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Islamic Project Financing: A New Path

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Islamic Project Financing: A new path

The Middle East is a hotbed for project financing opportunities: with a thriving infrastructure pipeline, an established energy industry and of course a vast field of petrochemical and utilities projects, among others. As the sector gathers pace and sophistication, priorities are also beginning to shift towards a more conscious attitude regarding clean energy, green business and environmental awareness – especially as the economic and geopolitical challenges in the region and globally cast a shadow over potential progress. As the industry develops, IFN asks, how will this new path impact project finance in the Gulf going forward?

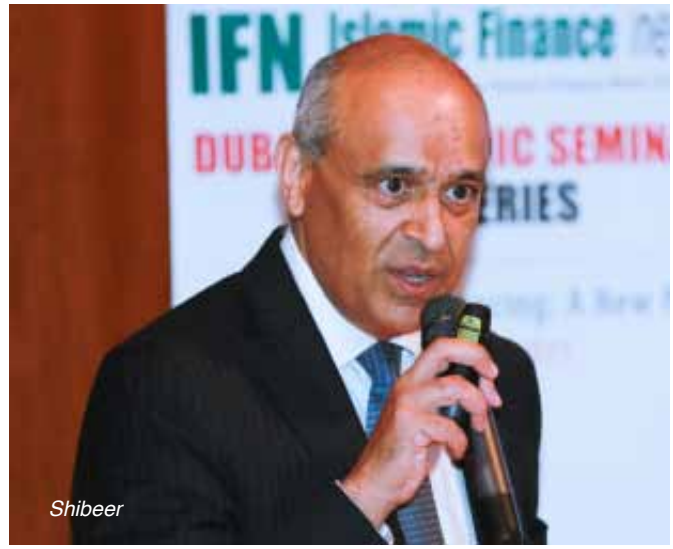
In October 2015 a group of industry-leading experts gathered together at the DIFC in Dubai to conduct a high-level discussion on the current market for project finance in the region and the outlook for future activity. With a broad range of perspectives including regulators, practitioners, lawyers and issuers, the debate sought to uncover the key trends and developments in the local, regional and global market: identifying the major challenges and opportunities for the industry to develop and discussing how Dubai itself can support that growth in its bid to become a central hub for the Islamic economy.

Islamic Finance *news* was delighted to bring together the comprehensive knowledge and experience of leading industry experts to achieve a rewarding and challenging panel debate.

Lauren: Let's open up the conversation with a quick overview of what the current climate for project finance in the Gulf is like at the moment - and of course, how this has been impacted by the current economic challenges we're seeing: particularly in terms of commodity price volatility and a possible federal reserve rate hike. There seems to have been a climate of anticipation and concern over the last few months - what have our panelists seen in terms of market sentiment?

Jeremy: I think it's quite interesting obviously in that we're seeing a bit of volatility and I think it's creating a lot of new opportunities, specifically for us and we do see that in the green energy sector. With the reduction in the cost of fuel, it's leading to an ability for many governments that have been providing long-term subsidies around fuel, be it indirectly through power or directly at the pump, to reduce those subsidies or de-couple from a fixed rate into a more market-based rate.

We've seen that internationally and I think we're going to see it a lot more locally as there's pressure on governments to balance their budgets and find different ways of generating revenue or reducing costs. What that means is that in the past we've seen in the energy sector (and the electricity sector specifically) very inexpensive costs of conventional high-speed diesel - natural gas being very difficult to compete with. We're seeing those becoming more market-driven in the coming years and it gives an opportunity for cheaper forms of power – such as solar – to become much more viable. And so I think we're going to see a large opportunity for finance in the solar sector, be it in traditional project finance or hopefully as the market grows and gets bigger, in Islamic finance as well.



Shibeer

Lauren: That's very interesting - is that something that the rest of our panelists would agree with? That the current climate is creating opportunities rather than restricting them? Ali, perhaps we can hear from you.

Ali: Generally of course the drop in oil price will impact a lot of things. As Jeremy was saying there's a very unique opportunity and development in the drop of the solar panel cost and so on. Solar energy has become a decent second option or even a first option. To answer your question, there are in addition to the changes in the solar industry, other changes in the market which are going on, so the impact in reduction in commodity prices is not really absolutely clear. My own feeling is that while project acceptance will obviously slow down because governments have their priorities shifting, that doesn't mean that it's going to go away. Population growth especially in Saudi Arabia continues to be very strong. That leads to a lot of need for utility projects, infrastructure projects - there are quite a few new economic cities that are in different phases of growth. So, the growth push will continue. It will get moderated for sure, and I don't know how long it will take, but we'll have to see – there are too many variables.

Lauren: But in terms of public participation, in terms of government involvement, do you think that that's going to scale back or will we continue to see interest in that drive?

Ali: I think it's going to continue. 10-15 years ago, they started doing all these PPP-type projects in the GCC area. I think

we've passed the level where we're testing the scheme and they're now convinced that it's a very reasonable option - that with the government funding everything the PPP option is a very sensible alternative.

Lauren: We will get to green energy and solar power in more detail a bit later on but in terms of a general overview of the market, which sectors are we seeing activity and interest in, especially from the investor perspective?

Shibeer: Where things are at the moment is that obviously because of the fall in oil prices, there's an issue with the local banks. Activity levels have slowed down but they're still continuing to be involved. On the projects that they've already begun playing with, they're going to continue. For me, I think this does create an opportunity on the PPP side because a lot of governments in the region have talked about this already. Dubai has actually announced that they will put in place PPP regulations for some of the infrastructure that is going to be developed. Kuwait has been talking about PPPs for the last 10 years and nothing has really happened unfortunately despite a large number of projects being put in place. But, with government purse strings being tightened, it does create an opportunity. As Ali was saying, they've talked about it so much and there has been a lot of discussion so the know-how is there now. I think the next step is whether or not people are actually going to start implementing PPP projects - and then there is also a lead in time for PPP projects. Negotiations that take place on PPP concession contracts can take up to a couple of years, so that needs to be put in place now. The risk is that in two or three years, oil prices will go up again and people will then forget all the current issues and projects that are supposed to be done on a PPP basis will revert to being done by the government - and all the sponsors and investors and advisors who invested during this time will feel that nothing has moved forward.

> ***"While project acceptance will obviously slow down because governments have their priorities shifting, that doesn't mean that it's going to go away"***

Lauren: So you mentioned that in some markets, things are happening and in some, such as Kuwait, not so much. Where are you seeing activity, where's the money coming from and where is the work being done?

Shibeer: Obviously we have the big projects, but there's still a lot of activity in the oil and gas-related industries. We do a lot of financing for companies that have offshore vessels, companies that operate up to 100 vessels that service

offshore platforms and pipelines, even laying pipelines. That business seems to be continuing well and I think that's a good sign because that means that the investment is still going into oil and gas notwithstanding oil prices. But whenever I talk to the UAE banks, in the last couple of weeks, they're all feeling a bit nervous - there's uncertainty as to what's going to happen next year. Having said that, I closed a deal in January this year which was both for conventional and Islamic financing for the National Petroleum Construction Company in Abu Dhabi and at the closing there was a lot of depression, all the banks were worrying about what they were going to do this year. But, as we have seen, there has been activity. So there is still uncertainty at the moment as to what the impact is really going to be.

Lauren: Mike and Leroy, is that something you would agree with? Are you seeing the same thing?

Mike: I think so; common sense would say that if the oil price drops, that's going to have some impact. I don't know that anyone in the room can predict exactly what that will be, but if anything else, it affects confidence, so people might start questioning whether we actually need that project, or could we better use our resources somewhere else? In particular if these projects are being funded by the government. Liquidity becomes an issue for these projects as well because if we talk about a PPP getting the private sector involved, that's great but they're going to be putting in some of their own equity and will obviously borrow a lot of money as well. For a lot of the banks, in the UAE in particular, we've heard that the liquidity is tightening up and I guess some of that is that the government is taking bank deposits out to fund deficits, so that will potentially have an impact. We do a lot of work in Saudi Arabia and of course the banks have been very liquid there and have been very supportive of projects there. I don't know what the impact will be of the oil price dropping but you can probably see that that's going to start affecting liquidity there as well. One of the areas in which we're seeing growth however is in district energy. We have seen smaller projects in the US$60-100 million range financed on a project finance basis.

Leroy: You asked about sectors earlier, and I think the one I would mention relates to aviation and in particular, airports so I would highlight the airport deal that was done a few years ago. The next one coming up is going to be another airport that will be a very similar type of deal - basically another

concession. From our intelligence in the market, it's not necessarily going to stop at this and there are at least two more airports that are lined up to be developed on a PPP basis. So I would agree that there is uncertainty in the market but equally there are opportunities and there are deals in the pipeline.

Lauren: As this is a seminar on Islamic project finance, perhaps just a basic question would be: what proportion of this project financing is Islamic at the moment? How much interest is there from investors in Shariah compliant project finance compared to conventional?

Mike: It's driven by a couple of things. First, is the sponsor looking at Shariah compliance and do they want to finance their project on a Shariah-funded basis? Secondly, if the client is keen to finance solely on a Shariah compliant basis, then banks will offer that - so you can have five Saudi banks and five international banks on a deal, for example, and all of these banks will provide their finance on a Shariah compliant basis. Or it may be that the sponsor is not Shariah compliant but they need to finance the project so they need at least part of that finance to come from a Shariah compliant bank - so then you've got a conventional buyer looking to have a piece on the Shariah compliant side. It also depends on the jurisdiction you're in - if you're in Saudi Arabia and you're looking to go to the banks, generally speaking they're probably going to be providing their finance on a Shariah compliant basis. If you're looking at the UAE it's slightly different.

Shibeer: What it comes down to is pricing and risk. And which banks feel comfortable in the current climate of providing long-term financing. In terms of appetite, it is there but for the right deals. Bankers always say that but it becomes particularly true when you're in this sort of market. When there is a lot of liquidity, people blindly chase a lot of deals. In the current circumstances, in the same way as conventional banks, Islamic banks are reviewing things very carefully. In terms of the proportion of Islamic versus conventional, obviously Islamic finance still represents a smaller proportion but it depends on who you talk to. For me, 70% of my work is Islamic and that is across the board on corporate financing, acquisition financing and so on. There is a lot of infrastructure, and a lot of real estate financing that is still going ahead - which is not project financing per se but is still a kind of infrastructure financing. If you drive around Abu Dhabi and Dubai, you'll see half-built buildings - some of those are beyond redemption with some people feeling that the work can still be finished and they are looking at doing that. In Dubai, there is still a lot of real estate development and because of the nature of Islamic finance it means it's very appropriate for it to be used for real estate developments. That's where we're seeing quite a lot of activity.

Mike: I agree - people talk about Islamic finance and conventional finance but they both have similar objectives. Whether we are financing on a Shariah compliant or a conventional basis, it's still financing. No Islamic bank is going to go pay to go into a riskier deal than a conventional bank. They're looking at these deals in exactly the same way. But from our perspective, the financing is driven by the equity.


Mike

If you're in the Gulf, there are multiple opportunities to go to Islamic banks and get Shariah compliant financing. I've spent a lot of time in Europe however and it's a completely different situation there because you've got limited sources of finance so even though they might want to finance on a Shariah compliant basis, it's much more difficult to do. Sometimes there is a misconception that Shariah compliant financing is more expensive or that it's more complicated to put in place. Well, it is more complicated to put in place, that is true - but this isn't a new thing. Shariah compliant finance has been around for a long time and it's a pretty well-trodden path with the type of structures that we use.

Jeremy: I'd just like to highlight the green sector quickly because to date as we know, most of the green projects have been quite small, less than US$100 million in total, and that's made it not viable for us to explore the Islamic structures. My prediction over the next two years is we're going to see big changes. We've got 200 megawatts developing in Egypt; similarly in Pakistan we've got an 800 megawatt project and another opportunity in Dubai. All of these are ripe for Islamic finance, which is specifically interested in green responsible investing – so why not do it in an environmentally friendly way?

Lauren: I just want to hop back for a second because Ali, I'd like to hear from you on the topic of why people issue Islamically over conventionally. On the borrower side, it would be good to get your perspective on the decision-making process of why you decided to go the Shariah planning route.

Ali: We just closed the transaction recently. It was fully Islamic mainly because the sponsors wanted it to be Islamic. If they had wanted it to be conventional, it could have been done that way. It's a sponsor preference. Secondly, I think the size of the ASU transaction, which is around US$2 billion give or take, is about the limit of the envelope. I suspect in the case of Islamic money available, maybe it can be pushed up a little bit but if you want to do a US$10 billion dollar deal, you can't do it on Islamic alone. There are just not enough banks out there. You must remember this has still increased a lot

since five years ago when it was much smaller figures. Yes, the structures are evolving but the true sharing of risk - which is supposed to be the fundamental issue - is still not there. The structures are mirrored from a conventional basis, which makes the process within banks much easier, much simpler to organize. It's become very standard kind of stuff, although you might see evolution in the future. Private equity might push some evolution further, which is an evolving story. Islamic funding has become a feasible option for a US$500 million or US$1 billion dollar deal though. You have banks out there that know how to do it and what the structures are.

Mike: One thing, this deal wasn't cookie cutter, it was actually a very complicated deal - otherwise you'll be doing us out of a job, Ali! [laughter]

Lauren: Let's move on to the regulatory environment and the structural process. We've got Basheer with us from the DFSA – could you give us an insight into your side of things in terms of time to market and regulatory approval etc?

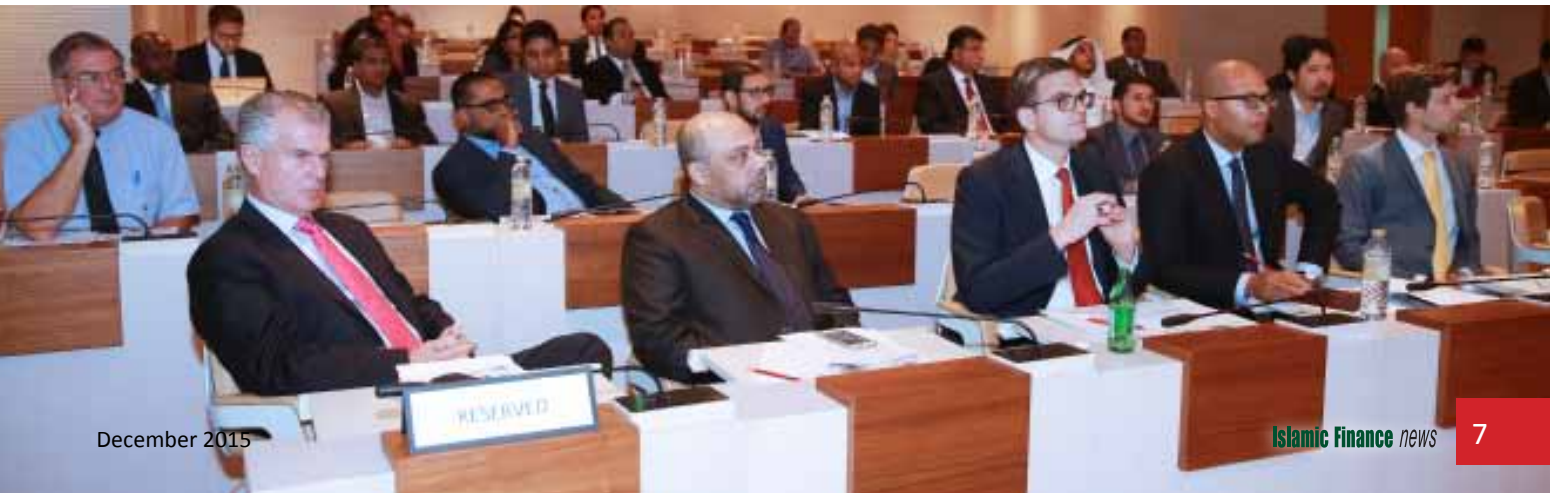
Basheer: Generally what we've been seeing is that we've got a good interest in the market, when it comes to the assurance of Sukuk. Most of the Sukuk are US dollar-denominated and offered under Rule 144 or Regulation S and thus offered into Europe. When it comes to our processes, we had to develop them as a result of market forces. We have aligned our processes to match the interest of the market. In our review for example, it takes three business days to come back with the first round of comments on the offer documents and other transactional documents. That kind of timeline is matched with other leading centers like Ireland, Luxembourg and London. When it comes to Islamic project financing the question is can we keep up with the same level of regulatory approval timeline? It's difficult to say but I believe it's unlikely. The reason is because when it comes to infrastructure, or project financing, obviously there will be additional disclosures based on the requirements of government, the projects, the contractors and so on. When we look at additional disclosures, we look at the processes that have been implemented already in Europe. There may also be an additional factor, which is the disclosure when it comes to the Shariah aspects. The DFSA is not a Shariah regulator - we don't take an opinion on Shariah matters. However, this doesn't mean that we don't see the disclosures and don't require any additional disclosures in relation to Sharia. When it comes to an Islamic finance project, the structure can be complicated. So how is this translated in the offer document? Is it clear? Is it understandable? Where do we see the cash flows? Where is it listed? Where is it traded? Can you trade on a secondary market? These can create huge Shariah compliance issues; so we need these additional disclosures. As a result, right now we have allocated three businesses days and then we will come back with a first draft. Then in another three days we might need a second draft and in another three business days you will get an approval – or it may not necessarily apply. But there will be a time impact here that could translate into additional costs.

Lauren: As I understand it, we don't see a lot of Sukuk structures in the project finance area at the moment. Are we going to see more Sukuk issuances as opposed to the standard structures, going forward?

Shibeer: I hope there is more Sukuk activity but the thing to bear in mind is the investor base. Part of it is the familiarity the investor has with the types of risk you have in project finance, as opposed to when you deal with corporate financing. If you have an investor base, if you can tap into the conventional, project bond investors and sell Sukuk paper to them: that would be an ideal situation. So far the two Sukuk financings to date have both been done in Saudi Arabia - and in terms of the level of disclosure, as Basheer highlighted, this is correct. The actual risk analysis that you have to do has to be put in the prospectus, the summary of the detailed documentation, in addition to the usual Shariah risks – and we need to be sure that the Shariah approvals are there. But once they get into the operating phase there's no reason why existing deals shouldn't be re-financed Islamically. I also always try and persuade people that they should do a project finance Sukuk as well as an alternative.

Lauren: What kind of interest or appetite is there for that? Is there an issue with the length of tenor for project deals compared with the normal appetite for Sukuk tenor?

Shibeer: If you find the investor base, I don't think tenor is the issue. Quite often it depends on who the financial advisors are, and it's the speed of execution - because if there was a dollar project finance Sukuk for instance, it's going to take a while because the investors have to get comfortable with the idea. That's another factor because doing these bond refinancings in itself can be complicated anyway, without trying to do a Sukuk as well. However: the technology is there, the knowledge is there and I think it's going to be delivered



by, on the one hand, the investors and on the other by the sponsors. One thing worth mentioning is that last year we did a Sukuk for the government of Indonesia, where we advised them on the structure. That was interesting because the way they did it was that rather than using a 100% of sale and leaseback, of assets, 51% of the money was raised against existing government buildings but 49% was raised by under a different structure – and the funds are going to be invested in the development of public infrastructure - highways, dams, etc. That's a very important development because it shows governments that they can themselves do Sukuk issuances and the money that is raised can then be used to develop assets - and once those assets are developed, then they themselves can be used as leasing assets.

Lauren: And we saw Pakistan do that as well recently with its highway Sukuk…

Shibeer: That's right.

> *"I would agree that there is uncertainty in the market but equally there are opportunities and there are deals in the pipeline"*

Lauren: So now that we've got down into a little more detail, I'd like to get a dialogue going between the regulator and the practitioners. What can Dubai do to encourage project financing? Is there anything more that you would like to see from the regulators, or from the authorities, to make the process easier, to make the regulatory environment more encouraging?

Basheer: Right now as a regulator, I think we are one of the best jurisdictions for Islamic issuance around the world. Now, we must also consider the implication of the central bank of the UAE establishing a centralized Shariah advisory board. I think the plan is still there and it is rolling out on a timely basis. What would that implication be for the Shariah approval process? I think establishing it for the retail market makes sense - for the central bank to have a Shariah board for the domestic banking sector and the retail market. But for the DFC where we are more international, and the offers are being issued abroad I am not so sure – as whatever the Shariah board says domestically may not necessarily have any effect on the issuance security at an international level. So we need to review our processes and make sure that it doesn't necessarily affect the process that we already have in place. That is something for us to look out for.
Mike: I think the whole issue of trying to commoditize or have a central Shariah board will have its own difficulties, because what is Shariah compliant to one person may not be Shariah compliant to someone else. Having a central board here may not hold that much weight in Saudi Arabia or vice versa, so I

think that's going to be difficult. As far as what the regulator can do, it's probably doing as much as it can, it just needs to be efficient - and we've already touched on these turnaround times. That's always going to be important. I just wanted to finish something Shibeer was saying on the Sukuk side about the tenor and the importance of this for the Islamic finance industry as a whole. There is a shortage of long-dated, quality Sukuk paper and banks like to hold that paper - but also its important for the insurance industry. They need that paper as well and so do pension funds so although it's still a tiny proportion of the market, where it's possible to do it, we try and encourage it. It is financial advisor-driven and it tends to be sponsor-driven as well because quite often it's easier to get away with a conventional bond – and people tend to go with the easier option.

Lauren: One of the topics that I think everyone is keen to discuss is the opportunity in clean energy and green Sukuk. We've touched a little bit on the potential for infrastructure which of course is well understood, but clean energy is a vast opportunity especially for the Gulf region and I want to talk about where we are now and what we can expect over the next year or so. Jeremy, I know you're very well versed in this so can you give us a quick update on the current situation?

Jeremy: I think to the best of my knowledge, there are no green Sukuk issued for this region to date. I believe there was a listing out of London for a European-based project in the last six months, I don't know the details but it's encouraging to hear. We in the industry have certainly been talking about it for a couple of years and I think fundamentally it's very well-positioned for what most people in the Sukuk market are looking for. There is an appetite both from sponsors like ourselves and investors to see this coming together and I think the market is evolving to enable it - either on a refinancing basis of an existing portfolio of smaller projects that are rolled up and refinanced or traded; or as we see these larger projects coming together as viable. If we consider the Egyptian market right now, obviously there are some issues there - getting revenues out of their country or convertibility of the pound. But those are being addressed by a variety of different players specifically around the green market and the solar market. I think that's an ideal place for us to see some of the new Sukuk, because Egypt is coming out with very large volumes of projects. They want to do 2 gigawatts of projects next year and those are coming together – we see a lot of money being committed by the IFC and

Leroy

the EBRD for example. These could very well be led by an Egyptian or a Saudi Islamic bank as an arranger. I can see that sort of facility coming together if the right structures are put in place.

Lauren: We saw today the Malaysian government come out with the new budget for next year in which they've made a very specific focus on the SRI sector and green Sukuk. We saw Khazanah come out with the first SRI Sukuk earlier this year - is that something that would benefit the GCC market? Is that something that we might see from the UAE, following in Malaysia's example?

Basheer: I'll share a recent experience - we've been approached by the ministry of environment based in Abu Dhabi and I believe they are talking to various stakeholders and various market practitioners as well as regulators to see how the green Sukuk program can be facilitated and developed further. I think that is a promising initiative taking place here. There's a Dubai council that's been set up and one of the members is DEWA itself - I think they are also looking at various aspects. We are just waiting to see what the next initiative is.

Jeremy: Dubai's Energy Council are specifically interested in the area of green escrow – an energy savings company, the idea being that you fund the retrofit of lighting and other sorts of infrastructure and the savings are shared between the building owner and the investor. They've certainly been enquiring about that over the last year or so. I'm not sure what the state of it is today, but there's a lot of interest.

Lauren: On the advisory side we've got three lawyers sitting with us - are you seeing clients come to you with interest in these types of deals or do you expect that to form a significant part of your pipeline coming up?

Shibeer: Certainly for clean energy deals, there's a lot of interest and it's a very attractive market. I think for me it doesn't make a lot of difference whether you call it a green Sukuk - if the underlying assets are renewable then that's fine - the structuring, risk analysis and Shariah arrangements that you have to put in place aren't going to be any different. Either something is Halal and you can do it, or it isn't and you can't. Being green obviously means that it's good for the environment but in terms of how you would do the deal, how you would structure the deal, how you'd analyze it, it wouldn't be any different to a normal issuance.

Mike: We hear a lot about this and I've got a couple of questions for Jeremy. We're not seeing the international banks that you might typically expect to see on these green financings - what are some of the reasons for that? Also we've spoken about pricing – in Europe a lot of these green issuances are subsidized, so how competitive really is this renewable stuff?

Jeremy: In our recent Jordan deal, four of the banks were multilaterals providing more of a support perspective while the other was an Arab bank with a large presence in Jordan which was really the only bank in Jordan that could do a long tenor of over 10 years. We canvassed the market pretty extensively including a variety of commercial banks and internationals that we've worked with in the past and we invited them to look at what we were doing. In addition to a power purchase agreement, we also had a direct guarantee signed by the Ministry of Finance of Jordan. Yet we could still not get a commercial lender to come in without some sort of political risk insurance. When we consider the cost of the debt that the commercial lenders were providing, plus the cost of political risk insurance, it was more economical to go directly with the multilaterals. We were obviously always aware of the Islamic financing opportunity but because of the size of the deal and the complexity of it, we were packaging four projects together and trying to do them simultaneously and I'm sure if you speak to any of the lenders, they'll comment on how complicated that was. Therefore, we tried to minimize the risks we were taking with small sponsors by going the traditional route. With regards to the cost of solar, our power purchase agreement for this batch of projects was priced at 16.9 dollar cents per kilowatt/hour. In today's market, that seems very generous but when you compare it with the cost of generation in Jordan, which is currently around 20


Ali

dollar cents, it was cost-competitive. These projects were originally started in 2011 when the cost of solar panels were double what they are today and that's what the pricing was geared around. We actually just saw the second round of Jordan projects from the government - tenors were open around March and the prices dropped significantly. We saw the winning prices coming in at less than forty fils (5.62 US cents) per kilowatt/hour. There are going to be some people who aren't going to be able to compete at that price. They approached us and we don't see it as financially viable. I think for people with different balance sheets it might be.

Solar and wind in Jordan is now approaching 20% penetration or it will be with all the contracts when they get built next year, and without an infrastructure upgrade, we're going to have difficulty seeing it grow much larger than that on a central plant basis.

Shibeer: Just a quick question, did the IDB show much interest in the project?

Jeremy: We did have a brief conversation with them and they were interested, unlike the commercial banks who are looking for the market to be more mature. So for round one we wrote a PPP in Jordan and that has been approved by a variety of different players and it's been used in round two as well. It's being adapted and many components are being used in Egypt as well, so I think as we start getting that template together, people who have less experience in renewables are going to start to feel more comfortable.

Lauren: We are running out of time, and unfortunately we've only got a few minutes left. In the last five minutes I'd like to go through the panel one by one to talk about the key challenges facing you in your specific area, what opportunities you are excited about and what pipeline you're expecting for the coming year in Islamic project finance.

Basheer: To sum up, I would like to share a case study. Emirates Airline recently issued a Sukuk to finance the purchase of four new aircraft, which was guaranteed by the UK Export Finance agency. As a result, the Emirates Sukuk had an 'AAA' rating and because it is guaranteed by a government, from our point of view we could provide them an exempt offerance status. In other words, none of the other documentation had to be reviewed. So for a project financing that involves a guarantee from another government you may want to consider this option, which I think will save time and cost.

Ali: From a Saudi perspective, you don't have a strong preference at the retail investor level between a conventional bond and a Sukuk, but at the moment you can't really do big transactions, as it's not fully established. At the institutional level however, there is volume and it has developed, which we find very useful. We've just done one transaction and the banks in the Kingdom and also the GCC are quite comfortable with the way it's all put together now. We even have London-based foreign banks who are happy; they have their own pieces of the balance sheet which they allocate for Islamic transactions for various reasons. Things are coming along and as an issuer for the institutional investor base, we see good growth.

Lauren: Do you have any plans for future assurance or future capital-raising?

Ali: At the project level, not really, nothing in the immediate future. But we'll see how it goes.

Lauren: Mike, what about your pipeline coming up? What are your views on the market?

Mike: Just a couple of points. One is liquidity - as Ali said, this deal was US$2 million and maybe that was the upper limit for raising financing so obviously that's an issue. The second issue is the question of who actually wants to put in place the financing and in our experience, that's largely driven by the sponsor. There have been a number of projects going through the construction phase and maybe there's an opportunity when these projects are completed for refinancing as Sukuk? We've touched on some of the challenges there as to whether or not the advisors/sponsors have the appetite to do that but I think there's potential opportunity and it would be helpful for the overall financing market because pensions and insurance firms are certainly looking for long and good quality paper.

Leroy: I was going to mention liquidity as well and I think from an opportunity perspective, liquidity will continue to get worse in the short-term. That may well create an opportunity for some of the international banks who historically have not lent on an Islamic basis. I am certain we will see more international banks lending on that basis in the region.

Shibeer: I'm hoping that this does create a real opportunity for infrastructure projects and that we actually see governments implement policies to encourage this so there is greater involvement of Islamic structures. Once the market opens up there will be more involvement of Islamic institutions in these sort of projects .

Jeremy: I've said this a couple of times but we're at the opposite end of the spectrum to Ali - we're just trying to push the energy sector into large enough projects to access Islamic finance. I think we're there, I think we're starting to see

standardization on PPPs and hopefully that means that myself and other people in our industry are willing to take a little more risk on what could be standard Islamic finance documentation as things go forward.

Lauren: We've covered a lot of ground: obviously you could talk about this for hours and an hour isn't really long enough to drill down into specific details on every area that we want to cover so I'd like to open it up to the floor. Are there any questions from the audience that you would like to direct to our panel, or anything that you would like to go into more detail?

Audience member: In the presentation you spoke about the structures and so on but the element of security you did not touch upon. Within the recent structure did you have a pledge, did you have an assurance? Was there a rating?

Shibeer: The rating is largely dependent on whether or not it is required but in terms of the package of security, yes we had the full package in terms of assignments of all of the project contracts, to the extent available, and any pledges were in relation to assets so in terms of security the arrangement is no different to what you would have in a conventional structure.

Audience member: What about the financing - you usually have a combination of the conventional and the Islamic. How much is the conventional and how much is the Islamic?

Shibeer: The Islamic tranches have always been small. They are sizeable though. Some get up to US$500 million.

Audience member: What about the conventional, that's billions and more?

Shibeer: Yes but on big projects like these, there are large ECA tranches as well because a lot of the equipment is exported and there are buyer credit arrangements for that as well. So you've got to look at a combination - you've got a large chunk of debt that is either provided by multilaterals or is subject to guarantees or insurance from export credit agencies; then you have the clean or uncovered conventional debt and then you have the Islamic debt as well. The thing is that there might not be enough capacity in the Islamic market


Basheer

fully to provide the debt for the project - or, because you need ECA involvement to have coverage for exports, quite often you're not able to have a sufficient level of Islamic debt.

Audience member: Just to comment on your opportunity points that you raised earlier, I think with project finance, the issue is not to arrange the main financing, the issue is that in the next stage, we have a real opportunity of actually following this transaction with securitization transactions - and that's where the issuances can be done. If the financial advisors prefer to do this syndication, I think the market has to look at this opportunity of securitizing the cash flow of these long-term projects. Especially for environmental and clean energy projects, all of these things can be easily securitized.

Shibeer: I agree with you and just to point out that recently, the IFC has done an issuance and the underlying assets that we use were essentially all of these small project financing-type deals or Islamic financing where they securitize the receivables under those existing Islamic finances.

Lauren: I'm afraid that's all the time we have. Thank you very much to all our panelists and audience members, and I hope you have had a rewarding and fruitful discussion. We look forward to revisiting this for next year.