



Islamic Finance Practices in PPP Projects
12th Meeting of the Financial Cooperation Working Group
28 March 2019



IsDB Group and Mandate

IsDB Activities

- **Project Finance, Loans and Technical Assistance aimed at the development of:**
 - Agriculture
 - Basic Infrastructure & Industrial sectors
 - Education
 - Healthcare and other Social Sector Institutions
- **Equity Investment and Lines of Financing for the development of Financial Institutions**

IsDB Priority Areas

- **Human Development**
- **Agricultural and Rural Development and Food Security**
- **Infrastructure Development**
- **Private Sector Development (ICD)**
- **Intra-Trade Among Member Countries (ITFC)**
- **Research and Development in Islamic Banking and Finance (IRTI)**

Key IsDB Group Members*



International Islamic Trade Finance Corporation (ITFC):

Supports trade finance activities amongst member countries.

Islamic Corporation for the Development of the Private Sector (ICD):

Supports the private sector in the member countries.

Islamic Corporation for Insurance of Investment and Export Credit (ICI EC):

Provides investment protection and export credit insurance for member countries.

The Islamic Research and Training Institute (IRTI):

Leads the development and sustenance of a dynamic and comprehensive Islamic Financial Services Industry.

IsDB Group Portfolio



IsDB Group has a **mission** to promote comprehensive human development with a focus on the priority areas of alleviating poverty, improving health, promoting education, improving governance and prospering the people. Under its **Ten-Year Strategy**, IsDB Group aims to become a preferred partner for Member Countries (MCs) economic and social development, a strong catalyst for South-South cooperation and a leading authority in Islamic Finance. It endeavors to realize the strategic objectives through cooperation in Economic & Social Infrastructure, private sector development, inclusive social development, cooperation among MCs and development of Islamic Finance. IsDB has adopted **a new business model under the President's Five Year Program** to empower people for a sustainable future through a focus on driving Innovations, Partnerships, Islamic Finance and support for Value Chains.

Since inception, IsDB Group has cumulative approvals of around USD 138 billion including USD 72 billion of trade financing and USD 61 billion of project financing. As for the IsDB's financing from Ordinary Capital Resources of USD 57 billion, major sectors of support include infrastructure (71%) followed by human development (13%) and agriculture (12%). The aggregate business insured by our insurance arm, the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) is US\$52.8 billion.

Definition of Public Private Partnership

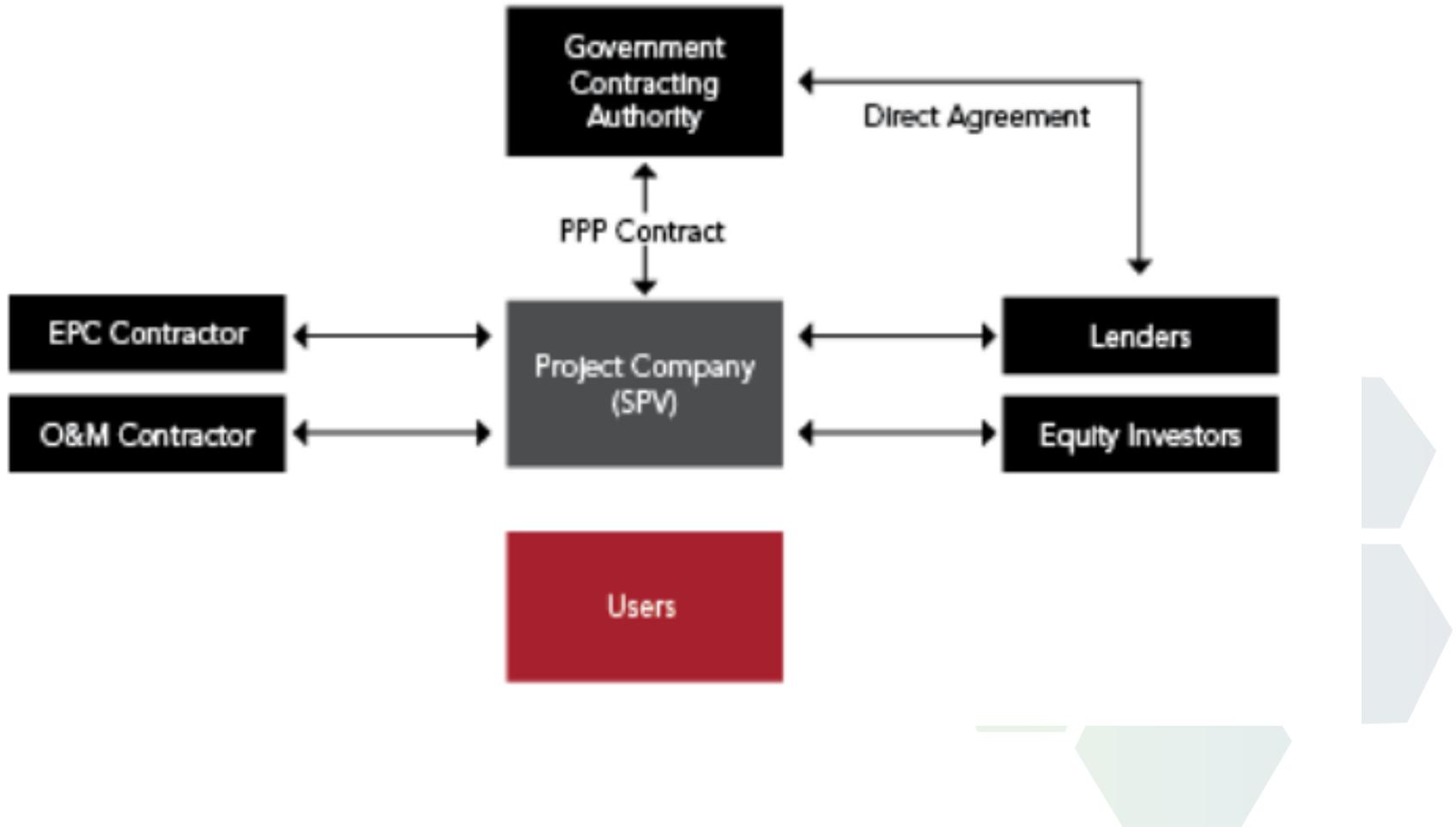
A public-private partnership (PPP) is a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance. (PPP Knowledge Lab)

Long term contractual arrangements between the government and a private partner whereby the latter delivers and funds public services using a capital asset, sharing the associated risks. (OECD)

Forms of co-operation between public authorities and the world of business which aim to ensure the funding, construction, renovation, management and maintenance of an infrastructure of the provision of a service. (European Commission)

The arrangements where the private sector supplies infrastructure assets and services that traditionally have been provided by the government. (IMF)

Typical PPP Structure



Benefits of PPP



Increasing transparency

Improving service delivery

Reducing construction time and costs

Ensuring regular maintenance

Providing better value for money



Islamic Finance – Key Principles



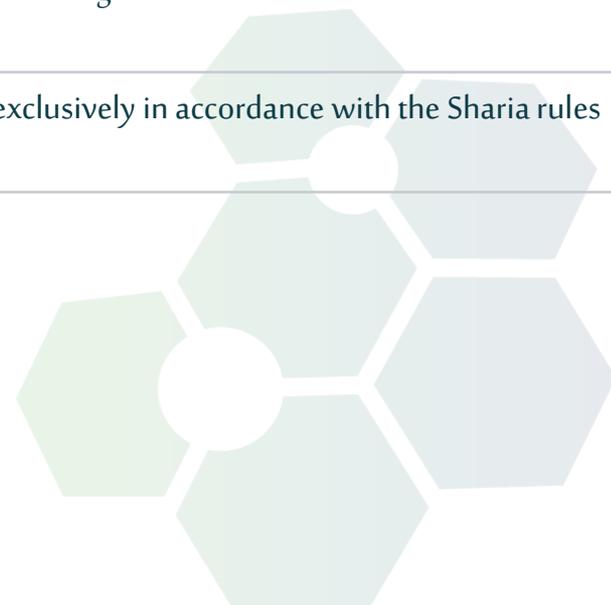
Prohibition of Interest based financing/transactions

Prohibition of excessive risk/uncertainty in transactions

Prohibition of speculative transactions

Asset/service backed/based financing

IsDB's mandate is to finance exclusively in accordance with the Sharia rules



PPPs— General Requirements



Transparent bidding process for the concession agreement part (*unsolicited proposals are also acceptable –terms apply!*)

Experienced Sponsors

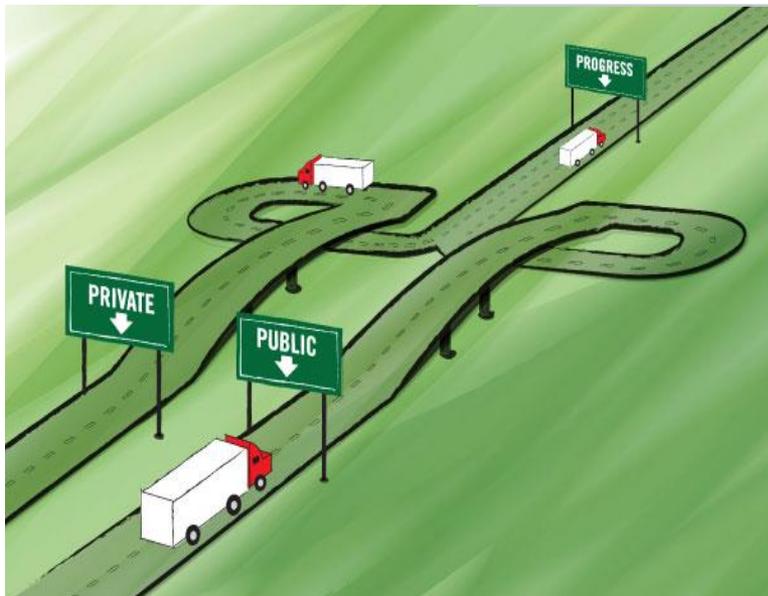
Reputed consultants working for the Banks (*flexible procurement*)

Risk mitigation

Adequate risk allocation between the Public Entity, the Private Entity and the Banks.



Islamic Finance & PPP – a perfect match



PPP Projects are often based on a participatory approach due to the no/limited recourse: all the parties take the risk of the Project.

PPP Projects are often based on an underlying asset which supports the real economy.

Prohibition of speculative transactions

PPP promotes efficiency and development.

Islamic Finance has been extensively tested in various PPP projects



Coexistence with Conventional Banks



Islamic finance products can perfectly co-exist with conventional tranche.

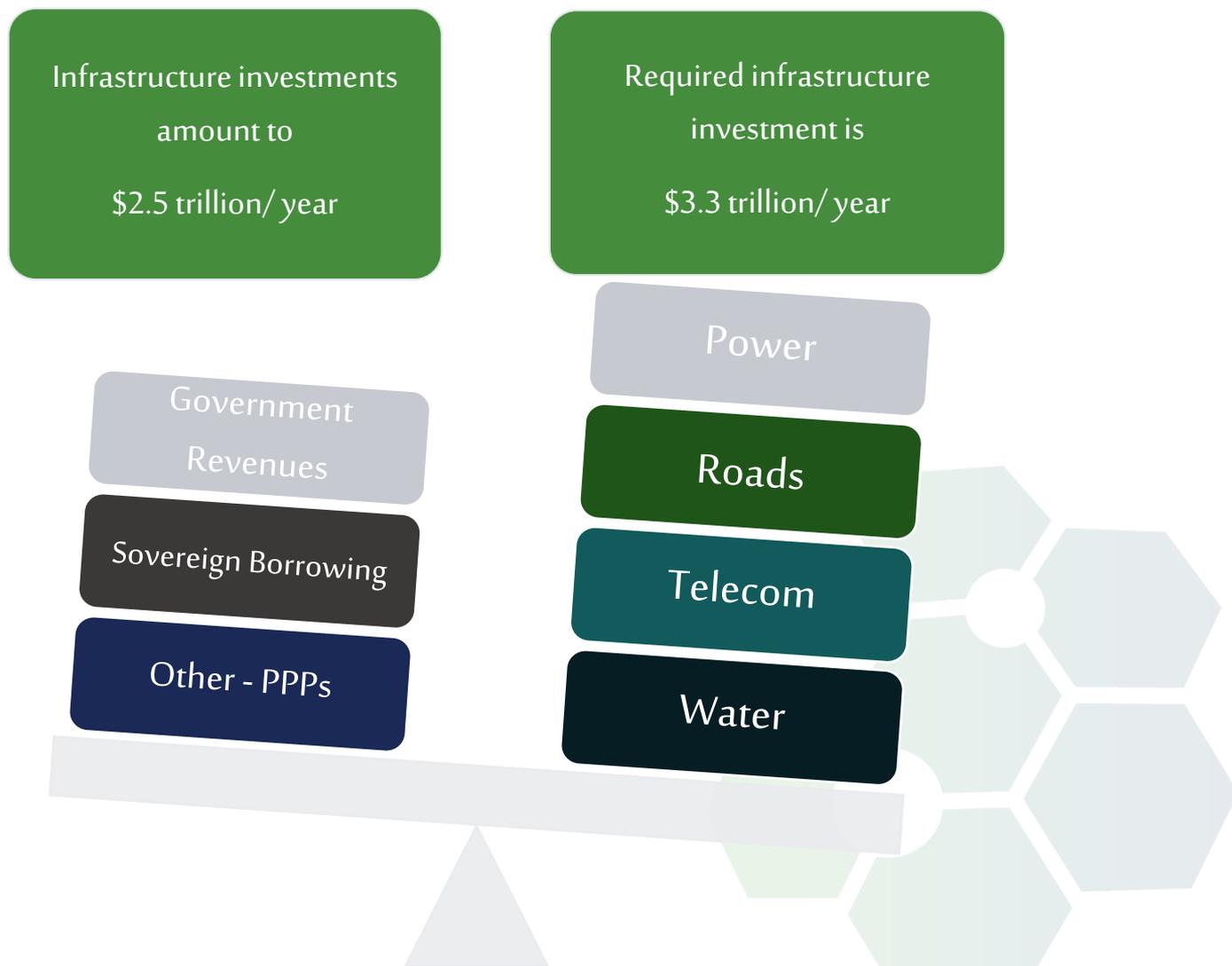
When the mode of financing entails ownership of part of the Project's assets, IsDB does not drive any privilege due to such asset.

Cash flow treatment in the Financial model as well as the cash waterfall is identical.

No additional impact in terms of taxation

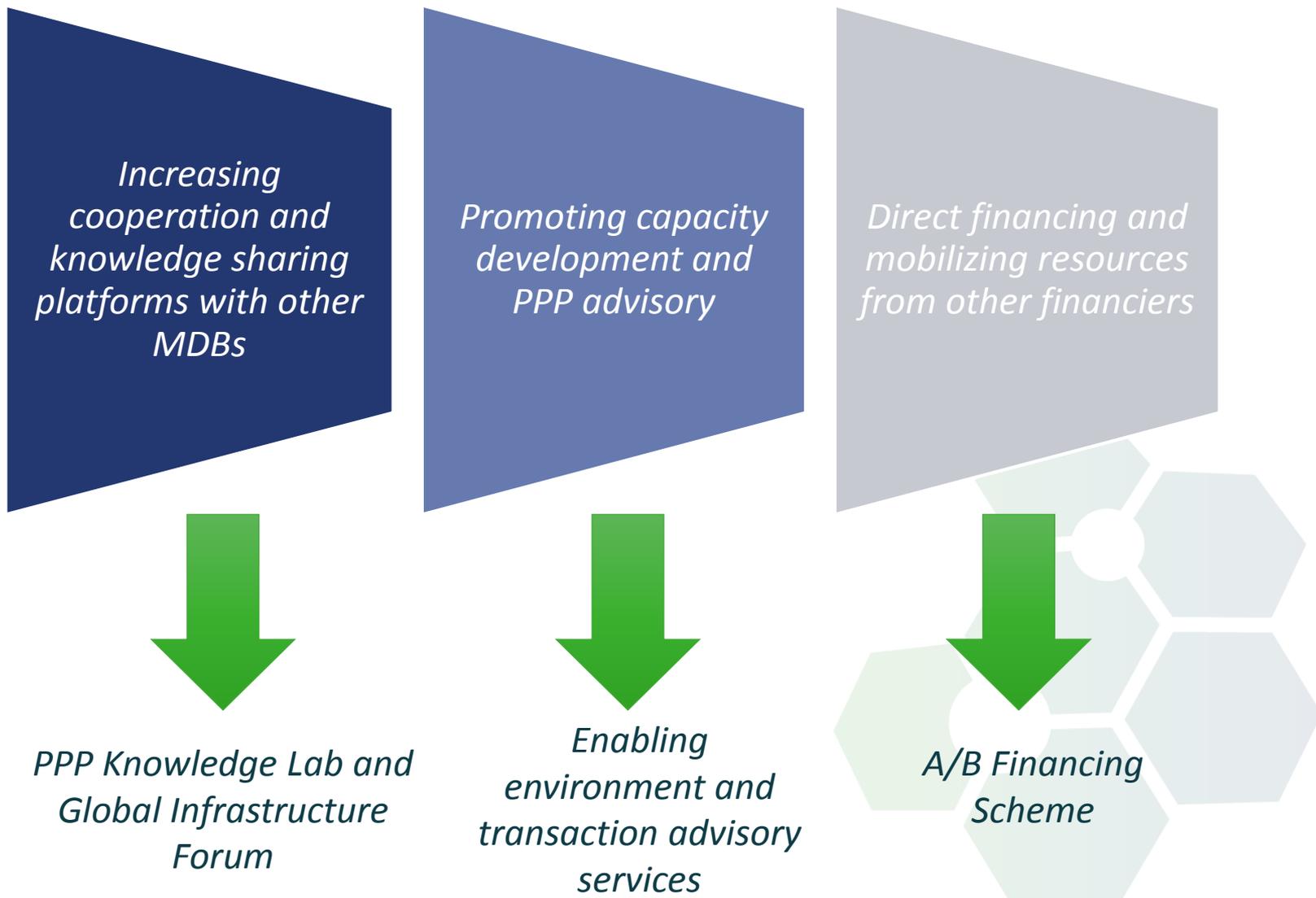


Infrastructure Financing Gap Globally

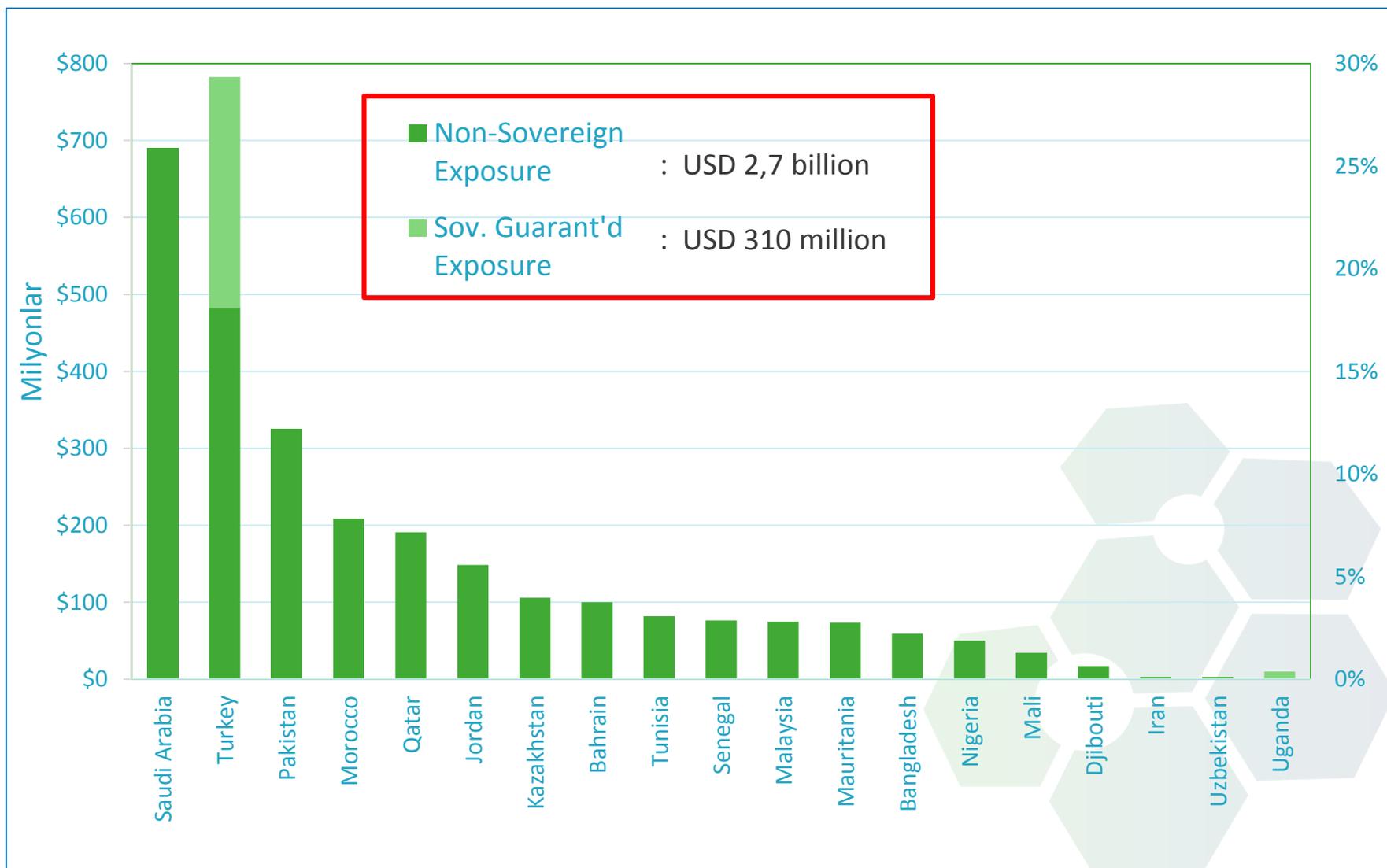


Source: McKinsey estimates from Bridging Global Infrastructure Gaps Report, 2016. Figures do not take into account SDGs.

IsDB's PPP Interventions to Address the Gap



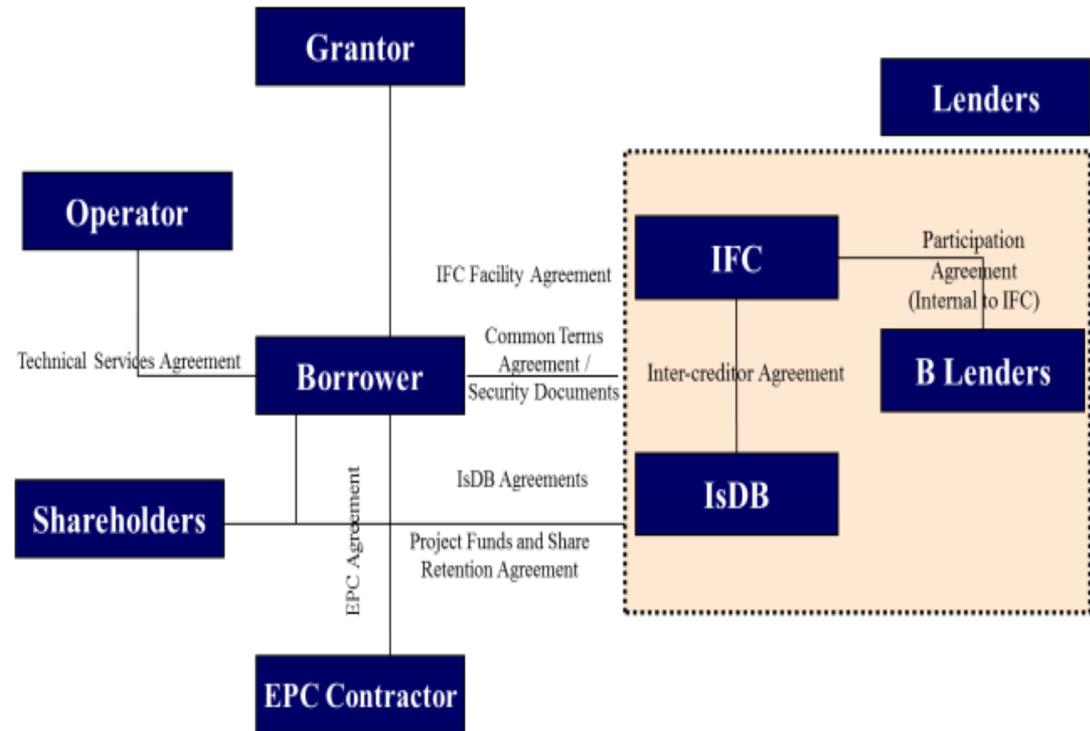
IsDB Involvement in PPPs



IsDB Financed PPP Transactions

- The Jordanian Government awarded a 25-year concession to **AIG** to reconstruct and expand the airport's terminal in 2007.
- It was the first successful airport PPP in the Middle East.
- The number of international flights has increased from 120 flights per day to more than 190 daily flights in 2015.
- The sale of **AIG's shares** marks the first transaction of its kind in the Middle East as it was the first sale of a secondary infrastructure asset in the Middle East.
- **The** consortium of investors consist of Groupe ADP, Meridiam, ISDB Infrastructure Fund II and EDGO Group.

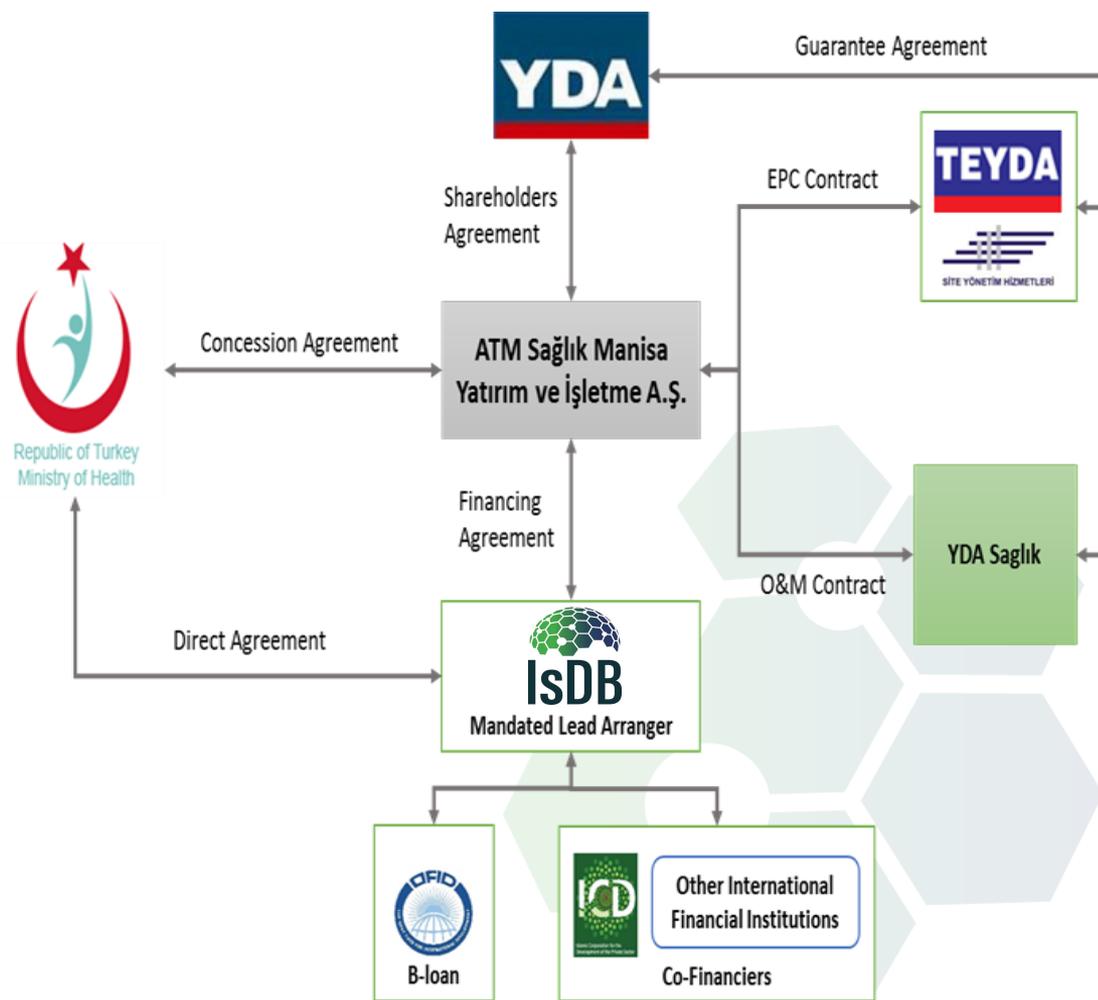
Queen Alia Airport Transaction Structure



IsDB Financed PPP Transactions

- The Manisa Hospital has a total capacity of 558 beds consisting of a general hospital and technical buildings for training and research.
- IsDBG was the mandated lead arranger in the transaction.
- The senior finance facility has garnered significant Islamic finance support.
- About 80% of the funding commitments consist of Islamic finance tranches.
- The cumulative fund arrangement was oversubscribed by almost 35%.

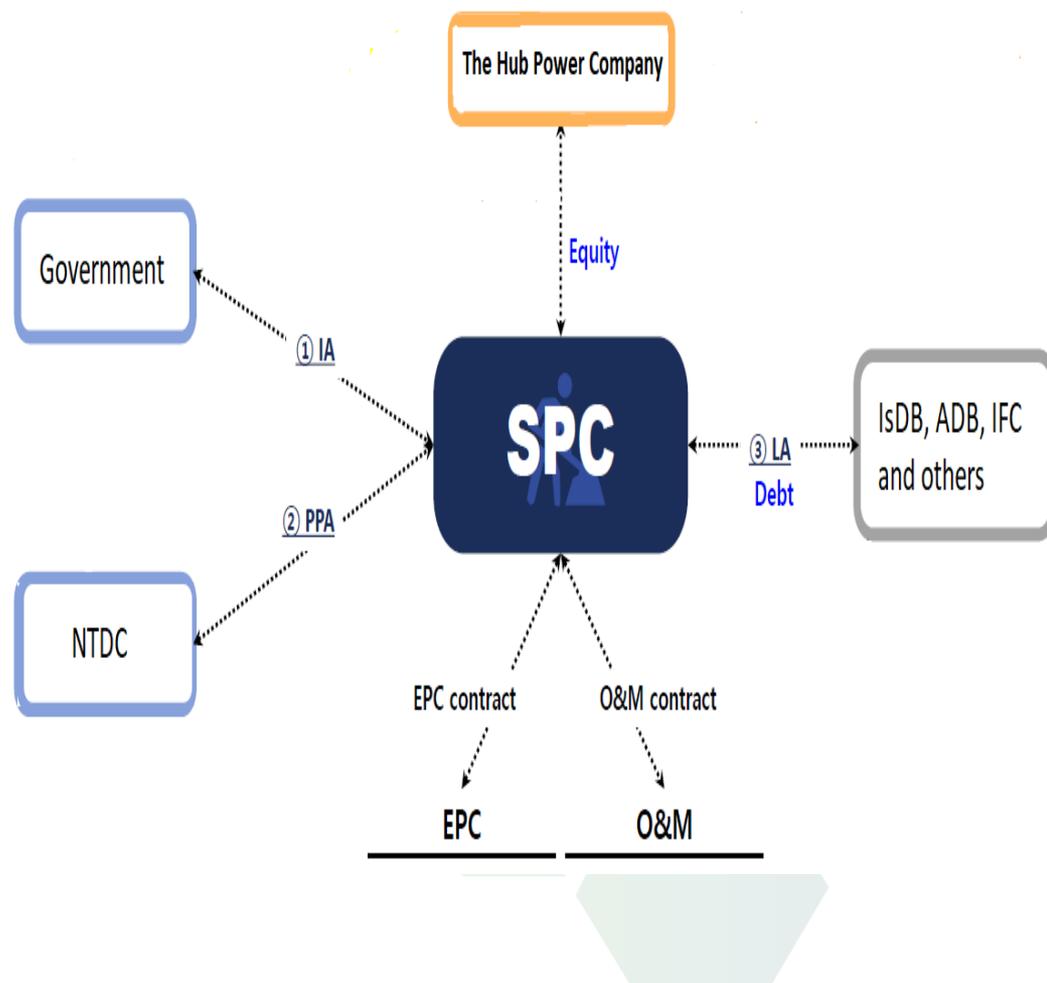
Manisa PPP Hospital Transaction Structure



IsDB Financed PPP Transactions

- The Project is the first run-of-river type hydropower PPP of Pakistan.
- The Project also has the distinction of being the first hydropower project of Pakistan which has been registered with the United Nations' Framework Convention on Climate Change as Clean Development Mechanism (CDM) project.
- It avoid greenhouse gas emissions equal to 218,988 tons of carbon dioxide annually by supplanting fossil fuel-fired power plants.
- The Project added 84 MW installed capacity to the system.
- It is estimated that the project's direct beneficiaries reached up to 100 thousands households or around 0.6 million people as of 2015.

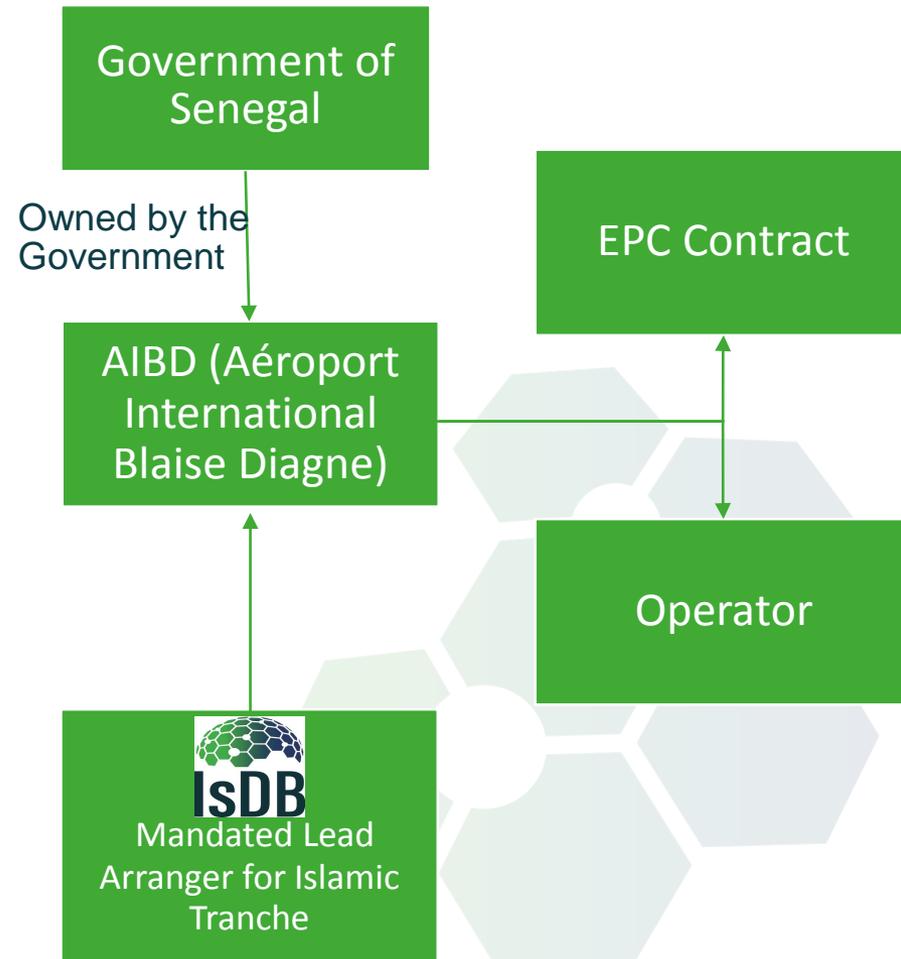
New Bong Hydro Power Project Transaction Structure



IsDB Financed PPP Transactions

- AIBD is a high priority project for the Government of Senegal, and it fits well with their overall plans to improve connectivity and positioning Dakar as a regional hub for business.
- Turkish construction companies Summa and Limak were selected to complete the construction of the airport, which is a demonstration of a south-south initiative.

Dakar Airport Project



Challenges of PPP in IsDB MCs

Lack of robust regulatory framework

Lack of awareness

Weak institutional capacity required for project preparation

Underdeveloped capital markets

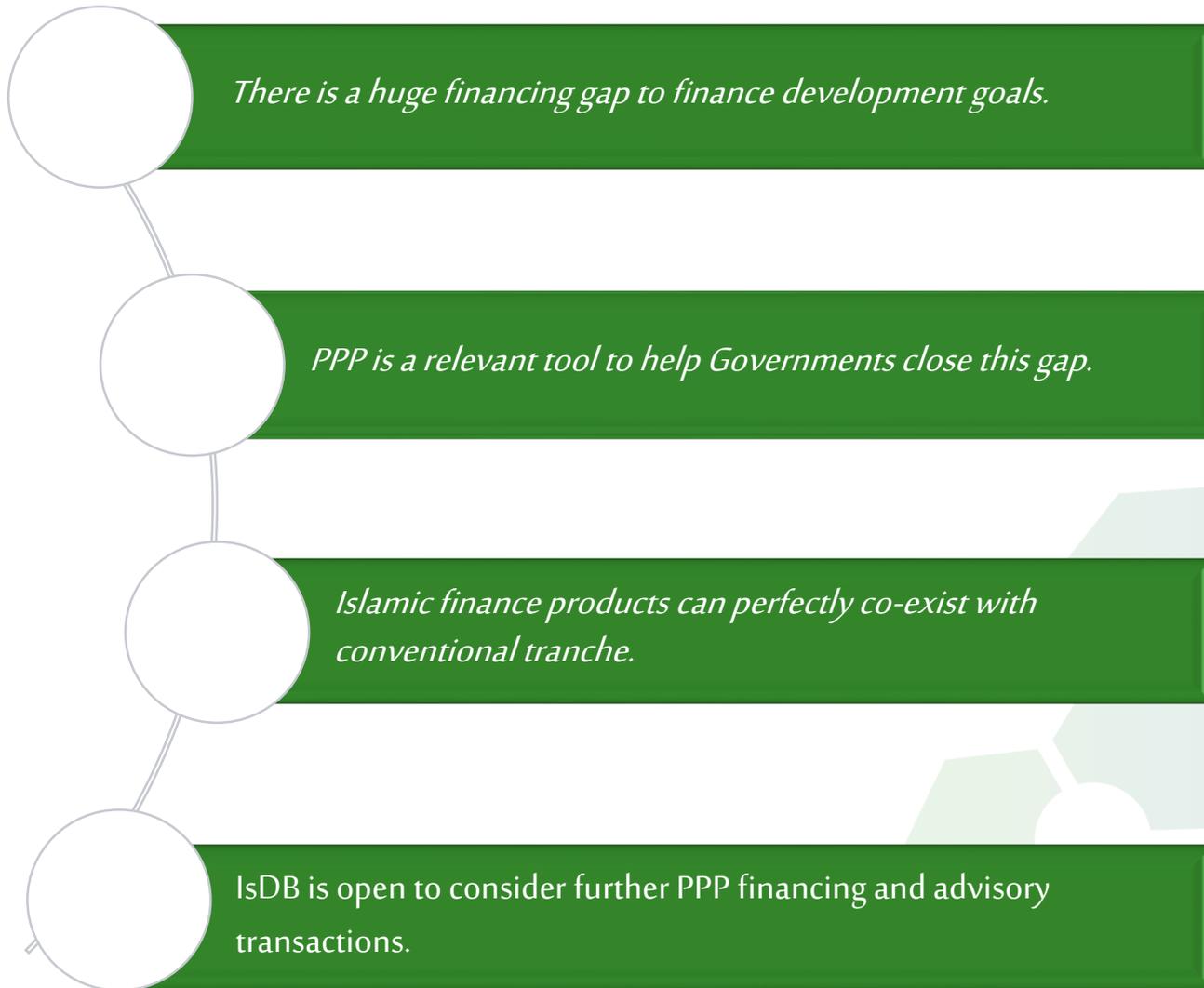
Unavailability of equity

Unavailability of mitigants for FX and political risks

Recommendations & Areas of Intervention

- 1 PPP Advisory & Project Preparation Services
- 2 Mobilization of 3rd Party Resources via B-Financing
- 3 Raising infrastructure focused funds
- 4 Awareness Activities such as Workshops, Conferences
- 5 Increasing cooperation among MDBs and other donors

Takeaway Points





Empowering people for a sustainable future
Driving innovation, partnerships, Islamic Finance and value chains

THANKS FOR
LISTENING .

