

8 November 2013

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## The Islamic Development Bank Assisting Private Sector Growth in Africa

*By Amjad Hussain, Jonathan Lawrence and Fraser Clark*

### Introduction

Over the past decade, six out of the 10 fastest growing economies in the world have been located in Sub-Saharan Africa.<sup>1</sup> With the continent continuing to derive benefit from increased stability and the growth of civil institutions, requirements for foreign investment are high. The World Bank estimated that capital investments in infrastructure of US\$93 billion per year will be required in Sub-Saharan Africa to sustain growth in that region, with only US\$40 billion currently being invested. Sources of development finance such as the Islamic Development Bank (“IDB”) are working to meet this need through engagement with private sector operators. The IDB is a growing force in development finance, having more than tripled its authorised capital to US\$150 billion in May 2013. With the IDB also considering creating an “Islamic Megabank”, this Legal Insight summarises the opportunities offered by the IDB to the private sector doing business in Africa.

### What is the IDB?

The IDB is an international financial institution established in 1973 to foster the economic development of both member countries and Muslim communities in non-member countries, via Sharia compliant financing. The IDB participates in equity capital; grants loans for projects and enterprises; and assists in the promotion of trade in capital goods between member countries. There are currently 56 member states in the IDB, including 27 in Africa. The primary requirements of membership to the IDB are membership of the Organisation of Islamic Cooperation, payment of the share of capital due, and compliance with the decisions of the IDB Board of Governors.

### What contributions does the IDB make in the private sector in Africa?

The IDB invests a significant portion of its resources in stimulating private sector growth. In 2003, the IDB announced a Group Strategic Framework, including six “priority areas” – one of which was private sector development. The bank therefore extends loans for the financing of infrastructure and agricultural projects, such as roads, canals, dams, schools, hospitals, housing, and rural development both in the public and private sectors.

The public-private partnership (“PPP”) is the central IDB means of stimulating private sector growth. In 2012, the IDB’s PPP portfolio reached US\$3.3 billion, and in that year alone US\$335 million were approved towards PPP projects. 2011 saw a US\$152 million IDB contribution to the total US\$1.4 billion Jorf Lasfar port expansion project in Morocco.

The IDB is active in North African private sector growth through the Arab Financing Facility for Infrastructure (“AFFI”), a partnership between the World Bank, the International Finance Corporation and the IDB. Launched in 2011, the AFFI aims to

<sup>1</sup> <http://www.economist.com/blogs/baobab/2013/05/development-africa>

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foster infrastructure investment in Arab countries. The AFFI's Arab Infrastructure Investment Vehicle ("AIIV") is key to achieving this goal.

The AIIV is a private equity fund with target capital commitments of US\$300 million, including a US\$50 million seed contribution from the IDB. The fund aims to increase the volume of new ventures that can access senior debt by providing access to mezzanine instruments. The AIIV is designed to invest in a diversified portfolio of PPP-structured infrastructure projects by providing both greenfield and expansion financing across the MENA region. Mezzanine-related investments are made in power, energy-related services, telecommunication systems and services, transportation, water, sanitation and related services and facilities, as well as in social projects. The AIIV has an envisaged lifetime of 12 years, and consists of a Sharia compliant and conventional fund, both managed by EMP Arab Infrastructure Investment Advisors. The following African countries are eligible for AIIV investment: Algeria, Djibouti, Egypt, Libya, Mauritania, Morocco, Somalia, Sudan, and Tunisia.

### What contributions does the Islamic Corporation for the Development of the Private Sector make in the private sector in Africa?

The Islamic Corporation for the Development of the Private Sector ("ICD") was established in 1999 as an independent entity within the IDB group. The ICD is a multilateral development bank focusing on the private sector in the Islamic world. To date the ICD has granted US\$2.2 billion of approvals, including 18 new projects and eight capital raises in 2012 alone, of which six were in Africa. Its stated purpose is to "promote, in accordance with the principles of the Shari'ah, the economic development of its member countries by encouraging the establishment, expansion and modernisation of private enterprises producing goods and services in such a way as to supplement the activities of the [IDB]."<sup>2</sup> In practice, this takes the form of offering long-term and short-term financing and advisory/arrangement services, including offering leveraged finance to partners to extend their capabilities, establishing partnerships at the strategic or tactical level, targeting direct financing of the private sector, and injecting selective equity and debt products into projects that demonstrate strong potential to develop the private sector. A recent example of the ICD's work was the signing of a memorandum of understanding on 29 July 2013 to form a joint venture between the ICD and Korea's Kolon Industries, Inc. to establish a pharmaceutical plant in Cote d'Ivoire.<sup>3</sup>

The ICD's authorised capital stands at US\$2 billion, of which US\$1 billion is available for subscription. The ICD's shareholders consist of 52 nations (including Nigeria, Senegal and Guinea), five financial institutions, and the IDB itself, which respectively contribute 30%, 50% and 20% of the organisation's share capital.

The ICD's Articles empower the organisation to assist in financing the establishment, expansion and modernisation of private enterprises; to facilitate their access to private and public capital; and to stimulate the development of investment opportunities conducive to the flow of private capital.<sup>4</sup> Furthermore, the Articles grant the ICD powers to identify private sector projects and make direct investments in them through Islamic instruments, in accordance with the ICD's Investment Policies.<sup>5</sup>

<sup>2</sup> Paragraph 1, Article 3 of ICD Articles of Agreement

<sup>3</sup> [http://www.icd-idb.com/irj/portal/anonymous/icd\\_news\\_en](http://www.icd-idb.com/irj/portal/anonymous/icd_news_en)

<sup>4</sup> Article 4

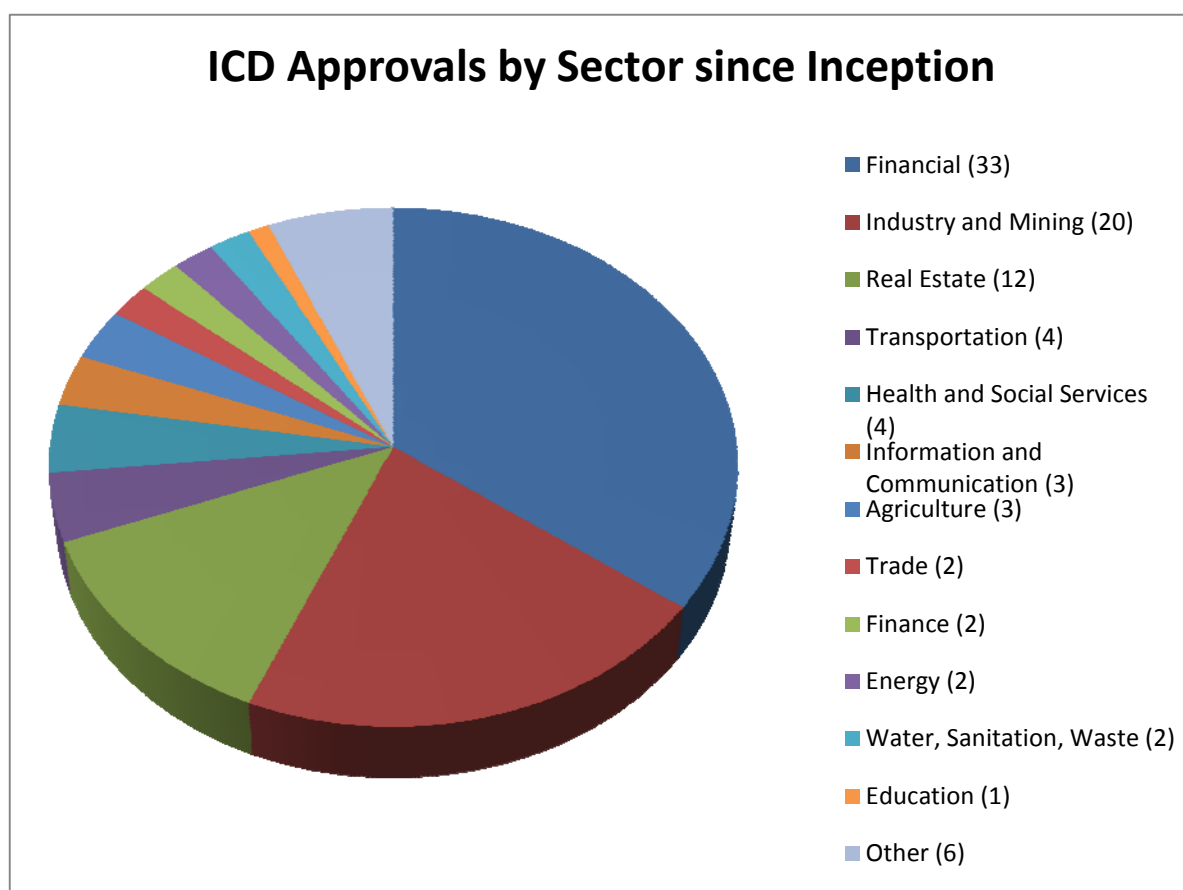
<sup>5</sup> Article 6

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The ICD offers three sets of Sharia-compliant business products and services to its private sector clients in member countries:

1. Financing and investment products, in the form of both term financing and equity contribution to private sector greenfield projects or those that are under expansion or modernisation. Short-term financing to cover working capital with a tenor of up to 24 months is also available.
2. Advisory services, including assessing the business environment of member countries along with any required reform actions.
3. Asset management, by sponsoring, managing and participating in private equity funds and other special purpose vehicles, designed to invest in accordance with the ICD mandate, such as the US\$600 million ICD Food and Agriculture Fund, launched in June 2012.

In terms of the projects favoured by the ICD, the following chart shows a breakdown by sector of all projects approved since inception:



The ICD's Islamic finance development in Sub-Saharan Africa is carried out through Tamweel Africa, an ICD-partnered company based in Senegal. Tamweel Africa invests and manages stakes in Islamic banks. Currently, Tamweel is active in Guinea, Mauritania, Niger and Senegal with plans to expand across the continent.

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### How to apply for ICD support

The ICD is composed of a General Assembly, a Board of Directors, an Executive Committee, Investment Committee, Advisory Board, Audit Committee, and a Sharia Committee. The ICD manages its investment portfolio via the application of a set of financial, technical, economic, legal, environmental and institutional feasibility and assessment studies. Investments may only be made by the ICD in enterprises either located in member countries, or working exclusively for the benefit of those countries.<sup>6</sup> Furthermore any financing is dependent on the approval of that member country.<sup>7</sup> There are seven stages in the life cycle of a project:

1. Project Origination: projects are sourced either through the ICD Business Development team, or directly from the client. Compliance with the ICD's guidelines is checked, and a report compiled analysing the developmental impact of the project;
2. Project Appraisal: due diligence report and financing term sheet are completed;
3. Investment Committee: approves due diligence report and term sheet;
4. Executive Committee: approves final financing conditions and a project information memorandum is presented to the Executive Committee prior to a final decision on behalf of the Board of Directors;
5. Effectiveness of the project is sanctioned, disbursement is made;
6. Monitoring and Evaluation: ICD follow-up team closely monitors the project's progression; and
7. Project Closing: ICD closes its books on the project once the investment has been repaid in full or the corporation exits by selling its stake.

### Islamic Megabank

The idea of a so-called "Islamic Megabank" has been under discussion for several years. Such a Sharia-compliant bank would provide liquidity management solutions to help facilitate the development of an Islamic inter-bank market, including in Africa. The institution would remedy the paucity of senior Islamic financiers, Sharia-compliant stock exchange tools, and the absence of market liquidity between Islamic banks. Furthermore, few central banks issue liquidity instruments compliant with Islamic law, forcing Islamic banks to place their liquidity with large conventional banks. An Islamic Megabank also would provide a Sharia-compliant lender of last resort to the sector.

Such a megabank is yet to have been established; however, it was reported<sup>8</sup> in May 2013 that a memorandum of understanding was signed by the IDB, the Dallah Albaraka Group and the Qatari government towards creating such a bank. The details of the institution are yet to emerge; however, should an Islamic Megabank be realised, Islamic financing costs would fall, leading to a growth in the sector, including the IDB's own lending programs in Africa.

<sup>6</sup> Article 15 paragraph 1

<sup>7</sup> Article 15 paragraph 2

<sup>8</sup> [http://asia.ipe.com/asia/islamic-development-bank-plans-shariah-mega-bank\\_52751.php](http://asia.ipe.com/asia/islamic-development-bank-plans-shariah-mega-bank_52751.php)

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### Conclusion

In conclusion, the IDB's approach to development through private sector growth continues to provide a wealth of opportunities to private sector players to contribute to and expedite the growth of stability and wealth on the African continent.

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