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.

Strategic Framework:
Islamic finance channels
Direct financing activities
Enabling environment
Partnership
ICD’S CORE ACTIVITIES

- FINANCIAL INSTITUTIONS DEVELOPMENT
- DIRECT INVESTMENT AND FINANCING
- ASSET MANAGEMENT
- ADVISORY SERVICES

Established in 1999
Total Approvals $4.04B
Financed Projects 311
Total Disbursements $1.96B

Direct Investment - Equity 933
Term Finance 1,589
Line of Finance 1,114
Asset Management & Advisory 410

Approvals since Inception (in M USD)
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 financial positions of the beneficiary banks.

**CONCEPT OF THE «LINE OF FINANCE»**

**OBJECTIVE**

**Promotion** of Islamic Banking and Finance.

**Promote** ICD’s partnership with financial institutions benefiting from their local presence and expertise.

**Improving** access of private sector enterprises to medium - long term financing.

**EXPECTED DEVELOPMENT IMPACTS**

**Economic** growth and alleviation of poverty.

**Job** creation.

**Strengthening** local financial systems and promotion of Islamic Finance.

**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. That satisfy ICD’s quantitative and qualitative eligibility criteria.

**END BENEFICIARIES (ELIGIBLE PROJECT COMPANIES)**

Private enterprises involved in eligible sectors that have a positive impact on local development.
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 the regulations, good risk management practices, 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 company financing.
- Willingness to provide Islamic financial services.
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 and efficiency).
- Capital structure and adequacy (BIS ratio).
- Adequate and sustainable liquidity.
- Asset Quality.
- Strength of Provisions.
- Funding strategy.
- ICD’s internal rating of the FI.
- Available Headroom / Permissible Exposure Limit.
TERMS AND CONDITIONS

**USE OF FUNDS:** To finance assets (machinery, equipments, raw material) and/or to be used for Islamic Financing activities.

**CURRENCY:** US Dollar / Euro.

**MODE OF FINANCING:** Wakala, 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 7 years, including the implementation period.

**IMPLEMENTATION PERIOD:** Up to 12 months

**PRICING:** to be defined for each FI individually.

**SINGLE PROJECT AMOUNT:** Up to USD 10 million as per the limit set by ICD.

**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 to ICD.
## MECHANISM OF THE LINE OF FINANCE

### (ICD LINE OF FINANCE GENERIC SCHEMES)

<table>
<thead>
<tr>
<th>Wakala (Agency Agreement) for conventional Financial Institutions</th>
<th>Murabaha &amp; Commodity Murabaha for Islamic institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Conventional Financial Institutions</strong></td>
<td><strong>Islamic Financial Institutions</strong></td>
</tr>
<tr>
<td>- Suitable for conventional institutions. ICD finances eligible companies through the FI.</td>
<td>- Suitable for Islamic banks, leasing companies,</td>
</tr>
<tr>
<td>- FI acts as an agent (Wakeel) of ICD and enters into an agreement with eligible companies on behalf of ICD.</td>
<td>- Conventional FIs with Islamic window. ICD buys assets and then sells / rent to FI on Murabaha / ljarah basis.</td>
</tr>
<tr>
<td>- The FI provides ICD with a guarantee for client repayments.</td>
<td>- The FI resells / rents or leases assets to the company on its own terms.</td>
</tr>
<tr>
<td>- The eligible company is authorised to procure assets on behalf of ICD.</td>
<td>- FI is authorised to procure assets on behalf of ICD.</td>
</tr>
<tr>
<td>* Above structures may be combined with Commodity Murabaha</td>
<td>- FI may appoint a sub-agent for procurement of the assets.</td>
</tr>
<tr>
<td></td>
<td>- FIs that are authorized to trade in assets.</td>
</tr>
</tbody>
</table>

* Above structures may be combined with Commodity Murabaha*
MECHANISM OF THE LINE OF FINANCE
(FINANCIAL INSTITUTION ROLE)

As per Wakala agreement

Conventional FIs

- To Identify and appraise eligible project companies,
- To Review and finalize legal documentation (Murabaha / purchase Agreement).
- Guarantee repayment by project companies to ICD.
- Facilitate payments to suppliers.
- Follow up project implementation, monitoring and reporting.
- Ensure timely collection of installments from project companies.
- FI is entitled for an incentive which is a difference between total mark-up to the eligible company and ICD mark-up.

As per Murabaha agreement

Islamic FIs, Leasing companies & Conventional FIs with Islamic window

- Identify and appraise eligible project companies
- The FI makes a commitment to finance eligible companies with Shariah compliant business.
- The FI submits disbursment request for financing asset required by eligible project companies.
- Agrees to honor the terms and conditions of the Murabaha / Ijarah agreement with ICD.
- Make 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 (Murabaha or Ijarah) 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 businesses. CFI sources eligible projects within the tenure of CMA.
- CFI shall reallocate proceeds to eligible projects before the maturity of CMA.

#### Murabaha

- As an agent of ICD, CFI concludes Murabaha / Ijarah Financing Agreement with eligible companies.
- CFI monitors implementation of projects and ensures timely collection.
- CFI changes its role from an agent to a guarantor.
DISBURSEMENT & SETTLEMENT
CONDITIONS FOR DISBURSEMENT

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

FI submits disbursement request and security documents to ICD.

The funds are transferred to suppliers of the assets by the bank within 5 days. ICD may directly disburse to suppliers on exceptional basis.
The Bank’s role:
- Identification & Appraisal
- Finalizing agreements
- Bank guarantee issuance
- 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. Delivery of Asset.
The Operational/Escrow Account opened under ICD name with the CFI in order to collect the payments of eligible companies through this account.

1. Final Payment schedule
2. Settlement of Sale price by the company
3. Principal amount + ICD Mark up
4. The bank’s share of profit
**CASE STUDY**

**Financing of ABC Ltd.**

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

**Wakala Agreement (Optional)**

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

**Early payment under CMA**

- When FI identifies a project ($5 M), it requests for an early payment and a discount from ICD.
- ICD accepts the request and authorizes the FI to use the early payment under wakala agreement.
- At the maturity of CMA, unutilized balance and profit after discount is paid to ICD.

**Repayment**

- ABC ltd. settles instalments to ICD’s escrow account with XYZ Bank.
- Once collected, XYZ Bank transfers ICD’s share of the Sale price and retains its incentive of 4% (ie difference between total Mark up of 10% and ICD’s mark up of 6%)

**Financing of ABC Ltd.**

- XYZ Bank submits to ICD necessary documents for disbursement.
- XYZ Bank issues a letter of guarantee to ICD to cover full repayment from ABC ltd.
- XYZ Bank agrees with ABC ltd. a mark up of 10% pa.

**Allocation of LOF should be within Implementation period of 6 mos.**
- XYZ Bank identifies project ABC ltd. and signs Murabaha agreement on behalf of ICD
- In case of CMA XYZ Bank uses early settled funds to finance projects.
SOME BENEFICIARIES OF ICD LINE OF FINANCE
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 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.