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COVER STORY

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Forging forward: The ICD in 2019

Development institutions are an invaluable part of the finance industry landscape, and in the first week of April the 44th Annual Meeting of the Islamic Development Bank Group (IDB) took place, introducing the bank's pioneering new five-year plan. This week, LAUREN MCAUGHTRY is delighted to bring to you an exclusive audience with Ayman Sejiny, the ambitious new CEO of the Islamic Corporation for the Development of the Private Sector (ICD), who gives us a unique insight into how this strategy will impact and influence the ICD's integral work going forward.

ICD outlook

Organized under the theme 'Transformation in A Changing World: The Road to Sustainable Development Goals', the two-day annual meeting focused on four key pillars of the IDB's five-year plan: including public-private partnerships; science, technology and innovation; the global value chain; and Islamic finance.

The ICD, as the private sector arm of the IDB, has a vital role to play in this future — and with a new leader at its helm, 2019 looks set

to be both a busy and promising year for the institution.

Ayman Sejini took on the role of CEO in September 2018, bringing with him a wealth of commercial banking experience including stints as CEO of Ibdar Bank, Bank Alkhair, Barclays Capital Saudi Arabia and as the chairman of Open-Silicon and Bahrain Financing Company Group as well as a board member of Unicorn Bahrain and senior roles with Samba and Saudi Hollandi Bank.

Since joining the ICD, Ayman has already made his presence felt, and the institution has taken on an impressively forward-facing focus with a special concentration on growing areas including fintech, inclusiveness, sustainability and commercial progress.



Ayman

Sustainable innovation

One of the biggest ongoing strategies of the ICD, and a key focus for Ayman, is of course the alignment of its activities with the UN Sustainable Development Goals (SDGs) — the focus of its meetings held at the beginning of this month.

A collection of 17 global goals set by the United Nations General Assembly in 2015 for the year 2030, the SDGs were first integrated into the ICD approach in 2017, and the corporation has pledged to concentrate its investments into a number of specific targets: including SDG 7 (energy), SDG 8 (jobs and financial inclusion) and SDG 9 (industry and infrastructure). It has also committed to engage in SDG 13 (climate action) and SDG 17 (partnerships) in order to impact on SDG 1 (poverty), SDG 2 (agriculture), SDG 3 (health), SDG 4 (education) and SDG 5 (gender equality).

"The ICD has always supported the concept of the SDGs — this strategy was just formalized by giving it more focus," emphasized Ayman. "It matches closely with our mandate, and it gives us a targeted direction with which we can align ourselves."

A successful SDG initiative from the ICD can be seen in the recent scaling-up of the Business Resilience Assistance for Value-adding Enterprises (BRAVE) program in Yemen. BRAVE aims to enhance the resilience of the SMEs in Yemen in vital sectors against the impacts of the ongoing conflict, in collaboration with development partners including the IDB and the Small and Micro Enterprise Promotion

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Service (SMEPS, a subsidiary of the Social Fund for Development in Yemen) along with unique international donor partnerships. The second phase of the program was launched in December 2018 with US\$9 million of grants from the Yemen Transition Fund and a further US\$32.24 million of grants from the Women Entrepreneurs Financing Initiative.

“ With fintech, we can better assess each economy, each marketplace, identify its competitive advantages and analyze exactly what services we can and should be offering to support its growth ”

“The ICD will expand its support to this innovative and integrated approach by providing technical oversight and resource mobilization for SMEPS and our partner banks in Yemen,” said Ayman. “We are also working with our partners to adapt and adopt the BRAVE model to other comparable contexts where SMEs are in need of business resilience support to cope with difficult environments and tough market conditions. These interventions are also leveraging the established network partner banks of the ICD in our member countries.”

Financial focus

This SME focus is a core part of the ICD remit, and one which Ayman plans to continue building over the coming years. The ICD views SMEs as the foundation of any economy.

Equally important, however, is a comprehensive and connected global approach based on international partnerships — building up stronger relationships with other, similar institutions and increasing effectiveness by extending reach and expanding balance sheet capabilities.

One of the methods in which Ayman plans to achieve this is through the increased use of ‘blended’ financing, whereby the ICD partners with investment funds and other international donors to create a pool of assets from which to fund specific projects while mitigating risk and maximizing impact.

Another is through the expansion of its lines of finance. The ICD has partnerships with around 100 financial institutions — which gives it an enormous capability to extend commercial assistance to its targets. “Last year we approved lines of finance in excess of US\$400 million,” noted Ayman. “In Saudi Arabia, we have a mortgage company that successfully provided mortgages to well over 10,000 household members. The ICD operates in challenging environments with highly specialized needs and requirements, and it can be difficult for conventional financial institutions to meet those needs — which is why it is so important that we maintain our active participation in the financial sector.”

Fintech focus

But there is much else to be excited about — and nowhere more so than in the area of digital innovation, where the ICD is keen to make its mark.

During the 44th IDB Annual Meeting in Morocco, the ICD launched a unique new initiative titled the ‘Global Platform for the Private Sector’, providing space for a community of like-minded financial institutions to collaborate on business opportunities, exchange market intelligence and lay a foundation for actual financial transactions within ICD member countries and across borders.

The network hopes to demonstrate productive applications of fintech, reduce financial transaction costs for its member banks, leasing companies

and specialized financial institutions and upgrade the advisory services that the ICD offers to its partners across its network. With a further 41 MoUs signed at the recent meeting in support of the new platform, it looks to be one of the most exciting new initiatives for the Islamic finance development space in 2019.

“The private sector is moving very fast toward the digital economy, and that is a core focus for the ICD,” affirmed Ayman. “Financial institutions are changing rapidly — with trends such as artificial intelligence, big data, robo-advisors and blockchain combining to revolutionize the marketplace — and that is very exciting for us. The beauty of fintech is that even in emerging markets that may not have particularly strong technology platforms, it can reduce implementation and adoption timelines and make the whole process much faster, more efficient and more cost-effective. Plus, emerging economies often don’t suffer from the legacy issues that hinder more developed markets, which can speed them up even further.”

“ We are not a traditional financial institution — we have a different mandate, we go and take risks in locations where others would not go, and we invest where others would not invest ”

The ICD is currently working on plans to connect all of its partners — 100 financial institutions across its 54 member countries — a huge undertaking that could transform development engagement. “Not many institutions can achieve that level of

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connectivity or ownership,” pointed out Ayman.

“That is where we can really gain the advantage and develop into a powerhouse to serve our communities. With fintech, we can better assess each economy, each marketplace, identify its competitive advantages and analyze exactly what services we can and should be offering to support its growth.”

This might seem like a utopian future but in fact, it is already happening. In Morocco and Tunisia, the corporation is working on new initiatives to restructure SME financing requirements and promote microfinance through fintech applications. Outside member countries, in Sri Lanka for example, the ICD has extended an advisory service to digitize the branches of the financial institutions in that country.

“Our first focus is the connectivity of our 100 financial institution partners — that is number one”

A bumpy ride

However, the CEO recognizes that in today’s volatile climate, there could be challenges ahead.

“The biggest concern I foresee is a global economic slowdown, especially in the event of an escalated trade competition, energy price fluctuation and geopolitical tensions,” he revealed to IFN. “It is going to affect us all one way or another, and it could disrupt the dynamics in some of the geographies we are working in.”

These challenges have already had an impact on the ICD, in the form of a recent ratings downgrade. But Ayman is eloquent in his support of the strength of the institution, especially in the midst of such turbulent times.

“We are a development institution — that is our main focus,” he explained. “We have 54 member countries, of which 29 are fragile/challenged states and 25 of them are least developed member countries. We are not a traditional financial institution — we have a different mandate, we go and take risks in locations where others would not go, and we invest where others would not invest. And then we weather out the storm. Obviously, because a lot of our equity investments are in challenged economies, it can take time for those economies to turn around and perform more positively.”

Developing nations can often have rapidly changing laws and regulations, and changes in the legal situation can result in rapid devaluation of equity value or changes in the cash flow of a project, over which the ICD has no control. This fluctuating and volatile marketplace offers unique challenges for a development institution that can unsurprisingly have a knock-on effect on the stability of its ratings position.

Some of the rating agencies raised concerns around the ICD’s future capital position — but here again, Ayman was able to provide firm reassurance. “Our capital position is extremely strong,” he confirmed. “We have very strong support from our shareholders, who have already signed on for a capital increase, and we have been receiving the payments on time and sometimes ahead of time. I would not identify our capital position as any kind of concern — in fact, we are in one of the strongest positions we have ever been in.”

The ICD views rating agencies as partners, and recognizes that the better its rating, the lower its funding costs. But Ayman also pointed out that this is not the only consideration, nor the only pathway. “We can always get credit enhancements, for example, depending on the projects we are working on.”

Looking ahead

So what else can we expect from this pioneering institution? What are its targets for the coming year, and where are its core focus areas?

“Our first focus is the connectivity of our 100 financial institution partners — that is number one,” disclosed Ayman. “As soon as you have a connected financial institution in a member country, you become that much more connected to your end-client — you can know them better and provide them with most-needed services.

“The next priority is to increase our assistance to SMEs through these 100 partner institutions.

“All our member countries are top priority for us. We have no favorites and no geographical preference. We treat everyone the same and each according to their needs”

“And the third initiative we are really focused on is Sukuk issuance. We have 54-member countries, many of whom are keen to talk to us about capital-raising — whether through corporates or government agencies — and we hope to be able to help them with their transactions.

“All our member countries are top priority for us. We have no favorites and no geographical preference. We treat everyone the same and each according to their needs. We will always be there in time, and we will always provide the best service we can, wherever we can. That is our mandate, that is our promise and that is our commitment.” ⁽³⁾