Sukuk & Capital Markets PROGRAM

Member of Islamic Development Bank Group
Sukuk & Capital Markets PROGRAM
Program Objectives

Capital Market
- Sukuk
- Equity & Debt
- Due Diligence

Advisory Services
- Financial Advisory
- Technical Assistance
- Framework
Capital Market

The Sukuk & Capital Markets Program

At the Islamic Corporation for the Development of the Private Sector (ICD), we have a dedicated team focused on advising governments and corporations in our member countries on sukuk issuances. Our team is driven by the conviction that sukuk are appealing to member countries because it offers an alternative source of capital and diversifies the country investor base.

Building on the Group’s accumulated experience in Islamic debt issuances, the ICD Sukuk Platform would be a facilitator to develop Islamic capital markets by:

1) Assisting member countries to tap the international Islamic Capital Market
2) Helping member countries to complement T-bills with short-term Sukuk
3) Advising on corporate Sukuk issuances

ICD has been involved in high-profiled corporate transactions in recent years and set a major role of advising the establishment of sukuk law and regulation in member countries.
The need for sukuk arises from its benefits

The key benefit of Sukuk is to comply with Shariah while enhancing the standard of living in the society.

Sukuk is a good alternative of financing large projects.

Sukuk is an important avenue for redistribution of wealth and achievement of social justice.

Sukuk improves risk management.

Sukuk provides liquidity to investor for tradable Sukuk.

The most common uses of Sukuk are:

**Project-specific Sukuk**
Under this type, money is raised through sukuk for a specific project.

**Asset-specific Sukuk**
Under this arrangement, the resources are mobilized by selling the beneficiary right of the assets to the investors.

**Balance Sheet-specific Sukuk**
An example of this would be how the Islamic Development Bank (IDB) mobilised these funds to finance various projects of the member countries.
The most commonly used structures of Sukuk are Al Ijara and Al Musharaka. Both of which are tried and tested in the international and domestic capital market issuances. Both may be used individually or in a hybrid manner.

**Sukuk Al ijara**
- A) Lease-based structure
- B) The transfer of ownership for an agreed upon consideration /AAOF

**Sukuk Al Musharaka**
- A) Co-ownership & joint venture
- B) A form of partnership between the Islamic bank and its clients whereby each party contributes to the capital of the partnership in equal or varying degrees to establish a new project or share in an existing one. Each of the parties becomes an owner of the capital on a permanent or declining basis and shall have his due share of profits

**Sukuk Al Istithmar**
- A) Based on underlying revenues generating contracts
- B) Certificate of equal value representing undivided shares in ownership of tangible assets, usufructs and services or the asset of particular projects or special investments activities/ AAOFI

**Sukuk Al Mudarabah**
A partnership in profit whereby one party provides capital and the other provides labour
Examples of The Most Commonly Used Structure: Ijara

At maturity, the Issuer will sell back the beneficial ownership of the Assets to the Borrower for an amount equivalent to redeem the Sukuk Certificates.
Capital Market: Long Term Issuance Methodology

1. **Strategic Advisory**
   - Analysis of the project and determination of the best financing structure
   - Asset identification and selection
   - Develop the Sukuk structure

2. **Assets-specific Sukuk**
   - Discuss jurisdiction structure, taxation and legal issues
   - Advise on the process of transferring the ownership of assets
   - Drafting the base prospectus in collaboration with the legal counsel
   - Appointment of an independent Valuation agent for the underlying assets of Sukuk

3. **Marketing**
   - Develop preliminary tenor & size
   - Identifying potential investors
   - Draft prospectus and distribute offering documents (including application form)
   - Finalize indicative pricing

4. **Bidding & Settlement**
   - Acceptance or rejection of application
   - Notification about individual result of the tender allotment
   - Sign documentation with institutions

5. **Closing**
   - Issuance of press release
   - Recording the Sukuk holders in special record
**Short Term Sukuk: The Four Pillar Approach**

**Asset** identification & selection.

**Development** of a tax-friendly Sukuk structure.

**Advise** on credit-enhancement and guarantee of payment.

**Obtaining** Shariah approval (fatwa).

**Assist** in setting the Shariah committee.

**Advise** on listing the Sukuk.

**Prepare** and provide full documentation for the Sukuk (structure, application for subscription, concise offering circular, Islamic contracts, forms).

**Discussion** finalizing agreements with the legal team of the Central Bank.

**IT team** to assess current applications used in trading operations.

**Evaluation** and selection of the proper IT solution for the whole process of issuing short-term Sukuk.

**Support** the implementation of the new IT system.

**Test** transaction.

**Organize** on-the-job-training with an entity who has more experience in issuing short-term Sukuk.

**The training** would be on the practical side of the transaction.
Case Study: Republic of Senegal Sukuk

On July 2014, the Republic of Senegal issued a debut regional currency, CFA 100Bn Sukuk al-Ijara (Sukuk). ICD acted as Joint Lead Manager and Advisor.

The three key challenges to the offering were:
- Structuring the instrument despite the lack of Sukuk regulation and trust law in Senegal.
- Educating investors on the nature of an amortized Sukuk and its equivalent with Senegal credit risk.
- Rising investor’s enthusiasm towards CFA-denominated Sukuk.

Structure: ICD developed a unique solution that consisted of structuring the instrument under the region’s securitization regime, the only regulation allowing for SPV to issue notes.

Distribution: To reach as many investors as possible, ICD’s marketing strategy was to appoint regional brokers and placement agents with direct distribution capabilities to institutional clients.

Structure: Was validated by the Central Bank of West African States ("BCEAO"), which approved the instrument for repo financing, which enhanced the transaction’s marketability. Investors are accustomed to such a repo on conventional government bond in the region.

<table>
<thead>
<tr>
<th>Term Sheet</th>
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<tbody>
<tr>
<td>FCTC Sukuk Etat du Senegal 6.25% 2014 - 2018</td>
</tr>
<tr>
<td>Issuer</td>
</tr>
<tr>
<td>Lessee / Obligor</td>
</tr>
<tr>
<td>Format</td>
</tr>
<tr>
<td>Tenor</td>
</tr>
<tr>
<td>Pricing Date</td>
</tr>
<tr>
<td>Maturity</td>
</tr>
<tr>
<td>Issue Size</td>
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<tr>
<td>Coupon</td>
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</table>

The Senegal sukuk was Africa’s first sovereign Sukuk to the international capital market.

Individual and institutional investors participated in the Sukuk which was oversubscribed by 40%.
Case Study: Hashemite Kingdom of Jordan Sukuk

The Medium Term Dinar-denominated Sukuk (3.01%, due 2021) would be used as an instrument to absorb excess liquidity (estimated to be 1.4 billion dinars) held by Jordan’s four Islamic banks.

Background

The Government of Jordan (“GoJ”) needed to (i) issue a medium term Sukuk for liquidity management purposes of the 4 local Islamic banks, (ii) ensure the compliance of the issuance with Sharia principles and (iii) develop internal capacity to manage independently such transactions in the future. ICD acted as the Advisor to the Issuer (GoJ) and coordinated all the activities of the parties involved in the transaction.

Key Accomplishments

ICD arranged on-the-job trainings for the GoJ officials in different ICD member countries which issued similar notes. As a Development Finance Institution, we succeeded in (i) assisting GoJ in creating a sustainable local Islamic Capital Markets Program and (ii) empowering the Jordanian Authorities via the transmission of the needed technical knowledge and practical experience in the management of a Sovereign Islamic Debt Transaction.

<table>
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<tr>
<td><strong>Government of Jordan 3.01% 2016-2021</strong></td>
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<tr>
<td><strong>Issuer</strong></td>
</tr>
<tr>
<td><strong>Lessee / Obligor</strong></td>
</tr>
<tr>
<td><strong>Amount</strong></td>
</tr>
<tr>
<td><strong>Tenor</strong></td>
</tr>
<tr>
<td><strong>Type</strong></td>
</tr>
<tr>
<td><strong>Instalments</strong></td>
</tr>
<tr>
<td><strong>Profit Rate</strong></td>
</tr>
<tr>
<td><strong>Use of proceeds</strong></td>
</tr>
<tr>
<td><strong>Listing</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investors Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cairo Amman Bank – on behalf of Al Safa Bank (Palestinian based)</td>
</tr>
<tr>
<td>Jordan Dubai Islamic Bank</td>
</tr>
<tr>
<td>Jordan Islamic Bank</td>
</tr>
<tr>
<td>Islamic International Arab Bank</td>
</tr>
</tbody>
</table>
Case Study: Republic of Côte d’Ivoire Sukuk

On 21th December 2015 the Republic of Côte d’Ivoire priced & closed a debut regional currency, CFA 150 Bn Sukuk (approx. 251 Mn USD). ICD acted as the sole Lead Manager. The process of the Sukuk issuance took 8 months, which is very short period compared to other sovereign issuances.

The key challenges to the offering were:
- Educating investors on the nature of amortized Sukuk & its pricing.
- Risk of lack of appetite toward CFA-denominated Sukuk.
- ICD developed a unique solution, which was to structure the instrument under the region’s securitization regime.
- ICD developed a marketing strategy comprising the appointment of joint lead brokers and direct marketing with Invests.

Key Accomplishments
- It has given West African-based Islamic banks an opportunity to manage their excess liquidity through subscribing in this financial instrument which is denominated in regional currency (CFA).

- Second Sukuk offering from Sub Saharan Africa & the WAEMU region. Africa’s third sovereign Sukuk to the international capital market.
# African Sukuk issuances in 2016 – Term Sheets Summary

## Overview of the 2016 Sukuk Transactions led by ICD in West Africa

<table>
<thead>
<tr>
<th>Senegal Sukuk 2016-2026</th>
<th>Togo Sukuk (2016-2026)</th>
<th>Côte d’Ivoire Sukuk (2016-2026)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issuer</strong></td>
<td>FCTC (SPV)</td>
<td>FCTC (SPV)</td>
</tr>
<tr>
<td><strong>Seller</strong></td>
<td>State of Senegal</td>
<td>State of Togo</td>
</tr>
<tr>
<td><strong>Lead Arranger</strong></td>
<td>ICD</td>
<td>ICD</td>
</tr>
<tr>
<td><strong>Issue date</strong></td>
<td>Jun16-</td>
<td>Jul16-</td>
</tr>
<tr>
<td><strong>Amount and Currency</strong></td>
<td>CFA 200 Bn (USD 332 Mn)</td>
<td>CFA 156 Bn (USD 259 Mn)</td>
</tr>
<tr>
<td><strong>Type</strong></td>
<td>Amortized Ijara</td>
<td>Amortized Ijara</td>
</tr>
<tr>
<td><strong>Tenor</strong></td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td><strong>Grace Period</strong></td>
<td>2 Years</td>
<td>2 Years</td>
</tr>
<tr>
<td><strong>Coupon</strong></td>
<td>%6.00</td>
<td>%6.50</td>
</tr>
<tr>
<td><strong>REPO</strong></td>
<td>Admissible for REPO</td>
<td>Admissible for REPO</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td>International airport</td>
<td>12 public buildings</td>
</tr>
<tr>
<td><strong>Use of proceeds</strong></td>
<td>Financing of developmental projects (among which the establishment of the Diamniadio Economic Zone)</td>
<td>Financing of developmental projects</td>
</tr>
<tr>
<td><strong>Fatwa</strong></td>
<td>Shariah Pronouncement has been issued by IDB Group Shariah Committee</td>
<td>Shariah Pronouncement has been issued by IDB Group Shariah Committee</td>
</tr>
<tr>
<td><strong>Investors</strong></td>
<td>Half of the Senegal sukuk was sold to local investors, with a third taken up by investors from the Ivory Coast and Togo</td>
<td>The geographical distribution is as follows: - outside WAEMU zone : %14.44; - Côte d’Ivoire : %36.75; - Togo : %10.52; - Burkina Faso: %17,29; - Benin : %21,01</td>
</tr>
</tbody>
</table>
ICD Advisory Services

ICD’s advisory team provides advisory services in capital raising for strategic or financial investors. Working closely with other divisions of the Advisory Services Department, we offer multi-capabilities which includes business modelling, public/private partnerships and infrastructure advisory compliant to Shariah rules. From the origination to the execution, our team delivers world-class services to the corporates and governments of our member countries.

ICD advisory place a special focus on Shariah principles relating to transactions and successfully manage to overcome obstacles that may occur. The team works across sectors and industries offer technical assistance in banking, capital markets, regulatory and government matters.

ICD advisory services leverage on the IDB Group entity to provide unique Islamic Finance services and has the ability to reach out to potential partners in 56 member countries.
ICD Advisory Services: Regulatory Framework

The Sukuk and Capital Markets division leverages on IDB group pool of experts to:

- Assist governments in improving their existing Islamic capital markets system
- Advise governments on the development of policies, regulatory frameworks and guidelines for the development of Islamic capital markets
- Leverage on the reverse linkages program of IDB
- Provide training to authorities

Data Collection  Data Analysis  Cross-Analysis  Specific requirement  Tailored recommendation  Implementation
ICD Advisory Services: Technical Assistance

**Industry Analysis**
- **In-depth global analysis**
- **Deliver** an industry report on the findings of the industry analysis.
- **Recommendation**

**Industry Report**
- **Establish a list of potential technical partners across the world**

**Technical Partners**
- **Assist** in preparing the terms of a Submission of Qualification (SOQ) and Request for Proposal (RFP) to be sent to the list of potential technical partners.
- **Manage** the (SOQ) and (RFP) process and related submissions by technical partners.
- **Assist** in the evaluation and selection of technical partners based on pre-agreed criteria.

**Request for Proposal**
- **Ensure that each party understood their roles and responsibilities**

**Kick off**

**Project Management Office (PMO)**
- **Provide** PMO capabilities and support in managing entire project and transaction process.
- **Develop** timelines and milestones for the project and assist in ensuring project process and tracking for Management Reporting.
ICD Advisory Services: Financial Advisory Overview

Advisory & Structuring

Due Diligence

Marketing & Distribution

Bank Selection

Rating

Guarantee

Documentation

Regulatory Approval

Financial Advisory Overview
ICD Advisory Services: Debt Raising

- Strategic Advisory
- Banks selection
- Closing
- Docs & Credit Committee
- Due Diligence
ICD Advisory Credentials

Sukuk Issuances

Government of Jordan
USD 48 M Sukuk Issuance
Financial Advisor 2016

Government of Senegal
USD 353 M Sukuk Issue 1
Financial Advisor 2016

Government of Togo
USD 1.8 B Sukuk Issuance
Financial Advisor 2016

Government of Ivory Coast
USD 266 M Sukuk Issue 1
Financial Advisor 2016

Government of Ivory Coast
USD 256 M Sukuk Issue 2
Financial Advisor 2016

Government of Senegal
USD 251 M Sukuk Issue 1
Financial Advisor 2016

Government of Senegal
USD 198 M Sukuk Issue 2
Financial Advisor 2016

Islamic Finance Institutions

Afriland First Bank
USD 25 M Islamic Window Setup
Financial Advisor 2013

Islamic Window Setup
USD 33 M Islamic Finance Advisor
Financial Advisor 2013

Islamic Window Setup
USD 35 M Islamic Finance Advisor
Financial Advisor 2013

Islamic Window Setup
USD 55 M Islamic Finance Advisor
Financial Advisor 2013

Maldives Islamic Bank
USD 11.7 M Equity Raising
Financial Advisor 2011

Maldives Islamic Bank
USD 450 M Equity Raising
Financial Advisor 2011

Fund Raising and Technical Assistance

NOMAN
USD 32 M Capital Market Regulatory Framework
Financial Advisor & Lead Arranger 2016

BCEAO
USD 45 M Technical Assistance
2013

AL NOURAN
USD 30 M Capital Market Regulatory Framework
Financial Advisor & Lead Arranger 2013

AL NOURAN
USD 60 M Syndicated Murabaha Financial Advisor
2010

Ablo
USD 1.97 M Equity Raising and Underwriting
Financial Advisor 2010

Ablo
USD 2 M Equity Raising
Financial Advisor 2010