



Islamic Corporation for the
Development of the Private Sector

28 November, 2017

ICD's Shariah compliant SME Line of Financing for Uzbekistan

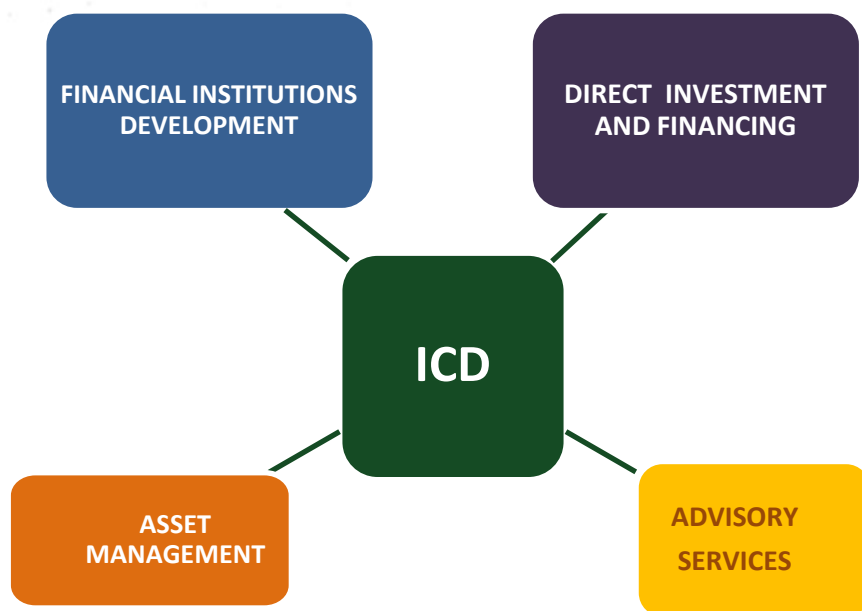
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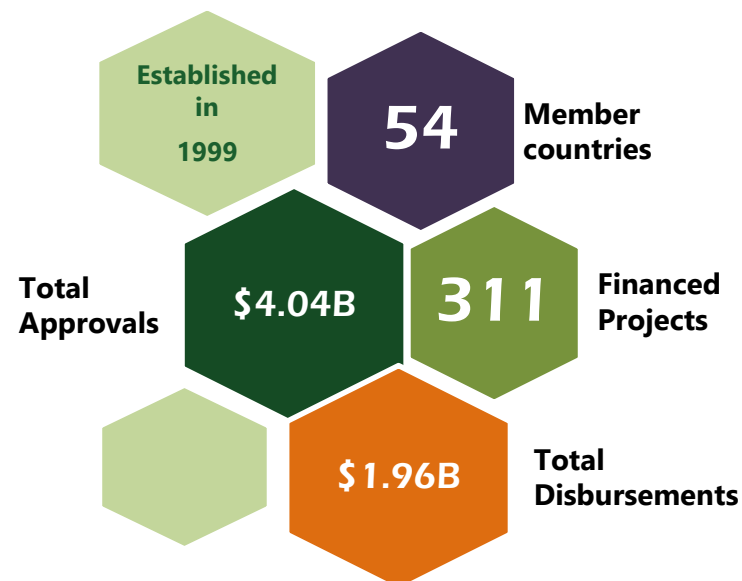
ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR (ICD)

MISSION AND ORGANISATION

- Member of **Islamic Development Bank Group**
- **Mission:** Complement the role played by the Islamic Development Bank (IDB) through the development and promotion of the private sector as a vehicle to enhance the economic growth and prosperity



BRIEF OVERVIEW OF ICD



APPROVAL PER OPERATION (in M USD)

ASSET MANAGEMENT & ADVISORY

410

DIRECT INVESTMENT- EQUITY

933

LINE OF FINANCE

1,114

TERM FINANCE

1,589

CONCEPT OF THE «LINE OF FINANCE»

CONCEPT OF THE LINE OF FINANCE

- ICD extends lines of finance to selected banks and financial institutions in its Member Countries as a mean to improve the access of private businesses to medium term financing and concurrently strengthening the balance sheet positions of the beneficiary banks.

OBJECTIVE

- Promotion of Islamic Banking and Finance
- Promote ICD's partnership with financial institutions benefiting from their local presence and expertise
- Improve access of private sector enterprises to term financing facilities

ELIGIBLE FINANCIAL INSTITUTIONS

- Financial Institutions that are registered, authorized and licensed to operate in ICD member Countries
- Regional Financial Institutions that have common member states with ICD
- Satisfactory quantitative and qualitative criteria

END BENEFICIARIES

- Private enterprises involved in eligible sectors that have an impact on local development

EXPECTED DEVELOPMENT IMPACTS

- Economic growth and alleviation of poverty
- Job creation
- Strengthening local financial systems and promotion of Islamic Finance

QUANTITATIVE AND QUALITATIVE ASSESSMENT CRITERION

Qualitative Assessment

- ☐ Macro economic environment and regulatory framework
- ☐ Corporate Governance
- ☐ Shareholding profile (presence of an international institutional shareholders, affiliate of a Bank group, adequate diversification of the shareholding, etc.)
- ☐ Expertise and integrity of the management team (good track record, good knowledge of the core business, sound ethical behavior, etc.)
- ☐ Management Quality (efficient decision making practices, adherence to banking regulations, independent supervisory bodies, good risk management practices, technical assistance, etc.)
- ☐ Competitiveness of its products and quality of services provided to its customers
- ☐ Adequate IT infrastructure
- ☐ FI's role in domestic or regional financial system
- ☐ Solid track record of SME financing

Quantitative Assessment

The analysis of the financial institutions is based on ICD's assessment guidelines, which includes:

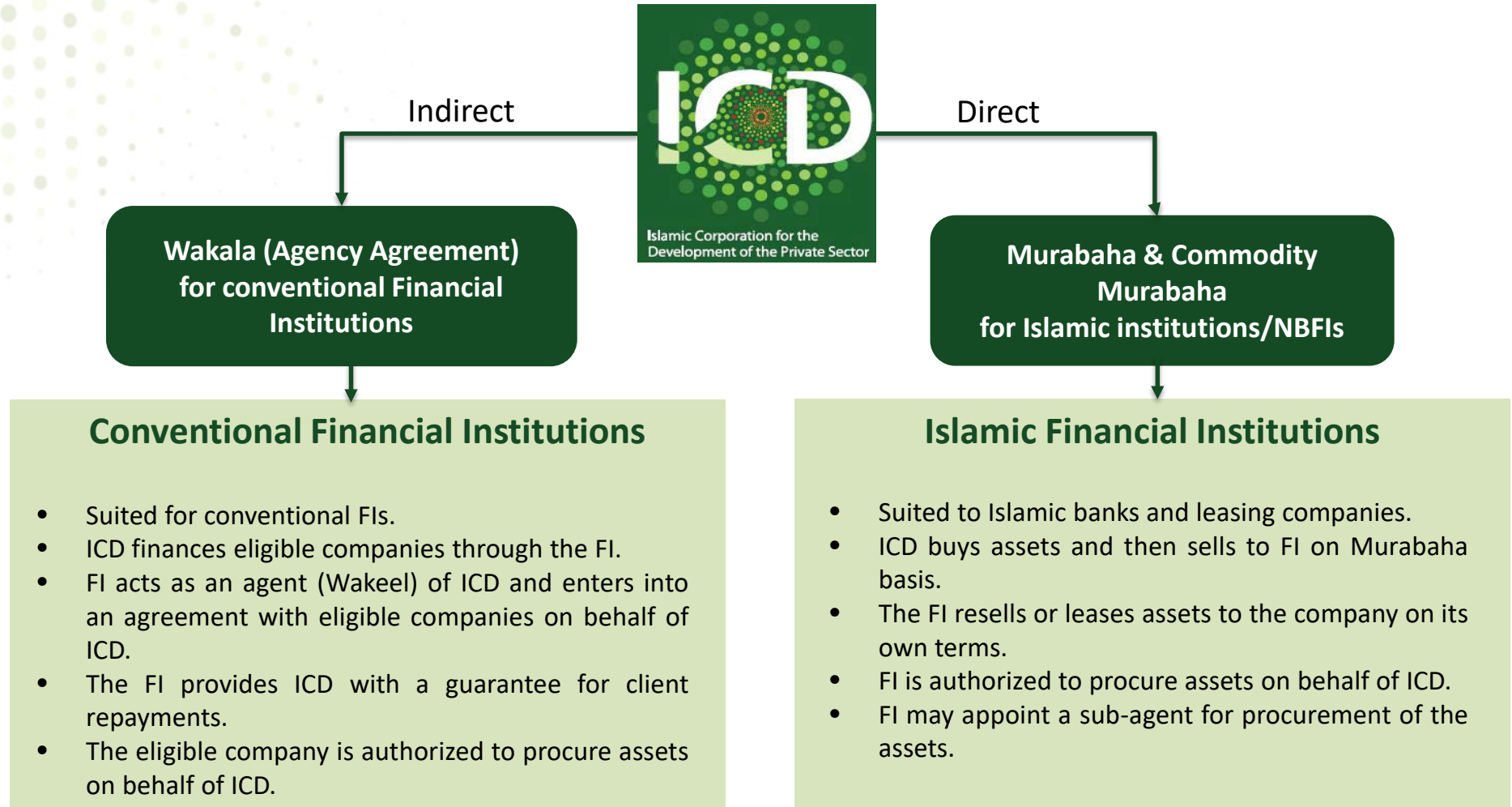
- ☐ The financial performance of the bank (profitability, historical growth, liquidity and efficiency.)
- ☐ Capital structure and adequacy (BIS ratio)
- ☐ Asset Quality
- ☐ Strength of Provisions
- ☐ Funding/ Funding strategy
- ☐ ICD's internal Scoring/Ranking of the FI to set an exposure limit

TERMS AND CONDITIONS

- **CURRENCY:** US Dollar
- **MODE OF FINANCING:** Murabaha, Commodity Murabaha, Ijarah or any other Sharia compliant structure
- **SIZE OF THE LINE:** Depends on the outcome of the FI's assessment
- **ADMINISTRATIVE FEES:** Fixed amount to cover expenditures related to the facility administration
- **DURATION:** Up to 4-5 years, including the implementation period
- **IMPLEMENTATION PERIOD:** Up to 6-9 months
- **PRICING (ICD MARK UP):** to be defined for each FI individually
- **SINGLE PROJECT AMOUNT:** Not exceeding 40% of the line of finance amount
- **PENALTIES FOR LATE SETTLEMENT:** will be payable to charitable organizations
- **SECURITY:** A Letter of Guarantee to ICD issued by the FI or its parent company or any other security acceptable by ICD

MECHANISM OF THE LINE OF FINANCE

ICD LINE OF FINANCE SCHEMES



MECHANISM OF THE LINE OF FINANCE

FINANCIAL INSTITUTION ROLE

As per Wakala agreement

- Identify and appraise eligible project companies
- Review and finalize legal documentation (Murabaha / Supply Agreement)
- Guarantee repayment by project companies (under the Murabaha agreement) to ICD
- Facilitate payments to suppliers
- Follow up project implementation, monitoring and reporting
- Ensure on time collection of installments from eligible companies (Buyers under Murabaha)
- FI is eligible to receive an incentive which is a difference between total mark-up to the eligible company and ICD mark-up

As per Murabaha agreement

- Identify and appraise eligible project companies
- The FI makes a commitment to finance eligible companies with Shariah compliant business
- Agrees to honor the terms and conditions of the Murabaha agreement
- Makes timely repayments to ICD

MECHANISM OF THE LINE OF FINANCE

FINANCING CONVENTIONAL FINANCIAL INSTITUTION (CFI)

The Commodity Murabaha Agreement (CMA) as a short-term facility can be engaged to facilitate disbursements under Wakala and provide conventional financial institutions with sufficient time to identify beneficiary eligible companies.

Wakala Agreement

- Under Wakala agreement CFI:
- Identifies and appraises eligible projects, finalizes Financing Agreements with clients
- Facilitates disbursements and monitors implementation and collection
- Issues bank guarantee

Commodity Murabaha (optional)

- As an option to facilitate disbursements under Wakala, ICD and CFI can enter into a CMA with bullet payment.
- The CFI can use the funds for Shariah compliant business. CFI sources deals within the tenure of CMA.
- Within CMA tenure CFI shall reallocate CMA proceeds to eligible projects under Wakala agreement.

Murabaha

- As an agent of ICD, CFI concludes Murabaha Financing Agreement with eligible companies
- CFI monitors implementation of projects and ensures timely collection
- CFI changes its role from an agent to guarantor

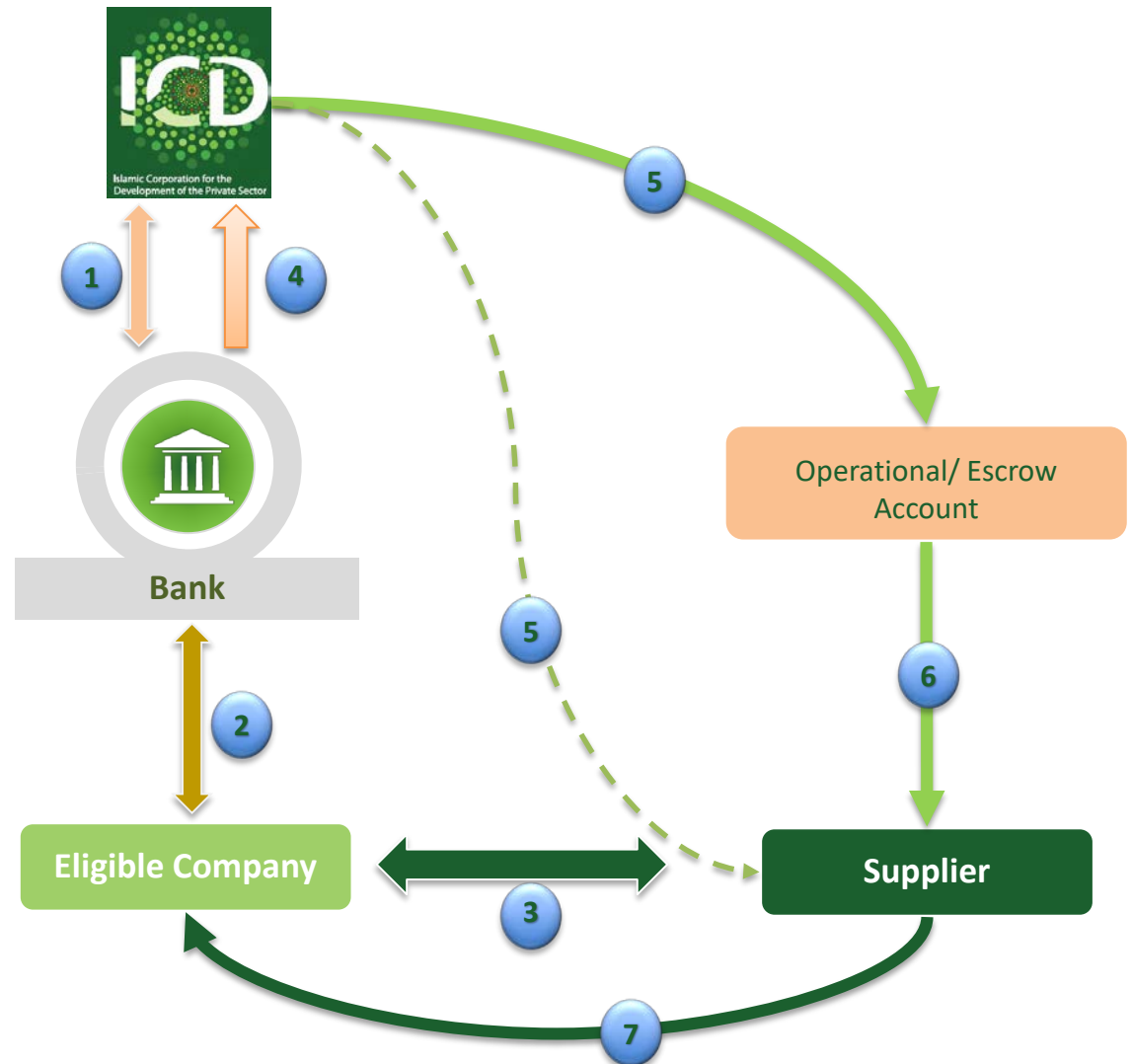
DISBURSEMENT

WAKALA TO THE CONVENTIONAL FI & MURABAHA TO THE ELIGIBLE COMPANY

The Bank's role :

1. Identification & Appraisal
2. Finalizing agreements
3. Bank guarantee issuance
4. Follow-up and collection

- 1 Wakala Agreement
- 2 Murabaha Agreement
- 3 Supply agreement
- 4 Disbursement request
- 5 Payment of the fund to Bank or direct payment to supplier
- 6 Payment to the supplier by the bank within 5 banking days.
- 7 Asset delivery



DISBURSEMENT & SETTLEMENT

CONDITIONS FOR DISBURSMENT

The funds can be disbursed once all Conditions Precedent (CPs) for Effectiveness and Disbursement under the Wakala or Murabaha agreement have been satisfied and the bank submits a disbursement request

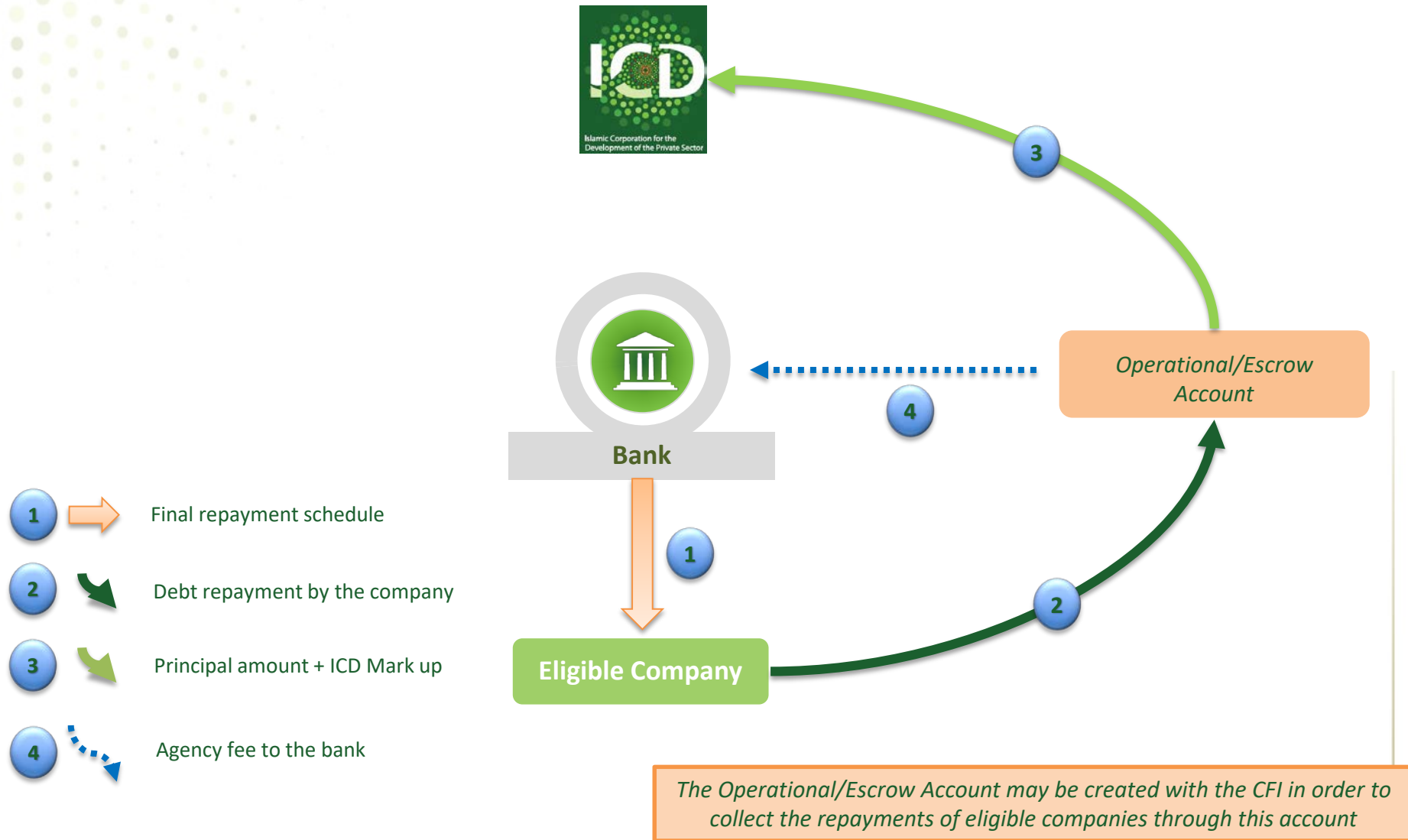
The funds are transferred by ICD directly to suppliers of the goods or via the operational/escrow account with the bank

From operational/escrow account the bank has 5 working days to make payment to the supplier

Payments to suppliers can be done directly or through Letters of Credit

DISBURSEMENT & SETTLEMENT

SETTLEMENT BY THE ELIGIBLE COMPANY



CASE STUDY

Line of Financing Agreement

- ICD agrees to extend a Wakala based Line of financing to FI with the following terms:
- \$20 M
- Tenor of 5 years
- Implementation period: 6 months
- Administrative fees: \$200k
- Mark up of 6% pa

(Optional) Commodity Murabaha

- Concurrently the parties may enter into a CMA with a tenor of LOF Implementation period (6 m) in order to expedite disbursements under Wakala
- FI can use these fund for its short term needs for Shariah compliant business

Repayment of CM facility

- Sale price of \$20.6 M (principal and mark up of 6% pa for 6 m)
- Repayment made to ICD's escrow account in XYZ Bank

Allocation to Company (Wakala)

- Remaining maturity of 4 years, given that XYZ Bank uses its first year for its own financing.
- XYZ identifies and select « ABC Ltd. » and decides to finance it.

Financing of ABC Ltd.

Murabaha Financing between XYZ Bank (on behalf of ICD) and ABC Ltd. XYZ Bank collects the required guarantees to finance ABC Ltd. XYZ Bank decides to apply to ABC Ltd. a rate of 10% XYZ Bank issues a letter of guarantee to ICD to cover the repayment from ABC Ltd

Repayment

- ABC Ltd. settles the Sale Price to ICD's escrow account opened in XYZ Bank.
- ICD will collect USD 20M plus its Mark up of 6% per year.
- XYZ Bank will collect 4% pa (difference between 10% pa and 6% pa) of margin annually. Furthermore, XYZ will receive 100 USD of agent commission by ICD for being its agent to procure assets.

SOME BENEFICIARIES OF ICD LINE OF FINANCE



Afriland First Bank



TAMWEEL
AFRICA HOLDING



Sterling Bank
The one-customer bank.



BOAD

BANQUE OUEST AFRICAINE
DE DÉVELOPPEMENT



BGFIBank



BSIC
BANQUE SAHELO-SAHARIENNE
POUR L'INVESTISSEMENT ET LE COMMERCE



SHELTER AFRIQUE

Financement du logement abordable pour l'Afrique



IPAK YULI BANK



**ASIA ALLIANCE
BANK**



MICROCREDITBANK
JOINT-STOCK
COMMERCIAL BANK



HAMKORBANK

LET'S GROW TOGETHER



KAPITALBANK



**ORIENT
FINANS
BANK**



UzbekLeasing
International AO



**JOINT STOCK COMMERCIAL
BANK «ASAKA»**



AMRAHBANK
Your open and transparent bank

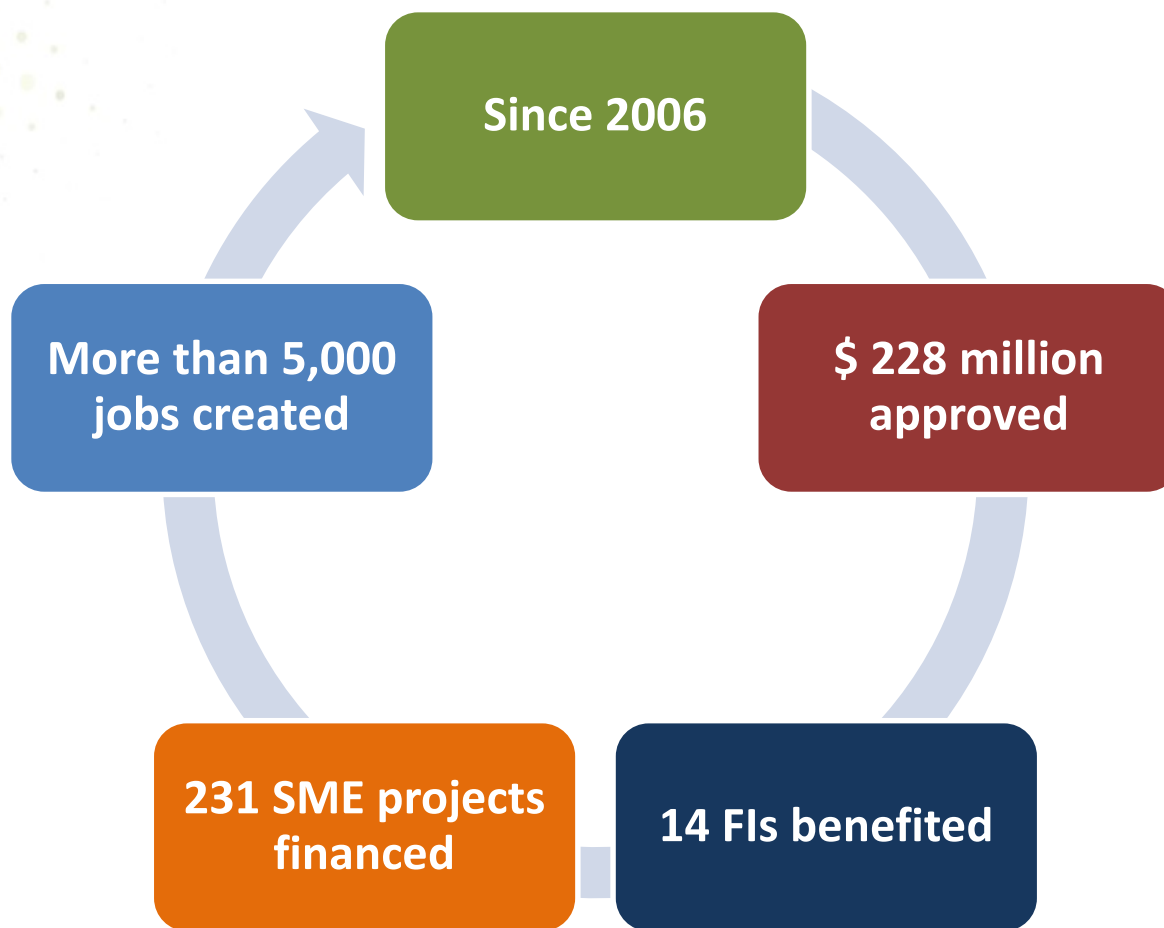
25TuranBank
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AGROINVESTBANK

ICD EXPOSURE TO UZBEKISTAN

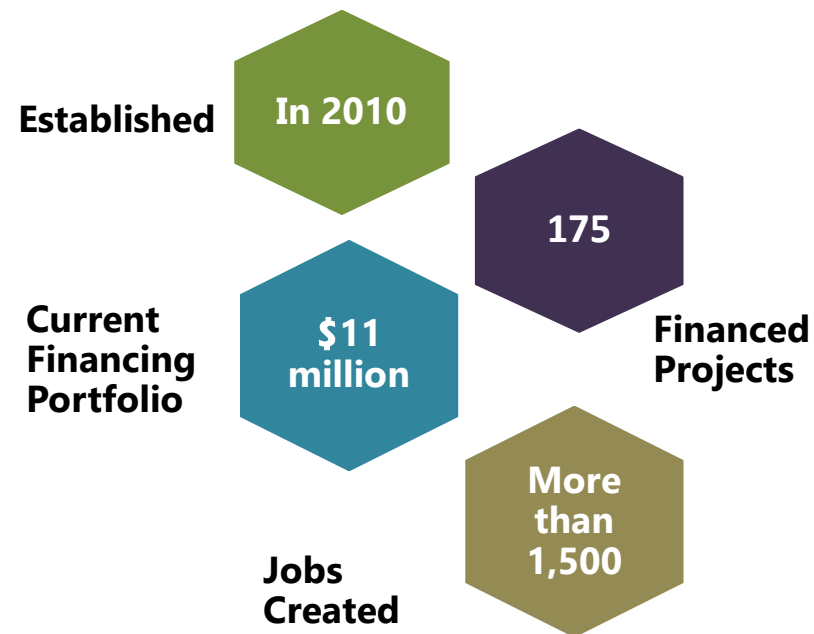
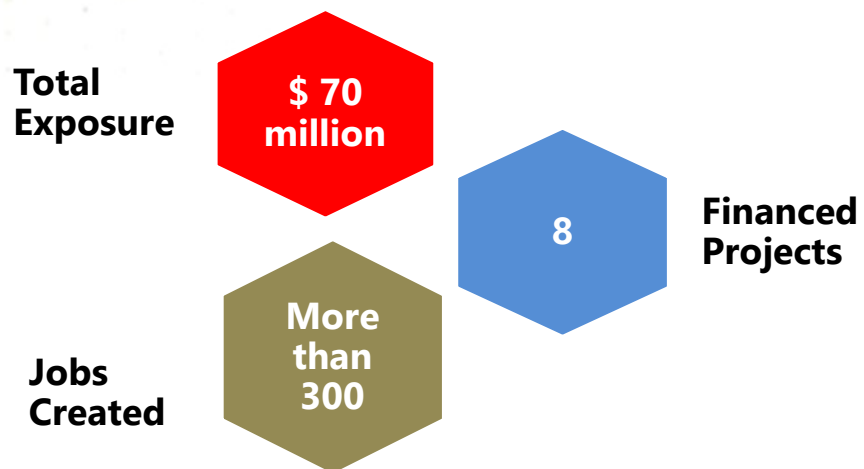
LINE OF FINANCE



ICD EXPOSURE TO UZBEKISTAN

DIRECT FINANCE AND TAIBA LEASING

DIRECT FINANCE



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THANK YOU



GLOSSARY

- ❑ **Wakala** is used in Islamic finance to describe a contract of agency or delegated authority pursuant to which the principal (muwakkil) appoints an agent (wakeel) to carry out a specific task on its behalf.
- ❑ **Commodity Murabaha** is a contract in which a person purchases certain goods/commodities at a deferred higher price, in order to sell the goods in the market to a third party for a lower cash price.
- ❑ **Murabaha** is a Cost-Plus sale contract. It refers to a sale and purchase of an asset where the acquisition cost and the mark-up are disclosed to the purchaser. The effect of a sale contract is to transfer ownership of the sold item from the seller to the purchaser.