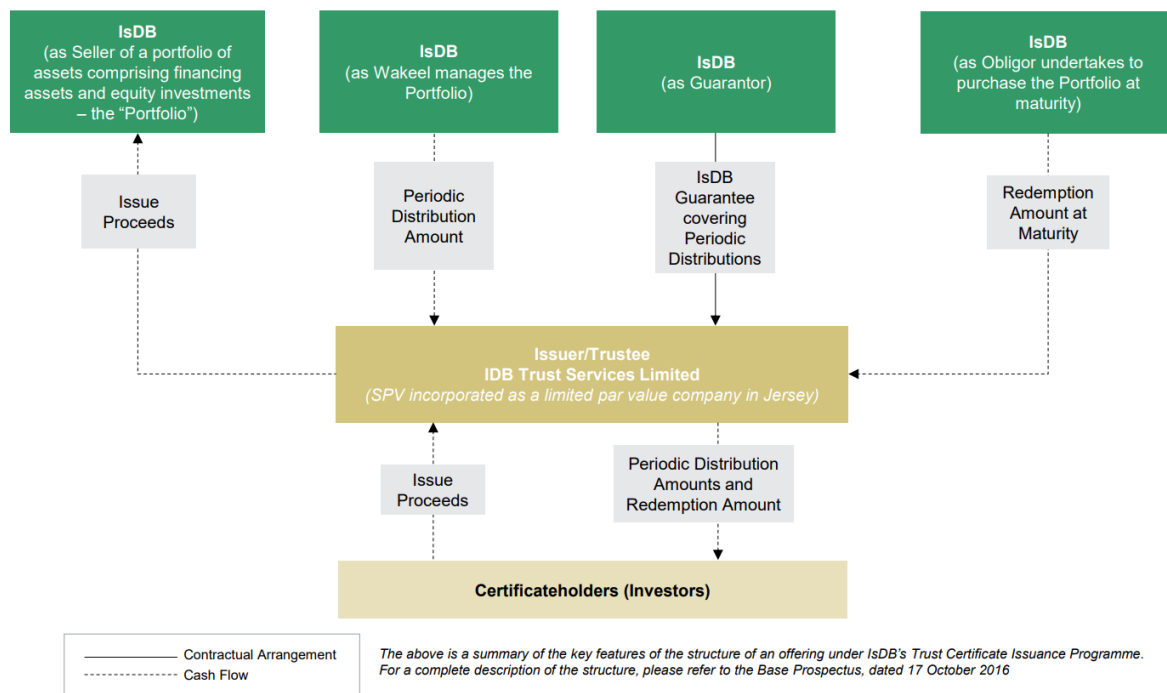
**Figure 1: Islamic Development Bank Sources of Funds**



Source: Author's elaboration based on Islamic Development Bank (2014). *Modes of Finance*, p. 61-66.

predominantly from money markets, targeting institutions and high net worth individuals.

**Figure 2 Sukuk Structure Overview**



Source: IsDB, 2016c: 24

In the upcoming years, IsDB Group plans to mobilise concessional resources more effectively by virtue of establishing a “dedicated resource mobilisation unit” and developing a “concessional resource mobilisation concept” (IsDBG, 2016a: 14-15).

## IsDB and long term resource mobilisation

As noted by Moody’s Investors Service, “leverage is relatively new” to ISDB, as they only started borrowing from the markets in 1424 H (2003<sup>7</sup>) with the launch of its first fixed-rate 5-year *sukuk* (trust certificate or asset-based Islamic bond) of USD 400 million (Torres, Mali, & Sheth, 2016: 9). Two (lunar) years later, it established a USD 1.5 billion Medium Term Notes (MTN) program in order to facilitate the rather complicated and time-consuming process of *sukuk* issuance in the future. The very same year, a USD 500 million *sukuk* was launched on a floating rate basis for 5-year maturity under the MTN scheme. In order to meet ISDB’s funding requirements, the MTN program was updated and upsized first in 2009 (to USD 1.5 billion), then in 2010 (to USD 3.5 billion). The most recent update and upsize, to USD 25 billion, took place in 2015 (late 1436H) (Torres, Mali, & Sheth, 2016: 9; IsDB 2016a: 27; IsDB).

More recently, in 2016, IsDB issued a total of four series of *sukuk* under the MTN. Two of those were public issuances for USD 2.75 billion. By reckoning of the ISDB itself, “[t]hese issuances witnessed participation of new high-quality investors, which manifested the acceptance of ISDB credit in the global fixed income space” (IsDB, 2016a: 26). The other two – via private placements, tailored in terms of currency and tenure for investors’ needs. The first one, offered directly to a group of private investors in North Africa and Europe, is a 7-year USD 300 million issuance, the second – a 5-year USD 100 million one (IsDB, 2016a: 26-27).

Under MTN, in 1429 H (2008) IsDB launched also a local currency MYR 1 billion programme with an expiration date of August 2018. The scheme is oriented specifically at the Malaysian market for issuance of local currency and is listed on Bursa Malaysia under Special Purpose Vehicle/Issuer name of Tadamun Services Berhad. The first two tranches of *sukuk*, worth RM 100 million and RM 300 million, were launched in 2008 on a fixed rate basis for 5-year maturity. The third tranche of MYR 300 million was issued in July 2013. Most recent one, worth MYR 350 million with an 8-year maturity, was launched in June 2016 (IsDB, [sukuk.com](http://sukuk.com)). In April 2017, IsDB priced a 5-year USD 1.25 billion with distribution in Middle East (56%), Anisa (37%), and Europe (7%) (IsDB).

IsDB’s *sukuk* are listed on London Stock Exchange, Bursa Malaysia (Exempt Regime), Nasdaq Dubai and Borsa Istanbul and have AAA ratings from the three main rating agencies (Fitch, Moody’s, and Standard and Poor’s).

In 2016, a *sukuk* programme was also launched by another member of the IsDBG, the Islamic Corporation for Development of the Private Sector (ICD), which issued its debut 5-year USD 300 million *sukuk* and allowed the ICD to raise USD 1.1 billion long-term funds from the Middle East (81%), Europe (10%), and Asia (9%) (IsDB, 2016a: 26).

Apart from issuing *sukuk*, IsDB looks into the money market for mobilising short- and medium-term resources. According to IsDB’s strategy, this could be done by virtue of Reverse *murabaha*

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<sup>7</sup> In 2016 IsDB has changed its financial year end from Lunar Hijri to Solar Hijri (equivalent to Gregorian calendar), which resulted in financial year lasting 15 months.

or *wakala*. Not much information is available about the scale of these types of arrangements, besides the fact that the former was inaugurated in 2005 (Torres et al., 2016: 9; IsDB, 2016a: 27; IsDB).

## ICD's Investment Funds

The private sector arm of IsDBG, Islamic Corporation for Development of the Private Sector (ICD), manages four capital market funds offering investors (institutions and high net worth individuals) a wide range of innovative, sharia-compliant products bringing competitive returns.

### Unit Investment Fund (UIF)

UIF is a sharia-compliant open-ended trust fund aiming to provide investors with “an opportunity to invest in sharia-compliant finance (Corporate, Trade & Treasury and Equities) while benefiting from risk-adjusted returns”. In 2016, the net value of its assets amounted to USD 224 million. It offers asset allocation in treasury, corporate finance, private equity, real estate, and trade finance, with a benchmark return of over 4%. Since its inception in 1989, it has funded 319 projects.

- Exposure by sector: real estate (23%), financial (23%), industrial (16%), treasury (12%), transportation (8%), sovereign (5%), others (13%);
- Exposure by mode of finance: *murabaha* (39%), equity (23%), treasury (13%), *ijara* (12%), *sukuk* (9%), *istisna'a* (4%);
- Exposure by region: MENA (56%), global (22%), South East Asia (18%), Europe (4%);
- Asset classes: corporate finance, treasury, private equity, real estate, trade finance (CPF, 2016e: 8-16).

### Trade Premium Fund (TPF)

TPF is a sharia-compliant open-ended fund targeting institutional and high net worth individuals that seek competitive-yielding liquidity. The fund invests in “well-secured funding of trade and mitigates risks through comprehensive due-diligence procedures and active post-investment follow-up coupled with enhanced portfolio diversification” (CPF, 2016f: 8-9). At the end of 2016, TPF's capital amounted to USD 42 million. The net return to investors was 2.78%. Since its inception, it has funded 7 projects.

- Exposure by sector: money markets (48%), sovereign trade finance (28%), structured trade finance (24%);
- Exposure by asset class: money market fund (47%), *murabaha* (28%), trade finance fund (24%), treasury (1%);
- Exposure by region: South East Asia (48%), global diversified (24%), South America (19%), East Africa (7%), West Africa (2%);
- Modes of Finance: *murabaha* (plain and structured), *wakala*, restricted *wakala*, and any other shariah-compliant finance modes (CPF, 2016f: 8-11).



## Corporate Premium Fund (CPF)

CPF is ICD's sharia-compliant, open-ended fund launched in January 2016 with an initial capital of USD 74 million with the aim of making sharia-compliant investments in corporate finance transactions in emerging and high growth markets. During its first year of functioning, CPF funded 11 projects. The net return to investors was 4.26%.

- Exposure by sector: financial services (25%), real estate (19%), transportation (14%), food and beverages (13%), retail (12%), sovereign (8%), oil and gas (7%), cash at bank (3%), industrial (0.2%);
- Exposure by asset class: corporate finance (52%), money market fund (16%), *sukuk* (14%), sovereign (8%), *sukuk* fund (7%), cash and receivables (3%);
- Exposure by region: MENA (46%), South-East Asia (31%), Europe (15%), Sub-Saharan Africa (8%), South Asia (0.2%) (CPF, 2016g: 8-15).

## Monetary Market Fund (MMF)

MMF is a sharia-compliant open-ended, high-yield income fund with "a key mandate of (...) development and promotion of Islamic financial markets and institutions" (IsDB). Established in September 2013, MMF has generated net returns to investors of between 3-4%.

- Exposure by asset class: bank (38%), cash (19%), *sukuk* (13%), other (30%);
- Exposure by region: MENA (30%), Sub-Saharan Africa (26%), Europe (24%), South Asia (9%), South-East Asia (6%), South America (5%);
- Modes of Finance: commodity *murabaha*, syndicated *murabaha*, *wakala*, restricted *wakala*, *sukuk* (CPF, 2016h: 8-17).

# 4. Infrastructure and developmental capital investments at IsDBG

## Mission and structure

Islamic Development Bank Group considers the private sector one of the key factors behind economic growth, poverty eradication, and enhancement of social inclusion. As such, it has been supporting development of the private sector both through provision of advisory services and investment since its outset. Indeed, some of the IsDB Group entities were launched specifically to assist private sector.

- The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) was established in 1995. The ICIEC was created to provide sharia-compliant insurance and develop risk mitigation strategies in order to assist FDI flows between the bank's members;
- The Islamic Corporation for the Development of the Private Sector (ICD) was founded in 1999 to assisting economic development of the Bank's member states through financing private sector projects, advising governments and private companies, and promoting competition and entrepreneurship. It facilitates the development of Islamic financing and capital markets and identifies "opportunities in the private sector that could function as

engines of growth and to provide them with a wide range of financial products and services” (ICD). ICD has four financial channels described in the previous Section: the Unit Investment Fund (UIF), Trade Premium Fund (TPF), Corporate Premium Fund (CPF), and Money Market Fund (MMF). ICD invests in companies through:

- Direct equity investment (plain equity, quasi-equity, hybrids (convertible)), which can take a form of capital increases or buyouts, aimed at companies in search for capital. ICD’s equity contribution must not exceed one third of the project’s overall equity capital. Apart from providing financing, ICD participates in companies’ boards in order to support their “business effectiveness and corporate governance” (ICD). Equity participation is usually employed for investments in equity of sharia-compliant industrial or agro-industrial projects, but also Islamic banks and financial institutions of IsDB member states (IsDB, 2014: 53-55; IsDBG, 2016b: 28);
- Medium-term finance (four to seven years) designed for assisting company launch or development and financing project implementation. ICD’s financing must be under 40% (for new and greenfield<sup>8</sup> projects) or 50% (for brownfield<sup>9</sup> projects) of the total project cost (with minimum financing of USD 5 million). It can act as “underwriting, lead arranging or participant in term financing projects” (ICD);
- Short term (up to two years) finance for companies with liquidity problems, delivered in the form of trade finance, working capital, or bridge finance.

Moreover, it supports financial institutions’ development through equity participation (support for banking and non-banking entities) and a line of financing arrangements for financial institutions domiciled in one of the member countries with the purpose of investing in eligible projects.

- The International Islamic Trade Finance Corporation (ITFC); the youngest of the three, ITFC was launched in 2005 in order to “consolidate the trade finance business” (IsDBG, 2016b: 18). Apart from facilitating and financing trade, it helps members and institutions to secure funding, assists development of investment opportunities and instruments, and provides technical assistance and training to institutions from the field of trade finance.

Similarly, two programmes were established with the private sector in mind.

- The Public-Private Partnership financing model was introduced in 2006 and is predominantly used to target non-sovereign infrastructure projects promoting “economic development, job creation, regional integration, and the transfer of skills and expertise to promote sustainable growth in its member countries” (IsDB, 2016a: 46). Between 2006 and 2016, it accounted for nearly a quarter of IsDB financing; almost USD 2.7 billion was mostly spent on utilities including power generation (34%), materials (25%) and financial sectors (17%). In 2016, USD 530 million was awarded to new projects from IsDB-OCR, which are expected to generate over 2,000 new jobs. At the same time, USD 378 million was distributed for projects from existing portfolio. In the future, the PPP portfolio is to be

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<sup>8</sup> Undertaken in a field where no work has previously been done.

<sup>9</sup> Based on previously completed work.

expanded in order to include soft infrastructure sectors. Indeed, in 2016 12% of all approved projects were in the healthcare sector, and education and agriculture projects are to be supported more often as well.

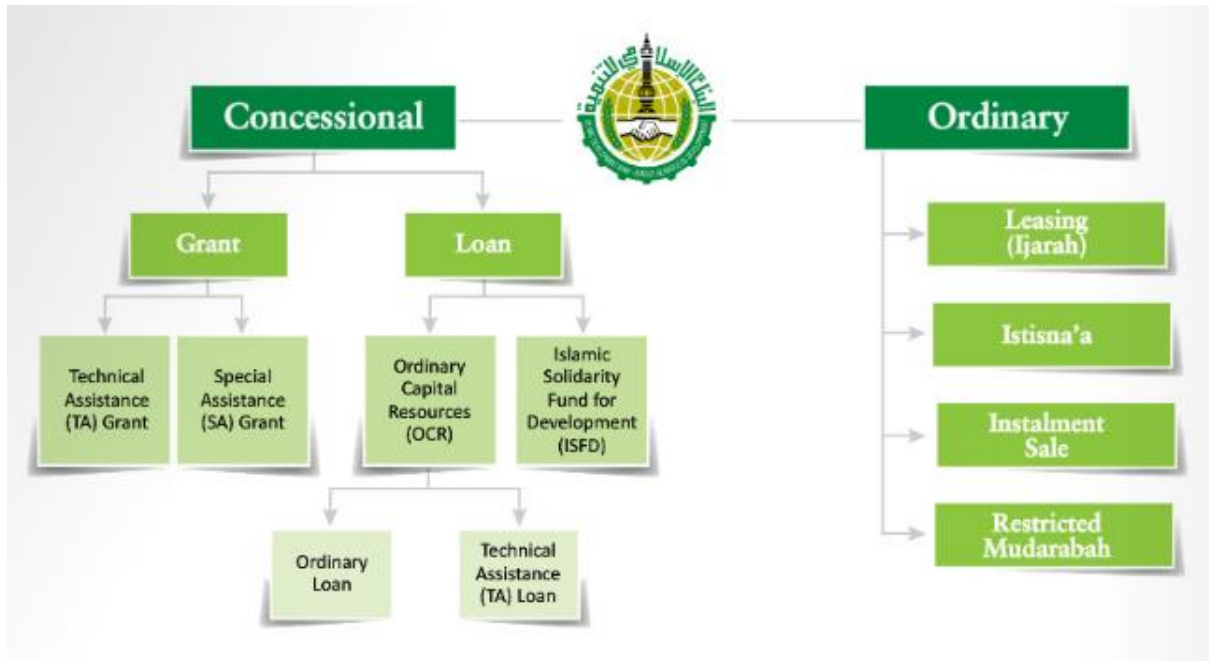
- Group Business Forum (THIQAH) is a business platform aimed at facilitating and promoting private sector development.

## Instruments

IsDB has two main modes of providing financial assistance: concessional (grants and loans) and ordinary. Among the latter group are *ijarah*, *istinsa'a*, instalment sales, restricted *mudaraba*, and equity participation (not included in the diagram below). All instruments may be accessed by government (and government-backed) entities and by private sector companies (IsDBG, 2016b: 28; IsDB, 2014: 53).

- *ijarah* (leasing) is an instrument providing medium term financing for the purpose of renting of fixed assets (e.g. machinery, vehicles, oil tankers); at the lease expiry, bank transfers the ownership of the assets in question to the lessee as a gift;
- *istinsa'a* is a contract for manufacture of goods put into use in infrastructure projects and trade in capital goods
- instalment sales are mark-up sales, whereby the bank purchases a good and subsequently resells it to the beneficiary in instalments at a higher price;
- restricted *mudaraba* – a partnership contract whereby the bank acts as an agent investing in pre-defined sectors or projects;
- equity participation is a mode of financing whereby the bank makes an investment in equity capital of a new or already existing company (up to one third of the given company's capital), used by the bank in order to “maximise its development objectives”.

**Figure 3: IsDB Modes of Finance**



Source: IsDB, 2014: 4.

In 2016, Islamic Development Bank Group's net approvals (USD 10.5 billion) came predominantly from Ordinary Capital Resources (IsDB-OCR) (55.5%), International Islamic Trade Finance Corporation (ITFC) (36.7%), and Islamic Corporation for the Development of the Private Sector (ICD) (6.7%) (IsDB, 2016a: 25).

In terms of approvals by modes of financing, in the case of IsDB OCR in 2016 the majority of funding was approved in the form of *istisna'a* (58.6%), followed by leasing (19.5%), and instalment sale (13.8%). Only 0.4% approvals took the form of equity. The situation looked different at ICD where 23.6% of funding were in the form of equity and 66.2% through *murabaha* (IsDB, 2016a: 107). ICD's share in the total approvals was 6.7% (USD 819.4 million).

Moreover, worldwide "the Bank has equity investment in more than 80 companies and funds in 29 countries, including one Islamic bank and a Takaful company in the Republic of Indonesia" (IsDB).

## Islamic Corporation for the Development of the Private Sector

The IsDB Group member responsible for private sector development is the Islamic Corporation for the Development of the Private Sector (ICD). ICD provides beneficiaries – mostly SMEs – with access to sharia-compliant finance through equity investments in Islamic banks and non-bank institutions and by providing lines of finance, term finance, and corporate equity investments.

Since its inception, ICD has funding for projects through equity funding (79 projects, of which 47 in institutional and 32 in corporate equity), term finance (190), lines of finance (67), or asset management services (14). In monetary terms, 20% of approvals (USD 991 million) were granted in equity participation, 69% in credit financing (line of finance and term finance), and 11% in funds. The majority of approvals were granted to financial industry (43.3%), followed by industry and mining (22.2%), funds (10.6%), and real estate (7.8%). Energy and

information/communication projects accounted for 2.8% of funding each, transportation – 2.3%, trade – 2.1%, with the remaining 1.4% allocated to agriculture, education, and water, sanitation and waste management projects (ICD, 2016a: 10). Looking at geographic distribution, since the ICD's establishment 36% of funds were allocated to projects in MENA region, 19% to those in CIS and Europe, 15% – in Sub-Saharan Africa, and 14% in Asia (with the remaining 15% being regional or global).

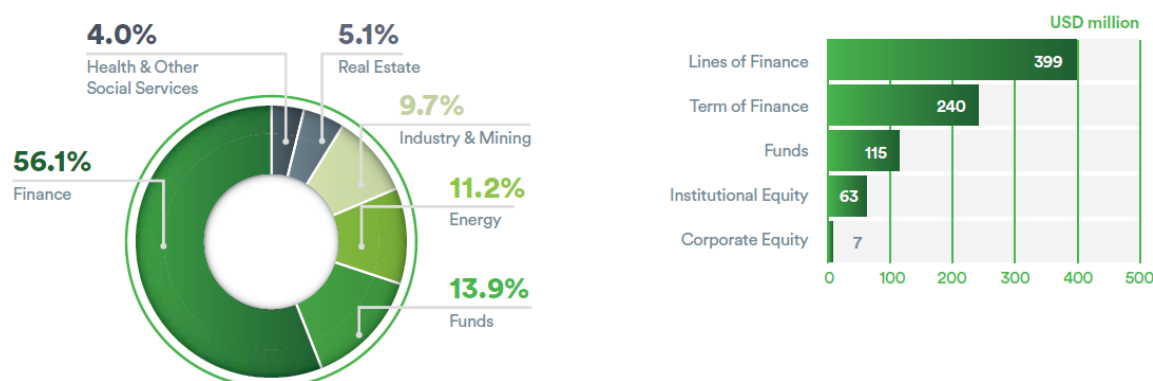
In 2016 alone ICD delivered over USD 824 million in financing to the private sector in 23 member countries, approving 38 projects (11 in Sub-Saharan Africa, 10 in MENA, 8 in CIS & Europe, 6 in Asia, and 3 regionally/globally), supporting 3,886 SMEs, and 68,000 direct jobs (empowering 12,400 women thanks to job creation). Moreover, ICD's private sector's support resulted in USD 275 million being in tax revenue generated by local governments and USD 135 million injected into financial systems. The financing approved was spread widely, with the majority in the MENA region (23.4% or close to USD 193 million) and Sub-Saharan Africa (20.6% or almost USD 167 million), followed by CIS & Europe and Asia (18.3% or roughly USD 151 million each). The remaining 19.4% of financing was awarded to regional or global projects (ICD, 2016a: 8-9).

**Figure 4: ICD's Theory of Change**



Source: ICD, 2016b: 16.

**Figure 5: ICD's Approvals by Sector and Product Types (October 2015 – December 2016)**



Source: ICD, 2016b: 3.

The majority of projects supported were in the financial sector (19, worth USD 462.2 million), followed by industry and mining (7 projects with financing of financing USD 80.2 million), energy (4 projects with financing of financing USD 92.3 million), real estate (3 projects with financing of financing USD 42 million), and health and other social services (2 projects with financing of financing USD 32.8 million). USD 115 million was approved for funds support (3 projects). The majority of projects approved – 28 (granted 77% of all financing) are to be financed through credit (line of finance or term finance), while institutional and corporate equity amounted only for 9% of the financing (5 and 2 projects respectively) (ICD, 2016a: 9). In terms of funds disbursed in 2016, most were allocated to line of finance (53.4%) and terms of finance (43.4%), while institutional and corporate equity amounted to only 2.8% of disbursements.

### Equity financing

Equity financing, one of ICD's modes of finance, is believed to be "key to promoting Islamic financing practices" while at the same time promoting SME growth as a "funder of funds" (ICD, 2016a: 34). Table 1 presents development outcomes of institutional equity financing, as reported by ICD's seven partners. The results, while marginally lower than those from 2015, it still invested almost USD 72 million in SMEs equity and USD 32.5 million in micro/individual financing. Almost half (46%) of the projects financed were SMEs run by women, followed by housing projects (20%), education projects (16%) and agribusiness projects (14%) (ICD, 2016b: 34).

ICD's equity financing activities resulted in 423 new business and 553 new direct jobs (out of which almost half were taken by women) being created. Moreover, USD 3.1 million was made in payments to governments and USD 0.2 million was contributed to community development (ICD, 2016b: 35).

**Table 1: Equity financing results**

| Indicators                                      | No. of projects financed<br>(as of December 31, 2016) | Amount financed, USD million (as of December 31, 2016) |
|---|---|--|
| SME Financing                                   | 2,345   | 71.83  |
| Micro/Individual Financing                      | 12,207  | 32.48  |
| Housing Financing (Projects)                    | 343   | 33.63  |
| Agribusiness Financing (Projects)               | 230   | 1.94   |
| Education Financing (Projects)                  | 269   | 3.04   |
| Health Financing (Projects)                     | 52  | 1.03   |
| Micro/Individual Financing for Women (Projects) | 22  | N/A  |
| SME Financing for Women (Projects)              | 773   | N/A  |

Source: ICD, 2016b: 34.

**Table 2: Equity Financing Development Outcomes**

| Outcome indicators                    | Results<br>(as of December 31, 2016) |
|---------------------------------------|--------------------------------------|
| New Businesses Created                | 423                                  |
| Payment to Governments                | USD 3.09 million                     |
| Direct Employment Overall             | 553                                  |
| Direct Employment for Women           | 271                                  |
| Contribution to Community Development | USD 0.17 million                     |

Source: ICD, 2016b: 35

## Line of finance

A “very effective tool for development with higher multiplier effect”, mode of financing that dominated ICD approvals both in 2016 and since its establishment, amounting to roughly half of both disbursements and approvals (ICD, 2016a: 17). In ICD’s view, this type of funding is “particularly relevant” in countries where access to affordable and/or Islamic financing is constrained. The tables below present summary and development outcomes of lines of finance.

The vast majority (65%) of funds were disbursed to SMEs, followed by support to housing projects and agribusiness projects (roughly 17% each). Funds disbursed for the purpose of micro/individual financing and health projects made up for the remaining 1.9% of all the funds.

**Table 3: Lines of Finance Results**

| Indicators                                   | No. of project financed<br>(as of December 31,<br>2016) | Amount financed, USD<br>million (as of<br>December 31, 2016) |
|--|---|--|
| <b>SME Financing</b>                         | 148   | 118.73   |
| <b>Micro/Individual Financing (projects)</b> | 1   | 0.2  |
| <b>Housing Financing (Projects)</b>          | 32  | 30.21  |
| <b>Agribusiness Financing (Projects)</b>     | 24  | 30.94  |
| <b>Health Financing (Projects)</b>           | 4   | 3.21   |

Source: ICD, 2016b: 39.

As a result of the funds disbursed, 147 sub-projects and 11,127 direct jobs were created. Moreover, USD 31.1 million was contributed to government revenues and USD 222.5 million were injected to local economies through purchase of goods and services for projects’ purposes.



**Table 4: Lines of Finance Development Outcomes**

| Outcome indicators                          | Results<br>(as of December 31, 2016) |
|---|--------------------------------------|
| Sub-Projects Occurring due to ICD Financing | 147                                  |
| Direct Employment at Sub-Project Level      | 11,127                               |
| Contribution to Government Revenues         | USD 30.1 million                     |
| Good and Services Purchased Locally         | USD 222.5 million                    |

Source: ICD, 2016b: 39.

### Term finance (ijara)

The table below present results and development outcomes of *ijara* financing, as reported by ICD's ten partners. The majority (66.4%) of funds were dedicated to SMEs, followed by housing projects (9.1%), and education and health projects (7.5% and 6.3% respectively). Micro/individual and agribusiness projects received 8.5% of all funds, while the remaining 2.2% were granted to projects led by women.

**Table 5: Ijara Financing Results**

| Indicators   | No. of project financed<br>(as of December 31,<br>2016) | Amount financed, USD<br>million (as of<br>December 31, 2016) |
|--|---|--|
| SME Financing                                      | 477   | 73.81  |
| Micro/Individual Financing                         | 637   | 4.96   |
| Housing Financing (Projects)                       | 47  | 10.16  |
| Agribusiness Financing (Projects)                  | 18  | 4.44   |
| Education Financing (Projects)                     | 6   | 8.31   |
| Health Financing (Projects)                        | 70  | 6.96   |
| Micro/Individual Financing for<br>Women (Projects) | 20  | 1.59   |

|   |    |      |
|---|----|------|
| <b>SME Financing for Women (Projects)</b> | 50 | 0.94 |
|---|----|------|

Source: ICD, 2016b: 35.

**Table 6: Ijara Financing Development Outcomes**

| <b>Outcome indicators</b>          | <b>Results<br/>(as of December 31, 2016)</b> |
|------------------------------------|--|
| <b>New Businesses Created</b>      | 125  |
| <b>Payment to Governments</b>      | USD 0.96 million                             |
| <b>Direct Employment Overall</b>   | 276  |
| <b>Direct Employment for Women</b> | 42   |

Source: ICD, 2016b: 35.

## Selected examples

### Banque Misr (BM) in Egypt

Banque Misr, one of the largest banks in Egypt, received USD 25 million line of financing with a five-year tenure. The line is to be used primarily for the purpose of financing private companies (including SMEs), but its aim is also to assist Egypt's financial institutions to achieve their developmental goals thanks to increasing their long-term financial resources (ICD, 2016a: 19).

### Advanced Energy Systems Company ("ADES")

ICD's UIF granted Egypt's largest offshore oil drilling company, ADES, USD 5 million in term finance for purchase of two new oil rigs. The country's offshore industry is still nascent, with 13 oil rigs in operation (ICD, 2016e: 29-30).

### Tamweel Africa Holdings

In 2016, ICD approved additional USD 24.83 million to increase its stake in Senegalese Dakar-based Tamweel Africa Holdings. The move was designed to advance the company's transformation into a regional banking group, which will allow it to work more efficiently and effectively, and expand its operations to new West African markets (ICD, 2016a: 19).

### DeFacto LLC Company

Turkish apparel producing company, DeFacto LLC, was awarded by ICD's CPF USD 10 million syndication for 3 years under the structure of commodity *murabaha* for working capital

requirements. The funds acquired are to aid company in expanding its international presence, generating new jobs (ICD, 2016g: 30-31).

### **Halic Leasing**

Under its strategy to establish or to establish or invest in at least one financial intermediary in each member country”, in 2016 ICD paired with Turkish Aktif Bank and a Bahrain-based Ijara Management Company specialising in solutions for sharia-compliant leasing companies in order to recapitalise Halic Leasing – the only leasing enterprise providing sharia-compliant leasing products to private sector companies (especially SMEs) in Turkey (ICD, 2016a: 22).

### **Catalyst Group International (CGI)**

Following buy out of other investors, in 2016 ICD invested an additional USD 4.5 million in this Jeddah-based management firm specialising in solutions for housing and SME sectors, becoming its majority shareholder. The end goal of Catalyst Group International is helping to meet the growing demand for housing in ICD member countries by virtue of strengthening their mortgage industries (ICD, 2016a: 23).

### **Heavy fuel oil-fired power plant**

In order to help remedy Mali’s severe electricity shortages – detrimental to its economic growth – ICD approved USD 22.3 million term finance facility that will contribute to establishment of a heavy fuel oil-fired power plant. Once completed, the plant is to reduce the electricity supply gap by ca. 30% and foster economic growth in the Kayes region (in which the plant will be located).

The plant will come into existence under a ‘build own operate transfer’ (BOOT) framework of a project company, Albatros Energy Mali SA, in which ICD undertook one fourth of senior financing facility. Among remaining investors are Danish government-owned fund (IFU), Infrastructure PPP Africa Fund, and Argan Infrastructure Fund (ICD, 2016a: 26).

### **Summit Barisal Power Limited (SBPL)**

In April 2016, ICD approved funding for another heavy fuel oil-fired power plant, this time located in Barisal in Bangladesh. The USD 20 million term finance facility, arranged with City Bank of Bangladesh, provides 80% of the financing facility required (the remaining 20% being provided by Infrastructure Development Company Limited) (ICD, 2016a: 27).

### **Calik Enerji**

Corporate financing of USD 25 million was invested by ICD in Calik Enerji, a part of one of Turkey’s leading investment conglomerated dedicated to power and energy sectors. The facility will contribute to company’s renewable energy business line and building of its IPP portfolio (ICD, 2016a: 29).

### **Manisa hospital**

ICD granted a USD 24.5 million term financing facility for the purpose of construction of the Manisa Health Campus in Manisa, Turkey. The project is part of Turkey’s government Public

Private Partnerships (PPP) scheme aimed at facilitating and encouraging private sector participation in healthcare facilities' development. Other institutions engaged in the project include IsDB, Ziraat Participation Bank and Siemens Bank (ICD, 2016a: 29).

### **Accommodation for Dubai's workers**

ICD UIF provided financing for development of a residential complex in Jebel Ali, United Arab Emirates, to cater to the needs of the ever growing number of construction workers. The energy-efficient design of a building features grey water recycling and economical HVAC (heating, ventilation, and air conditioning) systems, making the exploitation costs low. This investment brought ICD UIF a 6.5% mark-up with a margin over its target return (ICD, 2016a: 33).

### **Beacon VC Fund**

A joint initiative between ICD, Abdullah University of Science and Technology (KAUST), and Anfaal Capital, the enterprise is an all equity fund launched to facilitate start-up growth in Saudi Arabia by virtue of providing venture capital and making investments in sectors crucial to the country's economic development. ICD approved USD 4.5 million out of the fund's USD 30 million target size (ICD, 2016a: 34).

### **Mukafat Portfoy Yonetimi**

Mukafat Portfoy Yonetimi is a sharia-compliant asset management company, launched in 2016 by ICD in collaboration with Aktif Bank. The enterprise, established in order to support development of Turkish ecosystem and capital markets, tapping into institutional, retail, and pension fund sectors in the country. It will consist of a number of Islamic close-end and open-end funds (ICD, 2016a: 35).

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## About this report

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