

Islamic Project Financing and its Applicability in Europe

Allen Merhej

Associate

Norton Rose – Islamic Finance

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Summary

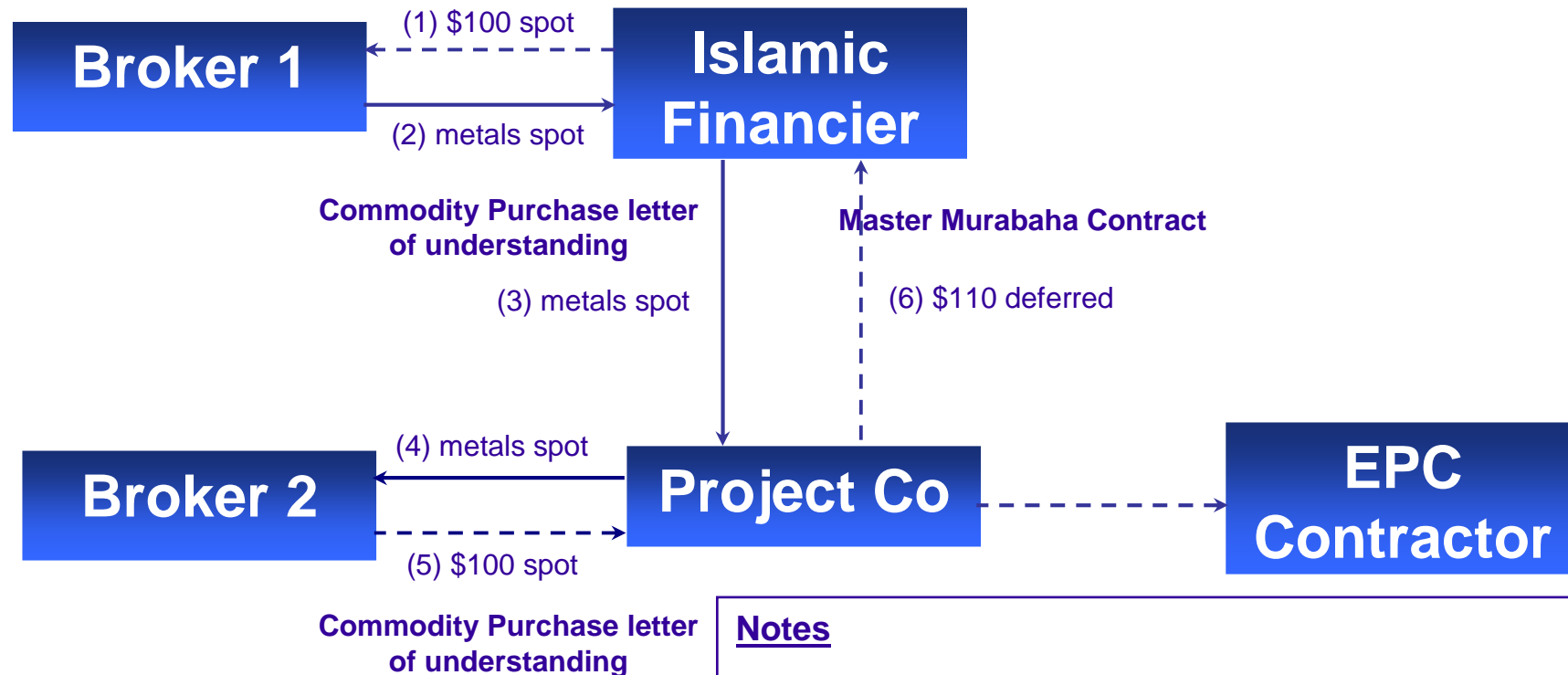
- Application of Islamic Finance to Project Finance
- The Fundamentals Structures
- Some Key Issues
- Pari Passu Project Financing
- Case Study – Queen Alia International Airport
- Examples of Islamic project finance in Europe
- The Future and some closing remarks

Application of Islamic finance to project finance

- **Two misconceptions**
 - Islamic finance is not suited to long tenors
 - Islamic finance cannot be utilised in a financing where conventional funds make up part of overall financing
- **Applicable techniques**
 - Construction financing or *Istisna'a*
 - Finance lease or *Ijara wa Iktina*
 - Forward lease or *Ijara Mawsufah Fi Al Dhimmah*
 - “Syndication” arrangements or Special *Mudarabah*
 - Islamic Project *Sukuk* can also be used

The fundamental structures

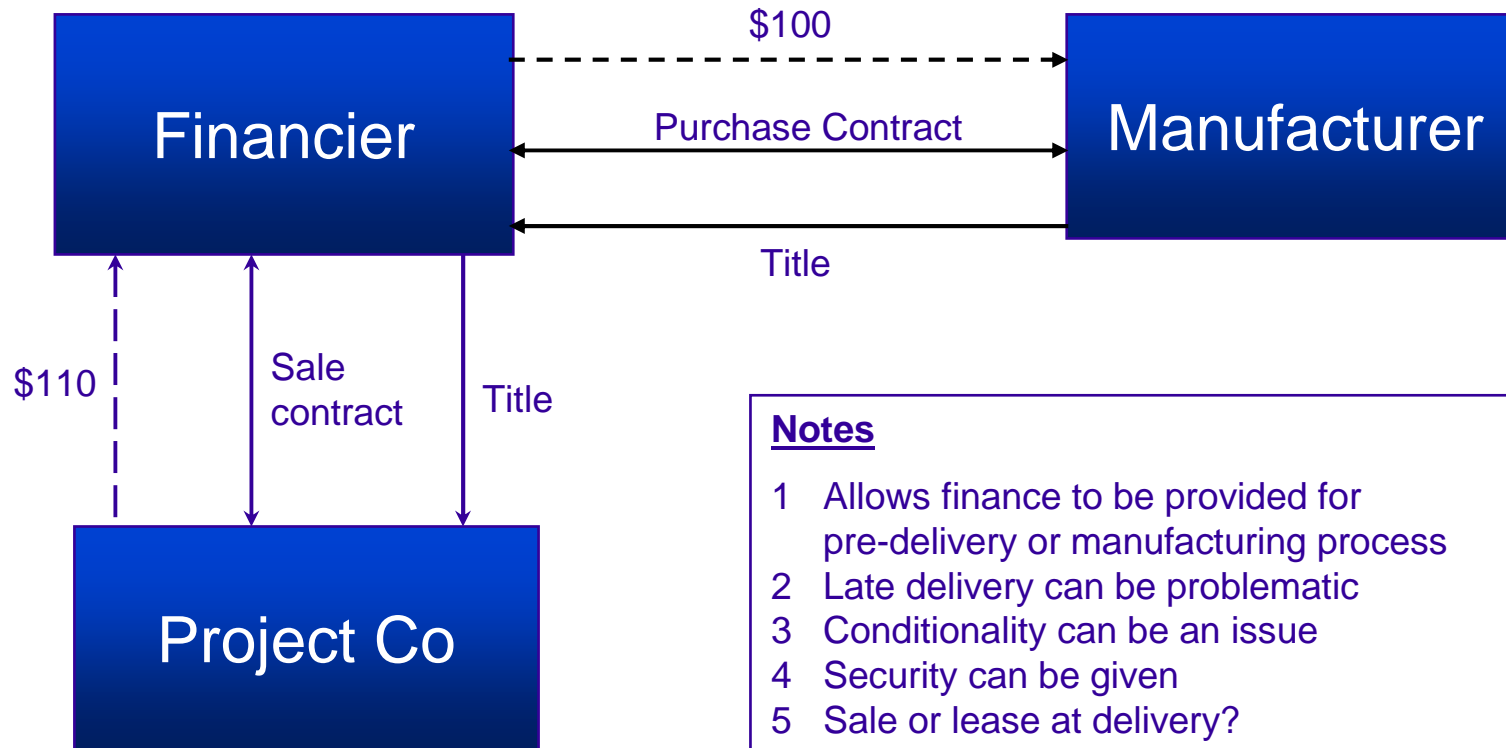
Commodity Murabaha



- Notes**
- 1 Fixed price
 - 2 Title flows through financier on day 1
 - 3 Security can be given for deferred payment obligation
 - 4 Contracts tend to be entered into on an agency basis
 - 5 Shariah scholars recommend not to use this structure whenever an underlying asset is available

The fundamental structures

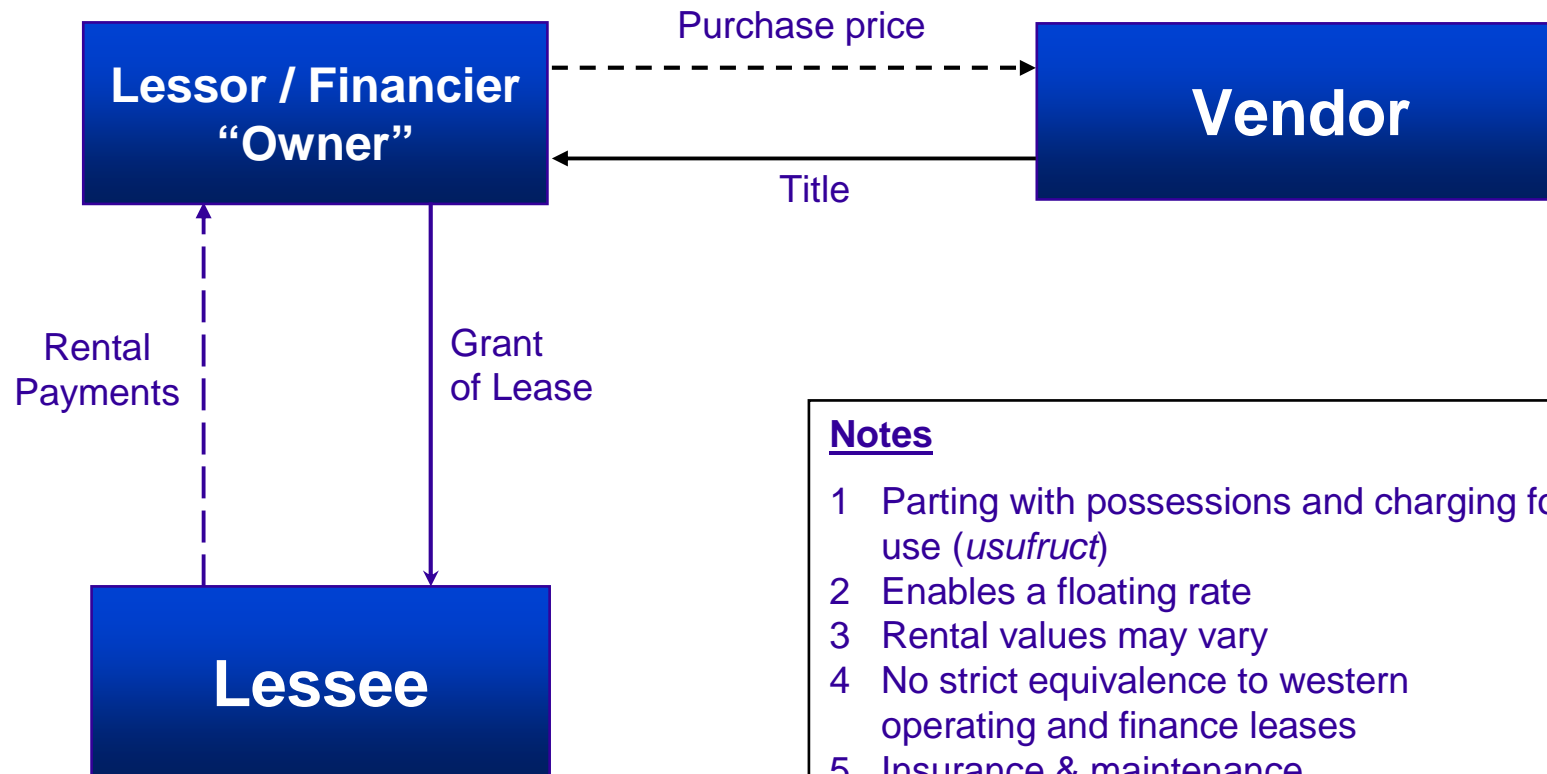
Istisna'a - Manufacturer financing



- Notes**
- 1 Allows finance to be provided for pre-delivery or manufacturing process
 - 2 Late delivery can be problematic
 - 3 Conditionality can be an issue
 - 4 Security can be given
 - 5 Sale or lease at delivery?

The fundamental structures

Ijarah - operating lease

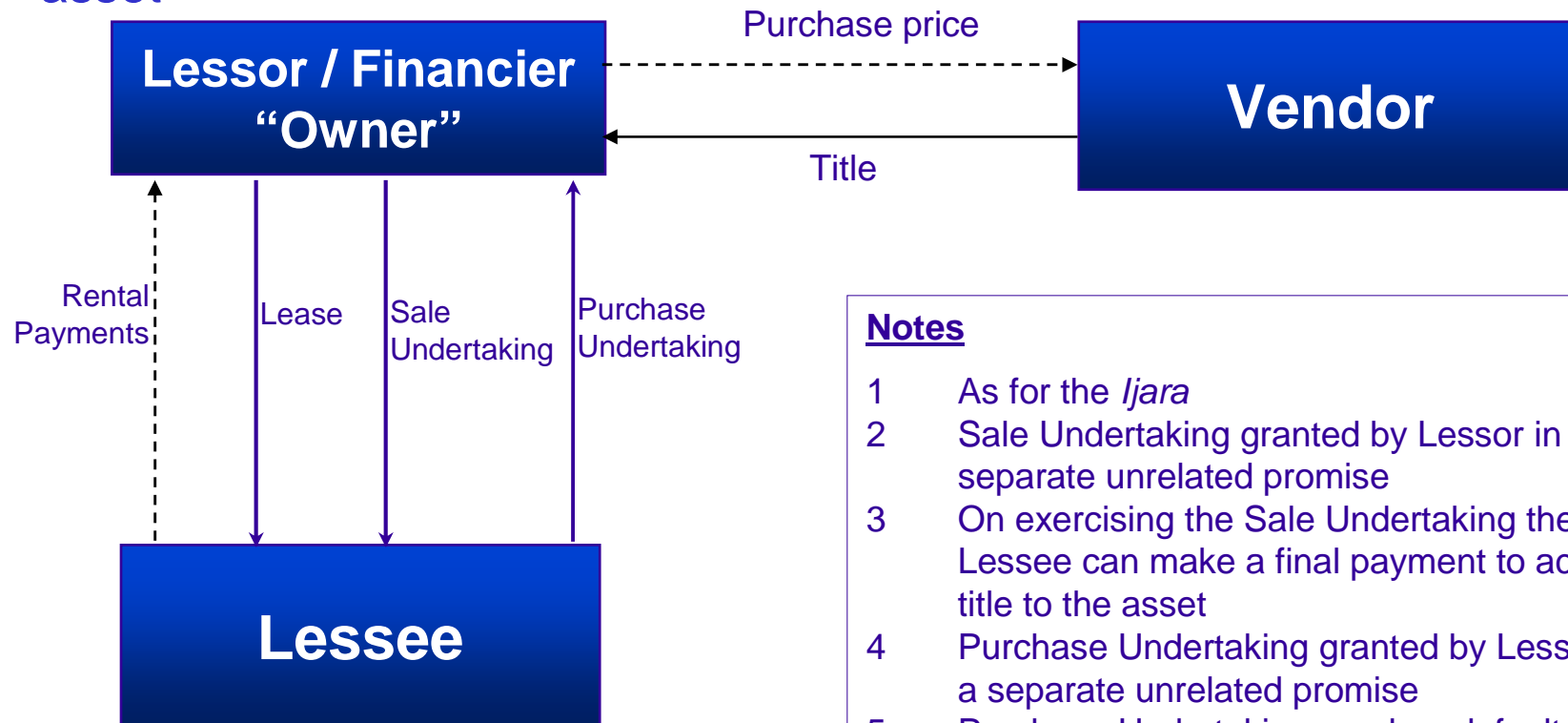


Notes

- 1 Parting with possessions and charging for use (*usufruct*)
- 2 Enables a floating rate
- 3 Rental values may vary
- 4 No strict equivalence to western operating and finance leases
- 5 Insurance & maintenance

The fundamental structures

Ijarah wa Iktina - operating lease combined with a right to purchase the asset



Notes

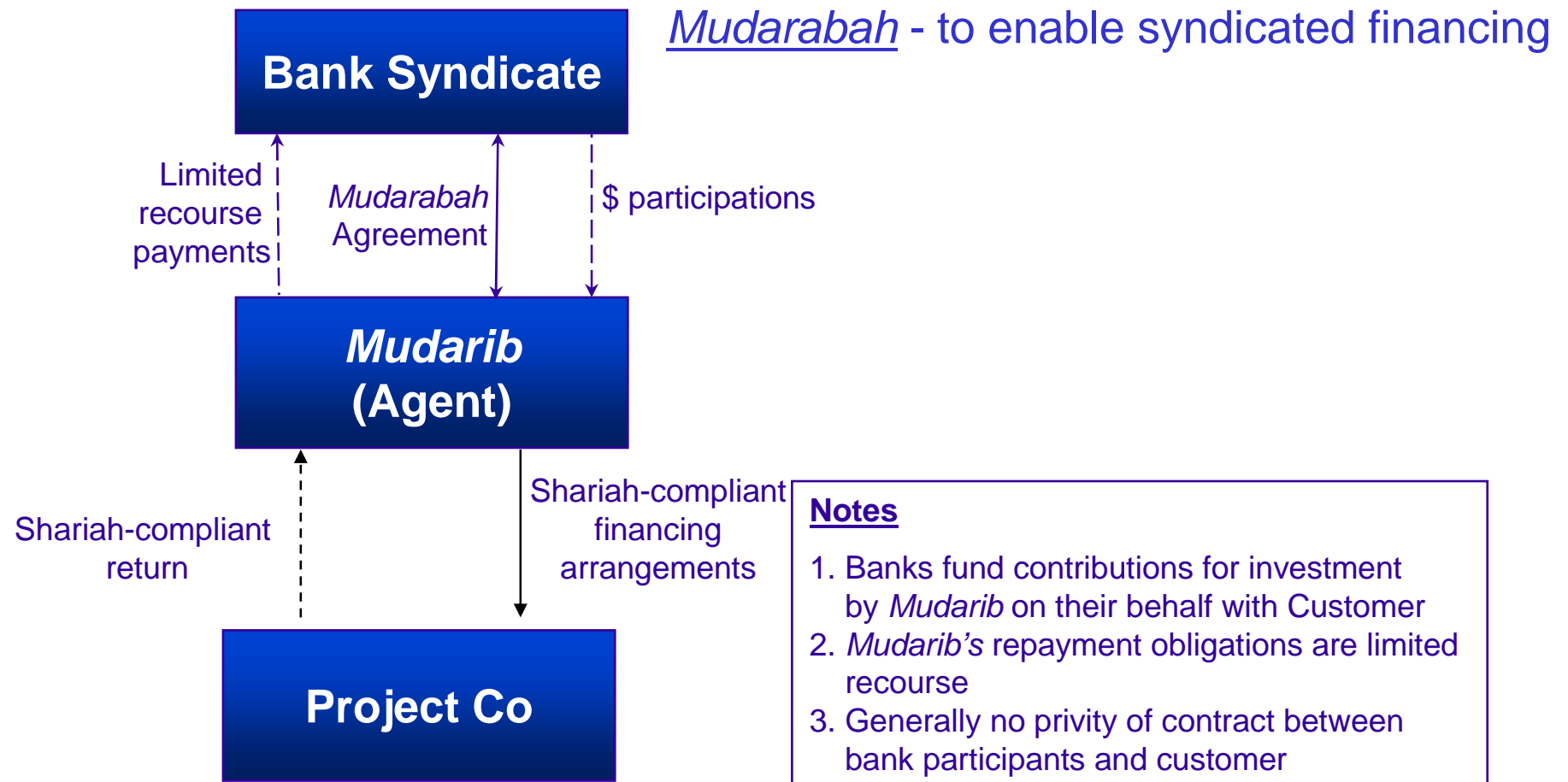
- 1 As for the *Ijara*
- 2 Sale Undertaking granted by Lessor in a separate unrelated promise
- 3 On exercising the Sale Undertaking the Lessee can make a final payment to acquire title to the asset
- 4 Purchase Undertaking granted by Lessor in a separate unrelated promise
- 5 Purchase Undertaking used on default termination and expiry by effluxion of time

The fundamental structures

Ijarah Mawsufah Fi Al Dhimmah - Forward lease

- **Some characteristics**
 - Staged payments by Islamic investors in return for delivery of asset at commercial operation
 - Prior to commercial operation - “advance rentals”
 - After commercial operation - rentals
 - Capable of having long tenor
 - Sale Undertaking in favour of the project company
 - at end of lease
 - through period of lease to effect “prepayments”

The fundamental structures



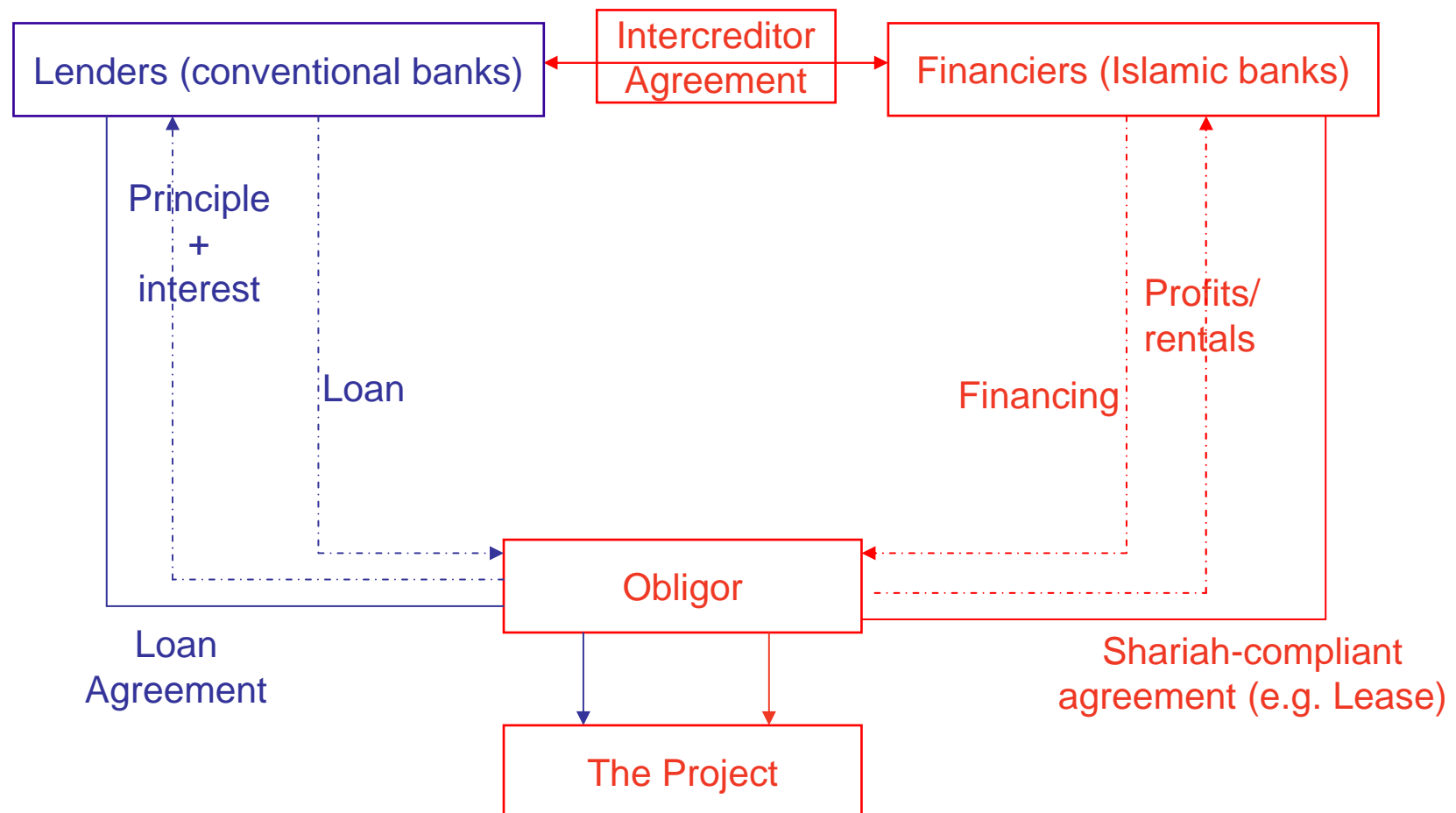
Some Key Issues

- Financing product selection
- Asset ownership
- Commitment Fee
- Events of Default (fault and non-fault based)
- Prepayment (or Early Settlement)
- Finance costs during construction period
- Intercreditor Issues
- Shariah Issues

Pari Passu Project Financing

CONVENTIONAL FACILITY

ISLAMIC FACILITY

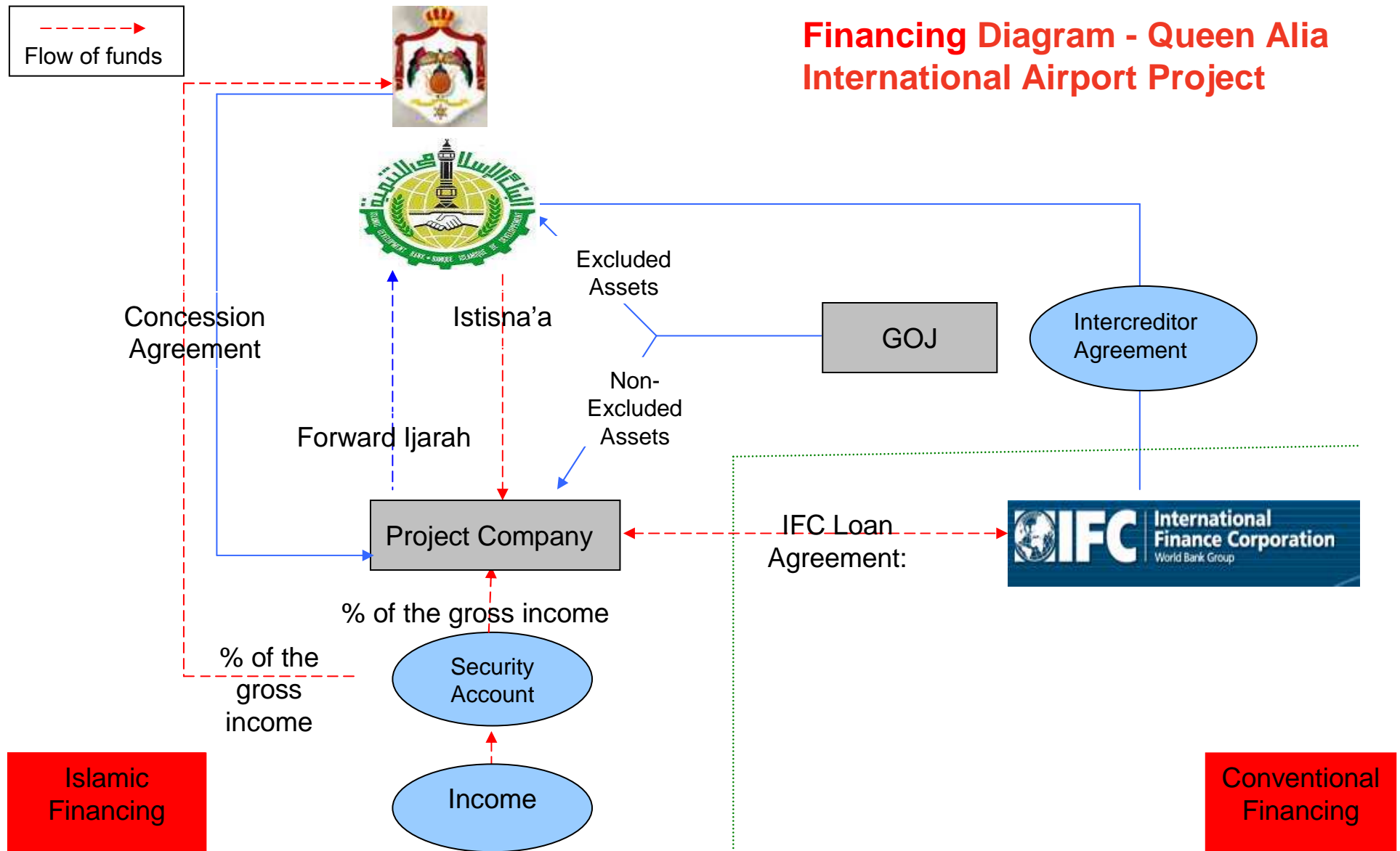


Case Study

- Queen Alia International Airport Project (Jordan – Islamic Finance News Deal of the Year 2007)
- One of the first Middle East PPP-style dual tranche conventional loan and Islamic facility
- Financial Close: 15 November 2007
- Project Value: US\$675m
- Islamic financing structure:
 - *Istisna'a* (Islamic Manufacturing)
 - *Ijarah Mawsufa Fi Al Dhimmah* (Islamic Forward Lease): US\$100m
- Conventional and Islamic financing on a *pari passu* basis



Financing Diagram - Queen Alia International Airport Project



Examples of Islamic project finance in Europe

- Shard of Glass development: High profile London skyscraper project, being financed by a Qatari consortium which invests according to Islamic principles (Commodity Murabaha financing -UK)
- *Islamic Development Bank has approved an Islamic finance loan facility for the amount of US\$13.351, the money will be used for the Water Supply & Sanitation Project in Orikum-Albania. (Albania)*
- *Shamil Bosphorus Mudaraba financed by Shamil Bank US\$ 90 million through a Mudarabah facility The land plot exceeding an area of 40,000 sq.m. will be developed as a mixed use retail and residential complex. (Turkey)*
- *Islamic Development Bank granted US\$153.6 million financing to the Turkish State Railways Administration to rehabilitate railways and procure 250,000 tons of rail and other equipment. (Turkey)*

Capacity, the future and some closing remarks...

- Islamic finance is tried and tested (though continuing to develop)
- *Sharia'h* principles mean Islamic investors face different risks
- Islamic institutions and conventional banks with Islamic windows are now competing aggressively
- Increasing trend in many jurisdictions (especially GCC) for sponsors to consider 100% Islamic finance for projects
- Understanding of issues becoming increasingly critical in advising or participating in Islamically financed deals
- Legal and regulatory hurdles still exist in Europe

How we are rated on Islamic finance

“The leader in this sector by a substantial margin”

Legal 500 - 2007 and 2008

“the broadest Islamic finance offering on the market”

Chambers and Partners 2009

“Best Takaful Law firm 2008”

International Takaful Summit Awards

“Best Islamic finance law firm 2008”

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Associate

Norton Rose LLP

+44 (0)20 7444 5254

allen.merhej@nortonrose.com



Allen is an Islamic banking lawyer based in our London office. Allen has extensive experience of advising and structuring Islamic Finance transactions. Allen's experience includes Islamic liquidity management, Murabaha trade finance, real estate acquisition and development finance, Shariah-compliant corporate financing and acquisition, Islamic project financing and Islamic assets financing. Allen has a detailed practical and theoretical knowledge of the Islamic law of contracts.

Allen has published several articles and was a speaker in a number of industry conferences on Islamic finance.

Allen is among three people in the UK who are "Certified Shariah Advisors & Auditors" accredited by the AAOIFI (Accounting and Auditing Organisation for the Islamic Financial Institutions – based in Bahrain).

Allen has joined Norton Rose in June 2007. Prior to joining Norton Rose Allen worked in the Middle East where he acquired a knowledge of the Middle Eastern laws

Our international practice



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