

## **IIBSA 2017 Session Connect: Boosting Sukuk Momentum in Africa** Sukuk: a Catalyst alternative financing asset class

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# **Boosting Sukuk Momentum in Africa:** Sukuk: a Catalyst alternative financing asset class

# Boosting Sukuk Momentum in Africa | Islamic Finance Industry – Africa

## Overview



### Sub-Saharan African

- **Sub-Saharan Africa** will see a growth of infrastructure Sukuk
- **Togo:** became the latest African sovereign issuer in 2016
- **Kenya, Niger and Nigeria:** are planning to do similar to Togo to fund infrastructure needs
- **East Africa, Uganda:** amended its laws in January 2016 to allow Islamic banking products and allows establishment of Islamic banking windows.
- Africa's Islamic banking assets, while comprising just 1.0% of total, have grown faster than the other regions.

Source: ICD-Thomson Reuters, 2016

# Boosting Sukuk Momentum in Africa | Corporate Sukuk

Building the ecosystem to finance sustainable infrastructure



The Asian Development Bank estimated in 2010 that developing Asian countries have an infrastructure spending need of US\$8 trillion over the ten years to 2020; the vast majority of this is needed for :

- roads,
- railroads,
- power plants,
- and power transmission.

Globally, as much as US\$78 trillion is expected to be spent on infrastructure through the years 2014-2025.

The major drivers of this unprecedented amount of global infrastructure spending over the next ten years include:

1. The urgent need to upgrade U.S. infrastructure.
2. European infrastructure spending to bounce back post the European sovereign debt crisis.
3. Continued urbanization, especially among emerging market countries.

# Boosting Sukuk Momentum in Africa | Responsible Investment

New thinking for financing renewable energy



Our study presented an analysis of the main drivers and factors for building the business case of a new thinking to finance **sustainable development in the energy and renewable energy sectors**.

The development of green Islamic Finance in Asia and the Middle East, for example, would arguably create an opportunity for both governments and corporates to diversify their investment capital and provide a **new asset class** featuring a balanced risk-sharing element for issuers, and fixed-income returns for investors.

Therefore we have Identified three broad game-changers for Islamic Finance to tap into the emerging real economy sector opportunities. These are:

**Policy development and regulation**

**Innovative Islamic financing**

**Government support and awareness**

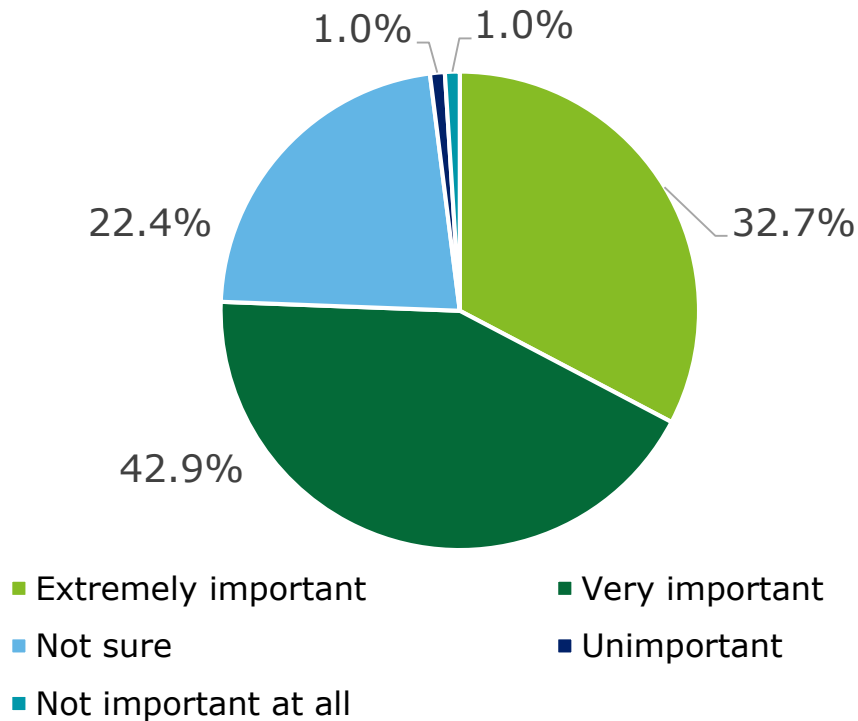
In the next slides we will focus on the **Innovative Islamic financing Alternatives**

# Boosting Sukuk Momentum in Africa | Innovative Financing Alternatives

Financing renewable energy infrastructure projects



## How important is the need to broaden equity capital in energy investment through Islamic Finance?



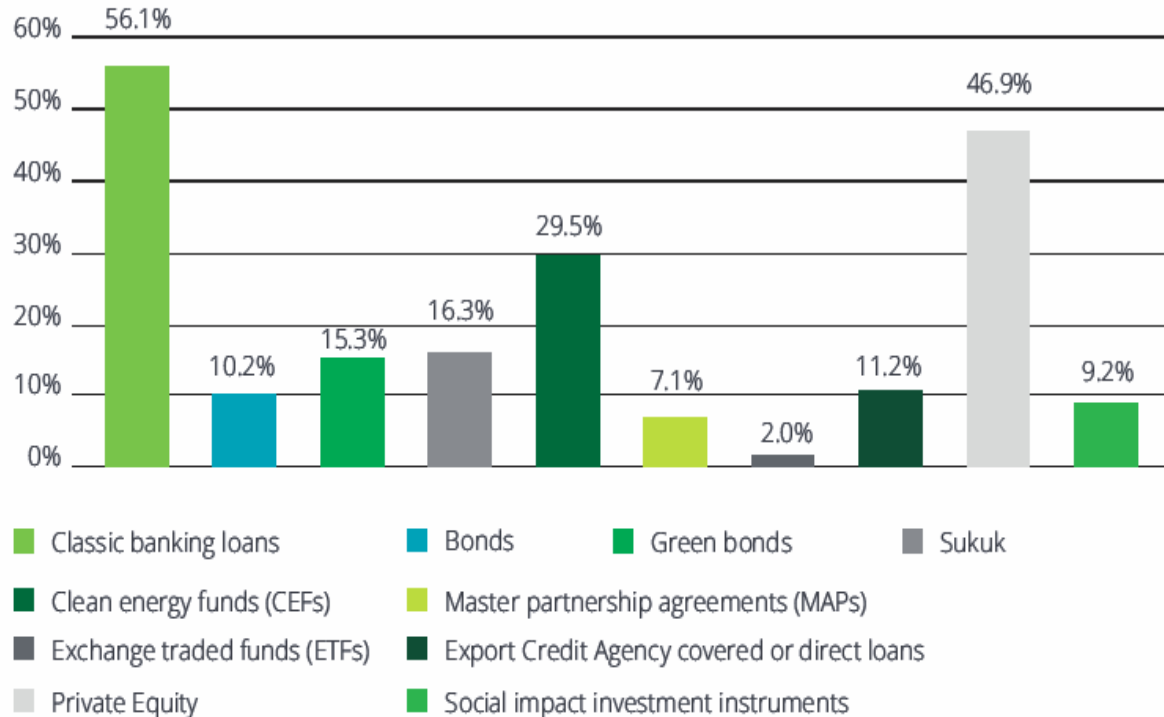
- Three quarters (75.6%) of the respondents believe there is a need to broaden equity capital in energy investment through Islamic Finance.
- This result signifies the interest of industry practitioners in diversifying investment capital by considering alternative financing methods such as **Islamic Finance**.
- Islamic financial structures will broaden equity capital and provide new risk return profiles for project funding and investors.
- Industry regulators and standard-setters will need to promote and design new, innovative green investment structures and the necessary documentation process to promote these structures amongst investors and governments.

# Boosting Sukuk Momentum in Africa | Innovative Financing Alternatives

Financing Renewable Energy Infrastructure Projects



Which of the following are mostly used to finance renewable energy in your market?



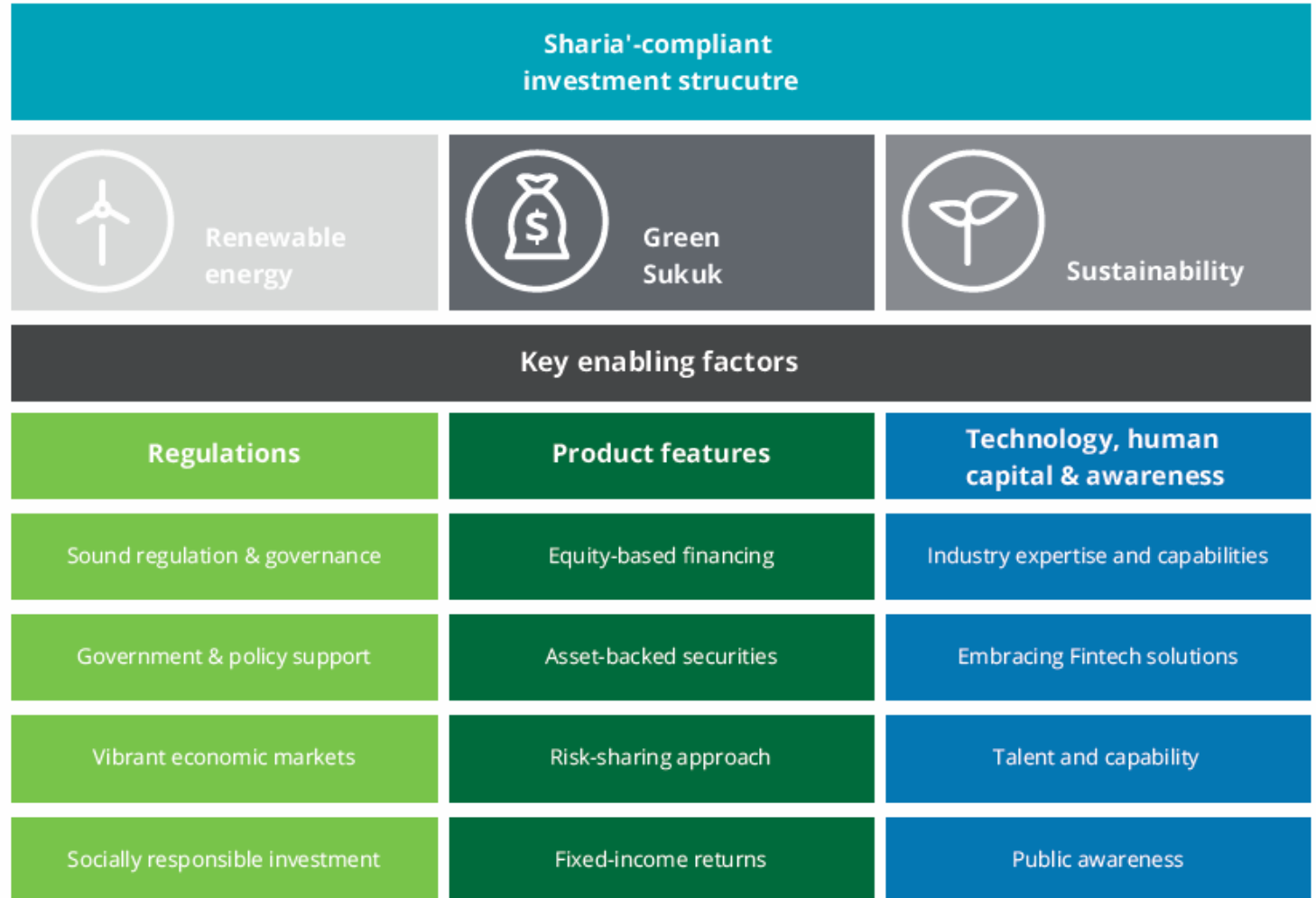
- Classic banking loans (56.1%) followed by private equity funds (46.9%) and clean energy funds (29.6%) are evidently the commonly used methods to finance renewable energy.
- Although banks still play a key role in financing renewable energy projects through syndicated loans, this may soon change given the new Basel capital regulatory requirements and will create a need for capital market instruments such as green bonds or **green Sukuk** to finance projects in the Middle East and Asia, at least.

# Boosting Sukuk Momentum in Africa | Innovative Financing Alternatives

The emerging popularity of Sukuk – Sharia' compliant investment structures



- There is undoubtedly a need for innovative financing solutions that feature a new and revised business model to replace the traditional debt-based financing approach.
- A significant share of Sukuk issuance has been structured to reduce risks through guarantees and credit enhancement measures developed by multilateral development banks





# Boosting Sukuk Momentum in Africa | Innovative Financing Alternatives

Key Sukuk financing structures and sectors



Renewable Energy/Pharmaceutical/ Manufacturing	Murabaha	<b>Cost plus financing arrangement:</b> Financing the purchase of commodities used in the production of renewable energy, pharmaceutical medical drugs and textiles.	Expansion of operations in international markets  Expansion of operations in local markets  Investing in new business streams
	Salam	<b>Sale where goods are purchased in advance for delivery on an agreed future date:</b> Financing the purchase of commodities used in the production of renewable energy, pharmaceutical medical drugs and textiles.	
	Istisna'	<b>Construction project to be delivered on a future date for a fixed, agreed-upon price and with specific product specifications:</b> Financing the construction of production plants/facilities in overseas territories and locally.	
	Ijarah	<b>Leasing arrangement:</b> Finance or Operating lease of equipment used in the production of renewable energy, pharmaceutical medical drugs and textiles.	
Real Estate	Murabaha	<b>Construction project to be delivered on a future date for a fixed, agreed-upon price and with specific product specifications:</b> Financing the development of real estate properties.	Using Sukuk to diversify capital sources
	Istisna'	<b>Construction project to be delivered on a future date for a fixed, agreed-upon price and with specific product specifications:</b> Financing the construction of production plants/facilities in overseas territories and locally.	
	Ijarah	<b>Leasing arrangement:</b> Finance or Operating lease of equipment used in the production of renewable energy, pharmaceutical medical drugs and textiles.	

# The Case for Solar Sukuk

# Boosting Sukuk Momentum in Africa | The Case for Solar Sukuk

Potential solar Sukuk: a catalyst to broaden equity capital in energy sector

## Project Overview

- Gulf Municipality (GM)- project originator is seeking finance to build a 100 MW solar plant (Gulf Solar Farm).
- GM aims to procure an Independent Power Project (IPP) to build the project asset in one of its suitable sites.
- GM will purchase the (Renewable Energy Certificates (RECs), through its affiliate; Gulf Electricity & Water Authority (GEWA).
- GEWA will enter with Gulf Solar (service manager) into a Power Purchase Agreement (PPA).

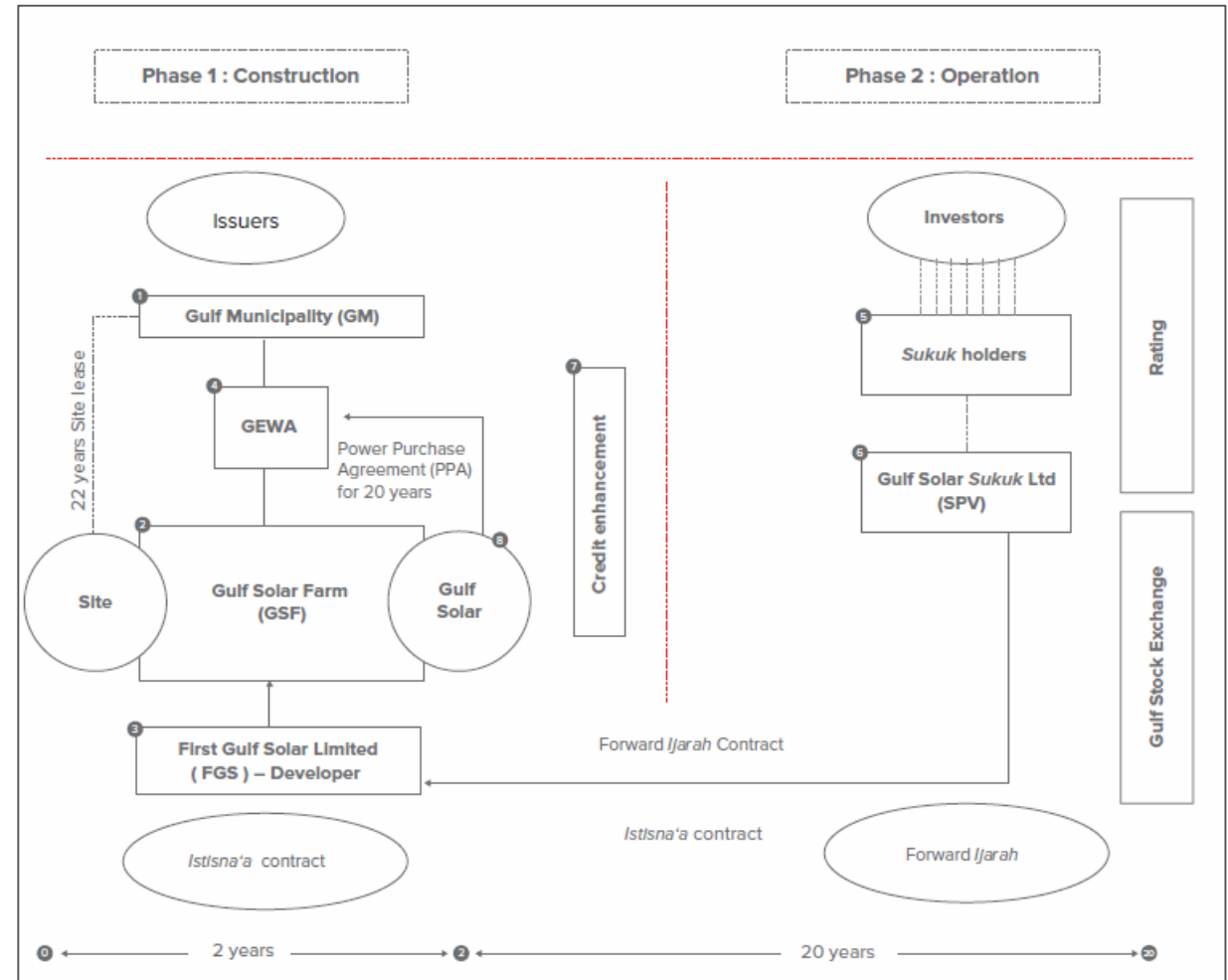
## Transaction Highlights

### Construction Phase:

- A special purpose vehicle (SPV) will be set up to act as trustee of Sukuk holders also known as investors.
- Gulf Solar Sukuk (SPV) signs an Istisna'a contract with the project originator (GM), to construct the project asset (Gulf Solar Farm).
- A tech-know how developer (First Gulf Solar LTD) will deliver the project asset.
- Upon completion (two years), title and asset ownership pass to the Gulf Solar Sukuk (SPV).

### Operation Phase:

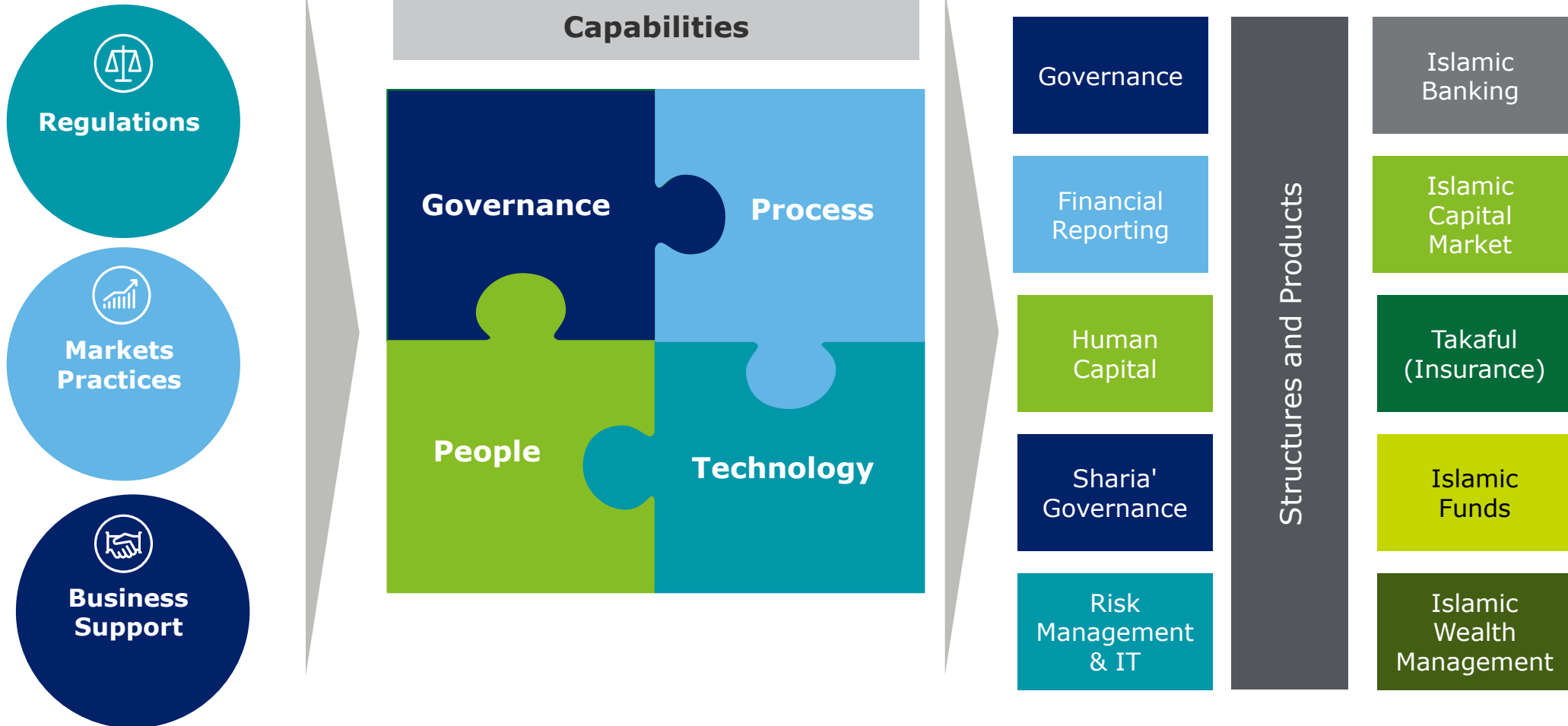
- GM (the project originator) will also sign a Forward Ijarah with Gulf Solar Sukuk to lease the Solar Farm.
- The completion of the solar plant, Gulf Solar Sukuk (SPV) leases the solar farm to project originator (GM)
- Both parties are subject to a purchase undertaking where the project originator (GM) will repurchase the solar farm from the Gulf Solar Sukuk (SPV).



**Concluding thoughts**

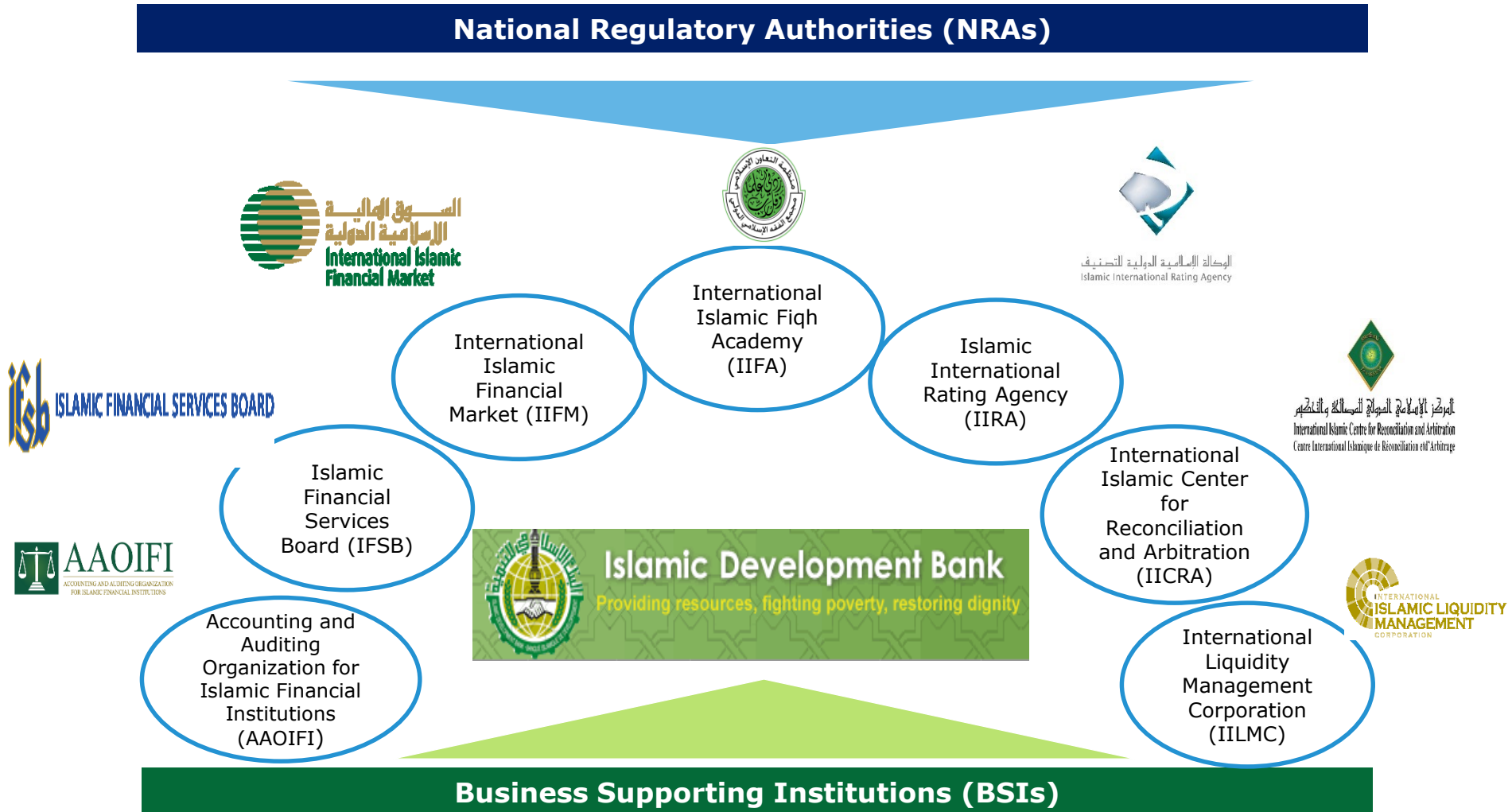
# Concluding thoughts | **building capabilities**

A cross-business approach



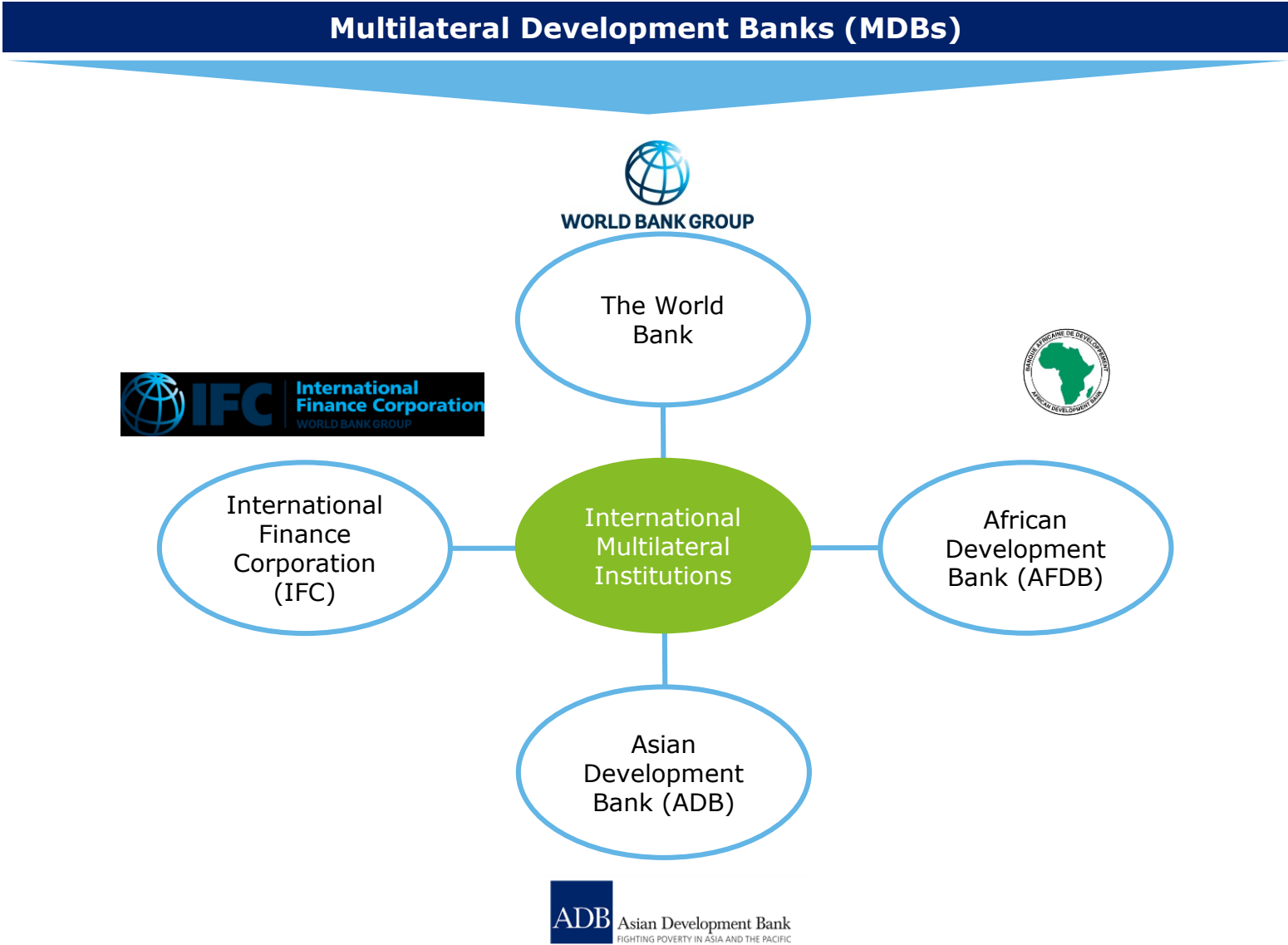
# Islamic Infrastructure Institutions

## Creating A Holistic Enabling Regulatory Environment



# Islamic Infrastructure Institutions

## Support of Multilateral Development Banks (MDBs)





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