

IFC WEBINAR ON ISLAMIC FINANCE AND BANKING

Making Islamic Finance and Banking Work for SMEs

17th May, 2017

Topics

1. Why is IFC interested in Islamic Finance and Banking
2. An overview of Islamic Finance and Banking
3. An overview of IFC's Investment engagements
4. An overview of IFC's Advisory Services Engagements
5. Shariah Compliant Products and their development
6. Gulf African Bank – how IFC and GAB partnered to build a strong Shariah compliant proposition for Kenya's SME sector.

Why IFC is interested in Islamic Banking?

- ✓ Islamic Finance is now recognized as Ethical Finance
- ✓ Islamic Finance provides Sustainable investment in the Real Economy
- ✓ Islamic Finance rejects Speculation
- ✓ Islamic Finance is attracting more and more non-Muslim clients
- ✓ Islamic Finance can play an important role in supporting development goals and Financial Inclusion
- ✓ More and more multilateral institutions are using Islamic instruments
- ✓ From 2006 to 2016 global Islamic assets grew from USD 386 billion to USD 1440 billion.
- ✓ This is a compound annual growth rate of 12.7%. Much more than that of conventional banks

ISLAMIC FINANCE AND FINANCIAL INCLUSION

1. In many parts of the world small and medium enterprises (and also in general) are demanding shariah compliant banking and financing instruments.
2. A large part of these SMEs are in the MENA, South Asia and South-East Asia Region.
3. Several countries in Africa and Central Asia also have populations, which prefer Islamic banking and finance
4. Asset backed lending is more favorable for SMEs

Expansion of Islamic finance has the potential to enhance overall financial sector development & financial inclusion

Reinforcing financial stability

- Islamic financial institutions may be more resilient to some unforeseen shocks due to asset-backing for their transactions, avoidance of speculation and avoidance of excessive leverage

Improving depth, breadth and efficiency

- Islamic finance provides alternative sources of financing for households and businesses
- Potential to provide competition to conventional financial institutions

Enhancing financial inclusion

- Widening the range of products and services available to businesses and households
- Improving access of the underserved to financial services

AN QUICK OVERVIEW OF GLOBAL ISLAMIC FINANCE ASSETS & REGIONAL MARKET TRENDS

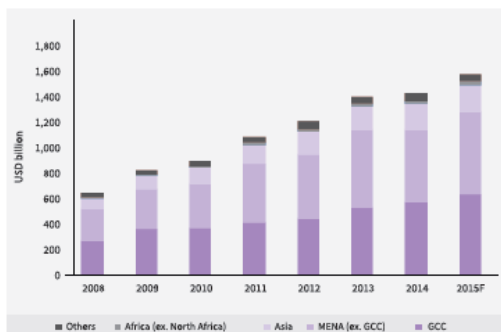
GROWTH OF ISLAMIC BANKING

Strong growth in All types of Islamic banking Assets seen in the past few years and forecasted for future

Breakdown of Islamic banking Segments by Region (USD billion. 2015 YTD*)

Region	Banking Assets	Sukūk Outstanding	Islamic Funds' Assets	Takāful Contributions
Asia	209.3	174.7	23.2	5.2
GCC	598.8	103.7	31.2	10.4
MENA (exc. GCC)	607.5	9.4	0.3	7.1
Sub-Saharan Africa	24.0	0.7	1.4	0.5
Others	56.9	2.1	15.2	-
Total	1496.5	290.6	71.3	23.2

Islamic Banking Assets Growth Trend (2008–2015F)*



Compound Annual Growth of Key Islamic Banking



Islamic Banking Growth trends*



ISLAMIC FINANCE IN CIS COUNTRIES

New frontiers that are rapidly evolving



- Sharia-complaint unit at IBA
- \$180 mln in funding disbursed into economy
- ICD-backed “Caspian International Investment Co.” and leasing co. “Ansar”



- Comprehensive legislation adopted / regulatory norms
- Al Hilal Bank
- “Zaman-Bank” transformation into Islamic bank
- Member of IFSB, AAOIFI and IIFM
- ~\$200 was already or being mobilized (*murabaha*)
- MFI “Agriculture Sector Financing Fund” (*murabaha*)
- MFI “New Finance” (trade & financing)
- ICD backed leasing co.
- Insurance co to promote *takaful*
- ~\$77mln *sukuk* issue (Malaysian investors)



- Legislation adopted / regulatory norms
- Eco Islamic Bank



- Legislation in development (working groups CBR, ARB, ASROS, IBFD Fund)
- Trade House “Amal”
- Ak-Bars Bank attracted \$160mln in Islamic financing
- Eurasia Leasing Co.
- Allianz Life – *takaful* product
- Tatfondbank – Islamic finance center
- Financing House “Masraf”
- Trust “LaRiba Finans”



- Legislation adopted / regulatory norms
- “Bonki Rushdi Tojikiston” transformation into Islamic bank



- Legislation in development
- Potential to mobilize Islamic financing for TAPI project



- ICD-backed leasing co. “Taiba Leasing”

AN OVERVIEW OF IFC'S INVESTMENT ENGAGEMENTS

Some specific issues when assessing Islamic Banks



- Compliance with Islamic Financial requirements.
- Sharia Board --- Role and how do we manage different views.
- IFC's Financial Covenants : Interest Rate Risk ratio!
- Liquidity and its management --- low levels of liquidity and limited instruments
- LDR -- inherently high
- Restructuring / classification
- Liability structure --- asset management model
- Business model --- assets types and liabilities (risks)
- Insurance --- often lacking/ poor delivery in countries.
- Fees --- esp standard IFC fees.

IFC's Investment Engagements in Islamic Finance

- IFC's first Islamic finance transactions were in 1995, supporting small ticket leasing in Pakistan. IFC has thus far approved investments in 28 Islamic financing transactions involving an aggregate amount of US\$742 million, supporting financial and real sector projects in Middle East and North Africa (MENA) and African countries.
- IFC has also raised funding through two Islamic bond (Sukuk) issues in Islamic financial markets.
- On the real sector side, IFC has invested in the healthcare, agribusiness, education and infrastructure sectors. IFC's Advisory Services have engaged with Islamic banks in the MENA region to help scale up SME financing. IFC's financial sector Islamic financing investments have supported leasing, affordable housing, MSMEs, asset management and insurance (Takaful) entities.
- FIG Strategy In the Islamic banking/financial sector:
 - To support financial inclusion. Enhancing MSME access to finance.
 - To promote Responsible finance
 - To help establish new Islamic financial intermediaries or to strengthen existing banks and financial institutions in markets where there is strong demand for Islamic financial products. To collaborate with well-established and strong banking groups with good track record such as the Islamic Development Bank (IsDB) Group and the leading Gulf-based Islamic banks,

AN OVERVIEW OF IFC'S ADVISORY SERVICES ENGAGEMENTS

Since 2005 some of the banks that IFC has worked with to develop SME Banking capacity are:

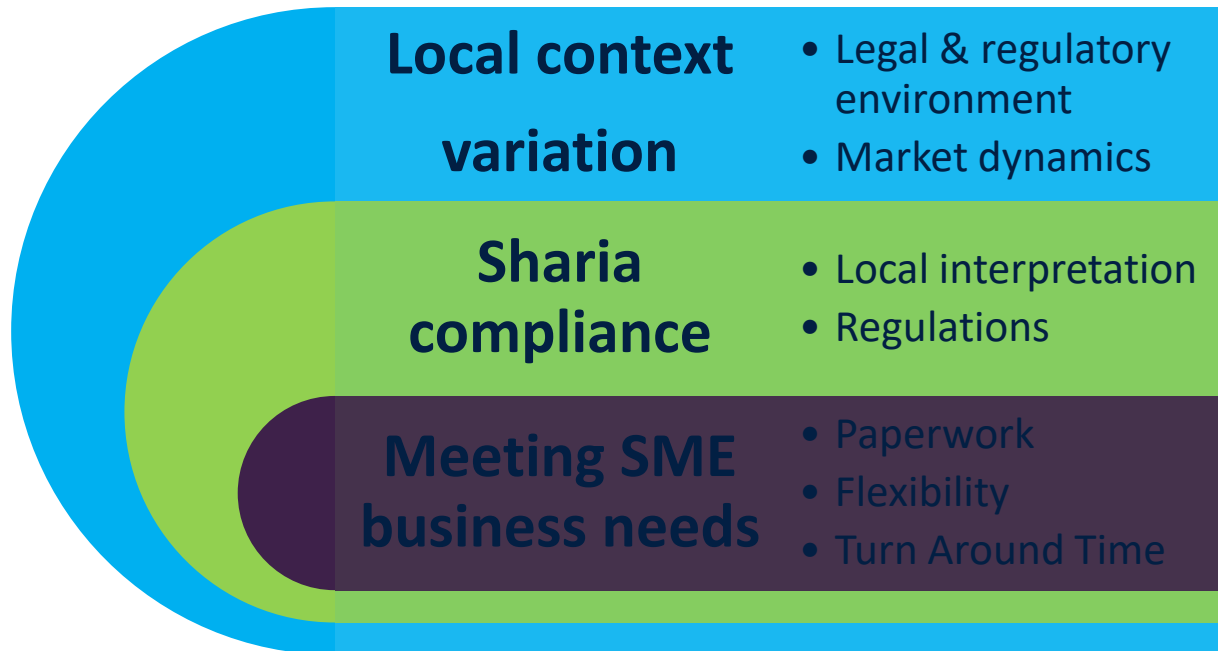
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	Assessed – No Engagement
	Assessed – No Engagement

IFC advisory services to these banks positively impacted 3 core SME business aspects thus making it easier for SMEs to better access banking services



DESIGNING AND DEVELOPING ISLAMIC FINANCING PRODUCTS FOR SMES

Designing Islamic SME products



Examples of SME products

Financing Products

No	Product	Underlying principle
1	Supply Chain Finance – Supplier Financing	Wakala
2	Supply Chain Finance - Buyer Financing	Wakala/Murabaha
3	Overdraft Finance Facility	Mudaraba
4	Buy and Leaseback Finance Facility	Ijara
5	Islamic Credit Cards	Mudaraba

No	Product	Underlying principle
1	Prize Savings Account	Mudaraba
2	Sweep Current Account	Qard Hassan and Mudaraba

KENYA'S FIRST ISLAMIC BANK

GULF AFRICAN BANK

Overview of Gulf African Bank

- ✓ **The 1st Shari'ah compliant Bank in Kenya**
- ✓ **Incorporated on 9th August 2006 and started official operations as a commercial bank in 2008. 10 years old.**
- ✓ **Population of Kenya 42 million, 10% Muslim population.**
- ✓ **Number of commercial banks in Kenya – 42 banks.**
- ✓ **Need for financial inclusion of Muslims and Muslim owned SMEs.**
- ✓ **Shareholders:**
 - **Dubai World**
 - **BMI Bank (Bank Muscat International)**
 - **Al-Romaizan**
 - **PTA Bank**
 - **IFC**

IFC / Gulf African Bank Partnership

- ✓ IFC took equity stake at GAB in 2013, 14.94%
- ✓ GAB also signed up for AS with IFC in 2014 to develop a profitable SME banking business at Gulf African Bank
- ✓ Scope of work:
Performed an in-depth analysis of the banks internal SME status and also qualitative market research including an SME capacity building assessment. Results of this advised the scope of work.
- ✓ Results of the advisory:
 - i) Segmentation
 - ii) Customer Value Proposition (CVP)
 - iii) Capacity building
 - iv) Women banking

2017:GAB/IFC in the process of developing phase 2 of the advisory services to develop Islamic financial products targeting SME in line with market demand.

Thank you