ISLAMIC PROJECT FINANCE AND PRIVATE FUNDING SCHEMES

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Abstract

As governments find it increasingly difficult to finance major projects, private sector companies are becoming involved in electricity generation, telecommunications expansion and infrastructure provision including toll roads, ports and airports. From an Islamic perspective there is no objection to such private provision, indeed the participatory nature of the involvement is welcome, but there are Sharī‘ah compliance issues. Recourse to borrowing on the basis of ṣabūr is ḥarām and Third World debt crisis of the 1980s illustrated the perils of such an approach, as has the more recent Asian financial crisis. The adoption of Islamic financing techniques such as īstisnā’ can avoid such difficulties. Proper project evaluation is needed for such financing to be successful, and decision makers require good information. Discounting of future income is seen as legitimate by Islamic economists, as such techniques can be used for the calculation of social rates of return in Muslim societies.

1. Introduction

Knowledge reduces the uncertainty involved in any project which will take time to reach fruition. The trade-off between increased knowledge and reduced uncertainty is widely recognized in the standard literature on finance, but much less has been published on this trade-
off from a specifically Islamic perspective. There have, however, been a number of contributions from Islamic economists which are potentially relevant to this issue. The aim here is to explore whether modern techniques of project appraisal can be used by Islamic financial institutions and if commercial funding methods are appropriate given the needs and circumstances of Muslim countries and communities.

With diminishing state funding of projects and increasing private sector involvement, good information flows are essential if projects are to be properly evaluated and regulated. The consequences of the change from state to private funding is reviewed in this paper, and the implications for Muslim countries explored. The issue of discounting is considered, as this potentially causes problems from the perspective of the Sharī‘ah (Islamic law) if the discount rate is equated with an interest rate which constitutes ribā. Discounting, however, is a useful tool if decisions on the merits of different projects are to be made on the basis of a comparison of their present values. Such calculations enhance the knowledge of decision makers, by enabling them to compare like with like, on the same terms.

The paper also examines how projects can be financed when interest-based debt finance is ruled out. There are, of course, a number of Islamic financing methods which have been well tried and tested, but often it is not simply a matter of replacing debt finance with one particular Islamic mode of finance, but rather of determining what the optimum combination of Islamic financing techniques should be for a particular project. The aim is not only to replace interest-based debt finance with an Islamic financing instrument that performs a similar function, but rather to ensure that the financial arrangements are both just and efficient. It is not merely the letter of Islamic law which matters, but also its spirit.

2. State Arrangement of Project Financing

In the 1960s and 1970s in most developing countries, governments provided the funding for infrastructure projects such as
roads, ports and airports, hospitals and school buildings. Ministries of Transport, Health and Education were directly involved in the design and execution of projects. Utilities such as gas, electricity and telephones were part of the public sector, and here again Ministries of Energy and Telecommunications were usually responsible for commissioning and supervising projects, even where the utilities themselves were managed by semi-autonomous state corporations.

Project financing was largely undertaken by the governments themselves, with the budget being divided between current spending on wages and salaries and capital expenditure, which was regarded as a type of national investment. Such investment was either funded from tax revenue or through government borrowing, the latter being usually arranged through domestic bond issues if there was a local capital market, or through Euro-market financing if government paper was not traded domestically, and if domestic commercial banks could not be harnessed due to their limited resources. In the case of Euro-market funding the financing was either arranged through syndicated borrowing, which from the 1980s, increasingly took the form of floating rate notes, or by bond issues.

In both these cases the funding was usually United States dollar denominated, which implied foreign currency risk, as well as interest risk in the case of the syndicated loans and floating rate notes. Governments themselves had to either have the notes or bonds issued in their own names, or guarantee the loan if one of their state corporations was named on the financing instrument. As a consequence, once problems arose governments were immediately involved, with detrimental consequences for whole economies, as was apparently clear during the debt crisis which followed the Mexican default of 1982.

3. Islamic Evaluation of Project Risk

Such debt financing was not, of course, acceptable under the Sharīah law, even though states with majority Muslim populations widely had recourse to these arrangements. Both variable and fixed
rate interests constitute \textit{rib}® and as such are strictly \textit{har}®m. As the interest rates which represent the price of the project funding are determined exogenously, rather than being related to the returns on the project, this introduces an unacceptable element of risk, which is unjustified as it is entirely borne by the borrower rather than the lender. It is this asymmetry which is the cause for concern. This is not to imply that the lender is taking no risk, as there is a risk of default by the borrower or the banks involved in underwriting the finance, but there is no sharing of commercial risk as the project evolves over time.

It is worth stressing that the risk element included in the premium over the London Inter Bank Offer Rate (LIBOR), for Eurodollar borrowing, is related to country or sovereign risk rather than the commercial risks associated with a particular project. The latter is not priced into the interest charged, which can be viewed as reflecting macroeconomic conditions and expectations rather than microeconomic variables pertaining to the project itself. This divorce of lending rates from the capacity of the project itself to generate returns is what is regarded as unjust by Islamic economists. Information imperfections and asymmetries are also a cause for concern, but the basic problem is that it is the wrong set of information which is priced into the interest rate premium. There may be imperfect information at both the macro and the micro levels, but it is only the former which is actually utilised.

This problem arises both with fixed rate Eurobonds and variable interest syndicated borrowings and floating rate notes. The fixed rate borrowing terms are determined at the outset and introduce rigidities. Borrowers know what their nominal obligations are in money terms throughout the period of the loan, but this makes no allowance for project or inflation risk. With variable rates, there is uncertainty about both future nominal and real interest obligations, with changes in these obligations related to international financial developments in the Euromarkets and monetary and fiscal changes within the United States, neither of which may have much relevance to the project being financed.

The so-called Third World debt crisis which followed the Mexican default of 1982 was seen by many Islamic economists as a
vindication of their critique of international borrowing on the basis of interest. It was the doubling of Eurodollar interest rates in the early 1980s in response to the tightening of United States monetary policy which triggered the crisis amongst the major Latin American and Eastern European debtor nations rather than the inherent lack of viability of the projects being financed.2 Fortunately, there were few Muslim countries which had undertaken such commercial borrowing on a large scale, the exception being Algeria, where the economy also suffered from a declining ability to service its debt with the oil price falls. Indonesia’s debt problem was manageable in relation to its foreign earnings, and in the case of Egypt, the most indebted Arab country, much of the debt was to the United States government rather than to the Euromarkets, the constraints being political rather than commercial. Nevertheless as Umer Chapra points out, debt is a problem in the Muslim world, and there has been borrowing for current as well as capital expenditure which is particularly unwise.3

4. The Privatization of Project Finance

Although the debt crisis was relieved by falling Eurodollar interest rates, the painful structural adjustment programmes that many debtor nations were forced to undertake resulted in a revaluation of the merits of projects being financed through debt instruments secured by government guarantees. The conditionality imposed by the International Monetary Fund under the terms of debt restructuring packages agreed through the Paris Club itself constrained state infrastructure spending, as capital projects were usually the first victims of expenditure cuts as governments struggled to balance their budgets.

The solution was not simply to replace debt with equity finance, as the latter brings its own difficulties, and the stock markets of developing countries are mostly insufficiently developed to absorb the huge equity placements necessary to fund infrastructure projects in any case. Equity finance has certainly had an increasing role to play, but only as one element of project financing packages. Each new
infrastructure project can be undertaken using a range of ownership options, and it is the choice of ownership structure which determines the basic parameters for the financing.

Alternatives to wholly state-owned infrastructure facilities and utilities include joint-ventures with multinational companies, with majority or minority host government control under so-called golden share arrangements. Under such schemes, the foreign multinational provides the technical and managerial expertise and raises its share of the capital, either from internal company resources, or through borrowing under its own name. The host government raises its share of the finance, both in the domestic market in local currency through bond issues or bank borrowings or in dollars through international borrowings. Usually the latter will be designated as being specifically to fund a particular project, with the bond or note bearing the name of the project. This introduces a greater participatory element to the financing, as risk is related to the viability of the project itself rather than simply sovereign risk. However in practice, if repayment difficulties arise, the bond holder will not have a claim on the capital of project itself, as the bonds are not treated as preference shares. Financing difficulties will instead have to be sorted out by the host government. The major element of the cost of the funding is related to prevailing market interest rates, not project returns, which Islamic economists would favour.

The joint-venture itself is normally locally incorporated in the host country, with the government and the multinational sharing in the profits from the project according to their percentage stake in the venture. The multinational partner will expect its share in the profits to cover at least its financing costs, which will typically be lower than those of the host company government given the very favourable credit ratings of many multinational companies. The host government will expect the revenue to cover the running costs of the project and possibly the servicing cost of the debt, but not necessarily the principle, which may be regarded as a sunk cost. With electricity generating capacity or a road or bridge, it might be possible to cover the entire cost if the electricity tariff or road toll is set at a high level, but this may be regarded
as socially undesirable, in which case writing off the states share of the debt principle may be regarded as worth the social benefit.

With projects involving infrastructure and utilities, the pricing regime for end users affects both the financing possibilities and the potential ownership structure. Multinational companies will not want to be involved unless there is the possibility of profitable pricing, but there may be resistance to substantial price increases for basic services such as electricity, gas or water or infrastructure charges levied through road tolls, airport taxes and similar duties. Discriminatory pricing which favours those on low incomes may be more socially acceptable, although determining the criteria for beneficiaries may be controversial and their identification potentially difficult. In practice, electricity, water and telephone companies in the West tend to discriminate in favour of high volume users by offering price discounts, which usually benefits businesses and their more wealthy customers rather than low income households.

With appropriate charging structures, Build-Own-Operate (BOO) and Build-Own-Operate-Transfer (BOOT) schemes have been instigated for a number of major infrastructure and utility projects. Under such schemes a multinational company commissions the building of the project and manages the scheme either in perpetuity, subject to a renewable contract, or for a fixed time period. The multinational will have to agree on the charging structure with the government concerned or the state regulatory agency. In return, the company arranges all the funding itself at no cost to the government. In the case of BOOT schemes the ownership of the infrastructure or utility reverts to the government after a ten to twenty year period, by which time the multinational company should have covered its costs and made an acceptable profit.

By 1996, private funding for infrastructure projects was worth over $17.32 billion with a total of $42.8 billion agreed for future disbursement. Funding doubled over the previous year with over $12 billion agreed for Asian projects and $5 billion for the Middle East. The banks were prepared to fund such amounts as the spreads over LIBOR were 120 to 125 basis points for project financing compared to
a mere 10 base points over LIBOR for blue chip corporate loans. These higher rates reflect the perceived risk factors with project finance, which can go seriously wrong even for major projects in highly developed countries as the experience with the Eurotunnel rail link between Britain and France showed. Such experiences have meant that much attention is paid to contract details with modern project financing which implies high legal fees as well as bank arrangement fees. Nevertheless, such charges do not seem to have slowed the privatisation of project finance or deterred cash constrained governments which desperately need to upgrade utility provision and infrastructure.

5. The Asian Debt Crisis of 1997-98

Private project financing does not guarantee that there will not be difficulties in the repayment of borrowings as the Asian debt crisis of 1997-98 shows, but it is worth stressing the differences between this and the earlier Mexican debt crisis of 1982 and the latter Mexican economic difficulties in 1996. The Latin American debt repayment difficulties of the 1980s were caused by rising Eurodollar interest rates as already indicated, whereas Asia’s problems arose from currency exposure and domestic property speculation. Yet in the Asian countries the economic fundamentals were sound, while in Latin America and certainly in Africa, this was far from being the case.

When East and South East Asian countries started to undertake more ambitious projects in the late 1980s and early 1990s, it was the private sector rather than the governments themselves which played a major role. Private construction companies borrowed from commercial and investment banks in local currencies at market rates of interest, usually on a variable interest basis rather than through fixed interest funding. The investment banks often raised their financing through lower interest dollar denominated borrowing, as the difference between the higher local currency lending rates and dollar borrowing rates made such business attractive, although there were always the currency exposure risks. As long as property prices and rental values were rising,
such lending was sustainable.

In 1997 the Asian property market moved into recession, and construction companies, initially in Thailand, but soon after in Malaysia and Indonesia, found they could not service their bank debts. This resulted in a crisis of confidence in banks and financing companies heavily exposed to the construction sector. Domestic interest rates rose, but this was insufficient to support existing dollar exchange rates, as many foreign exchange market dealers and businesses with substantial local currency holdings believed that depreciation against the dollar was inevitable. This created a severe problem for both commercial and investment banks which held local currency assets which were not being serviced, and arguably needed to be written down in value if not completely written off. At the same time, with local currency depreciation the dollar liabilities of the commercial and investment banks soared in local currency terms.

The currency mismatch of assets and liabilities was certain to trigger a financial crisis, which only recourse to external agencies, notably the IMF, could resolve. The IMF duly stepped in to assist, but the funding for Thailand, Korea and Indonesia was conditional on financial reforms that Washington dictated which were arguably more in the interests of Western banks and securities houses than local institutions. It remains to be seen how the reforms which involve an even greater openness of Asian financial markets to international financial capital will work in the long term.

Inevitably, the Asian financial crisis of 1997-98 had an adverse effect on projects. The start of work on the Bakun Dam project in Malaysia was postponed, a project worth $4.6 billion, while the Bangkok mass transit project had to be put on ice, which would have required funds of over $3.7 billion. In Indonesia fifteen projects were halted pending a further review of the financing including eight power plants, four toll roads, an airport and a meteorological equipment project. As a consequence the value of new projects funded in Asia fell from $76 billion in 1996 to $34 billion in 1997. World-wide project deals agreed fell from $223 billion in 1996 to $151 billion in 1997, although increased
starts ups in Latin America and Eastern Europe failed to compensate for the Asian slowdown. Nevertheless the Asian projects are not being abandoned but merely delayed, and hence when economic conditions improve with financial restructuring there may be more project work than ever.

6. An Islamic Critique of Financial Reform and Privatization

From an Islamic perspective, the Asian financial crisis of 1997-98, just like the earlier Mexican debt crisis of 1982, can be blamed on reliance on riba-based finance. The divorce of the financing from the underlying projects being undertaken implied that the funding was in no way participatory, as the banks and financial institutions providing the dollar loans were more concerned with the credit ratings of the domestic financial intermediaries than with the actual projects being funded. It was the isolation of the ultimate fund providers from the fund users and the consequent breakdown in information flows that lay behind the crisis. In contrast with participatory finance, the investor shares in both the commercial risk of the project and the currency risk.

Furthermore, those directly involved in many of the projects, especially the property developers, were more concerned with making speculative gains from the ventures rather than making a legitimate contribution to economic advancement. There was an element of gharar or deception in what they were doing which is prohibited under the Sharīʿah law, as the projected returns from the projects were based on over-optimistic assumptions about property prices and rental values. In some cases, not only were funders misled but there was also genuine self delusion as project developers fell victim to their own exaggerated sales pitches to impress their backers.

The solutions proposed by the IMF to open up the financial systems of countries such as Indonesia, and introduce greater transparency and professionalism into project finance are not necessarily in conflict with the objectives of Islamic economists. Some of the best respected contemporary Islamic economists such as Zubair Iqbal and
Abbas Mirakhor, authors of an influential report on Islamic banking in Iran and Pakistan, have themselves worked for the IMF and made important contributions to policy debates within the institution. More open and transparent financial systems facilitate the involvement of institutions such as the Islamic Development Bank. It has undertaken co-funding of projects with the World Bank in a number of Muslim countries, and despite differences in funding methods, this cooperation has been deemed useful for all parties.

In so far as privatization involves a greater degree of participatory finance, it may be regarded as preferable to state funding from an Islamic perspective. The latter at best crowds out or even eliminates financial market transactions, effectively nationalizing the *mudd@rib* function, and replacing it with a bureaucratic decision-making process which is more administrative than entrepreneurial. The state has an important role to play in an Islamic economy, but the prime task is to safeguard social justice, not to assume ownership rights over productive resources. *Shar@‘rah* inheritance laws create a just framework for the inter-generational transfer of property. Also legacies to the *waqf* are a matter for individual conscience, not state coercion.

Islamic economics should not, however, be regarded as more sympathetic to capitalism than socialism, rather both types of secular economic organization are seen as at variance with the Islamic vision and guidelines for a good life. A market economy is not necessarily a capitalist economy, as *rib@r* finance, which is the basis of accumulation under a capitalist system, is unacceptable. Furthermore, the speculative nature of some equity finance increases the case for state intervention, especially where *ghar@r* or deception is involved, but this can be viewed as an argument for regulation of financial markets rather than their abolition.

Private ownership of resources may be regarded as the norm, but many Islamic economists have recognized the case for state control of natural resources such as oil so that they can be used for the benefit of the entire Muslim community. Where the government itself finances capital formation, this obviously confers ownership rights for the state,
but as already indicated, fewer governments of Muslim states are in a position to provide such financing today.

7. **Discounting Under the *Sharī‘ah* Law and Islamic Project Financing Techniques**

The calculation of net present value of different projects has long been a commonly accepted means of deciding which projects should be given priority and which should be postponed or abandoned. From an Islamic perspective there is concern when the discount rate is simply equated with the market rate of interest, as given the prohibition of *ribā* it could be argued that discounting should also be forbidden. There has been much discussion of this issue by contemporary Islamic economists, but the position was clarified in a pioneering study by Muhammad Anas Zarqa who concluded that discounting is permissible in Islam in principle, as this is unconnected with lending or borrowing on the basis of *ribā*. The discount rate can be equated with the social rate of return in a Muslim society rather than the market interest rate, a technique which many economists favour in any case, as interest is constantly changing as a consequence of monetary policy or developments in the market for loanable funds whereas the social costs and benefits of a major project are a long-term issue.

Fahim Khan was concerned that the implication of discounting was that money had a time value. If it is this element of interest which is objectionable from an Islamic perspective, this would also mean that discounting was not legitimate under the *Sharī‘ah* law. He concluded, however, that the recognition of the time value was permissible in Islam, as Islamic banks were allowed to provide a higher profit share to depositors who accepted longer periods for minimal notice of withdrawals. It is the elements of risk and the inconvenience in having to give notice of withdrawal that justify the higher return, not simply the passage of time. This also applies in the case of future cash flows in relation to more immediate returns.

Ridha Saadallah agrees with Khan, and goes on to argue that
monetary and economic instability are major defects of the contemporary interest-based financial system. It is the outcome of interest that should be condemned, not all the inherent factors within it which can be accounted for separately.

Project financing involves both short-term funding of inventories and less valuable items of equipment as well as longer term construction and capital goods acquisition. For the former, all too often Islamic banks take a defensive position, the aim being to use techniques such as murabāt ḥah mark-up finance which are designated as acceptable under the Sharī‘ah law, but which mimic conventional financing, the assumption being that to do anything more radical would be to risk moral hazard. This assumes that there is a trade-off between economic efficiency and justice, which may not be the case. Indeed in an ideal Islamic society such conflicts may not arise if all believers follow the Sharī‘ah law. It is imperfections which cause social disequilibrium and economic injustice, but as these reflect human shortcomings, the struggle between right and wrong is unending.

In the financial sphere, this may be interpreted in terms of the conflict between ribā and Islamic financing, which may persist in a global economic context where Muslims, despite their number, are a minority with little control over the levers of economic power. It may also persist within a pluralist society, as most Muslims live in countries where there is no Islamic exclusivity, and an entirely Islamized economic system may not be accepted by other groups. This, however, does not mean that Muslims must despair of ever achieving a degree of economic justice. Rather it simply implies that Muslim financing instruments will exist alongside conventional financing, and that even co-financing may be possible. The challenge is to ensure that the integrity of Islamic financing is preserved in such circumstances.

For example the mark-up on murabāt ḥah financing, may have to be competitive with the interest rate terms offered by conventional banks in so far as the financial market in a pluralist society is integrated. This does not imply that the mark-up is interest determined however, as that would assume that Islamic banks are merely passive price takers.
rather than price makers. Indeed, it is the conventional banks which are more likely to be the price takers, if interest is determined through government monetary policy. The Islamic banks, in contrast, have more freedom to determine their mark ups, the justification for these being the risks involved as the bank acts as a principal in a *murābahah* transaction rather than as an agent.¹⁷

For the longer term components of project financing, Islamic banks dealing with Muslim clients may have advantages over their conventional counterparts. Good information is crucial if the risks involved in long-term project finance is to be reduced, and where funding agencies are divorced from the firms actually undertaking a project, moral hazard problems may arise. Such a divorce is much less likely if Islamic techniques of participatory finance are used, as the funding agency will be constantly monitoring the progress of the project.¹⁸ Full-fledged Islamic alternatives to bid bonds and performance bonds have yet to be developed, but penalty clauses can be built into contracts covering Islamically funded projects so that the investors are compensated if there is a delay in project completion or the standard of contractor’s work is unsatisfactory. There will always be some uncertainty nevertheless, hence techniques such as sensitivity analysis may need to be used to work out the implications for the project financing if various eventualities occur. Good financial reporting reduces moral hazard problems, although Islamic economists such as Seif El-Din. Tag El-Din are probably overoptimistic about the extent to which moral hazards are reduced with modern business corporations.¹⁹

Muhammad Anas Zarqa has addressed the issue of how infrastructure projects can be undertaken that cannot be financed on a profit-sharing basis because they do not generate an income stream. He proposes a scheme based on *istisna’* (or commissioned manufacture)²⁰ financing involving a sales contract for commissioned or pre-ordered production.²¹ Such schemes were used in Malaysia in 1995 and 1996 to finance the PUTRA light railway transit project, with the financier making an advance purchase for a stake in the scheme for RM1 billion and the financee paying a mark-up in instalments every
quarter over a four year period until the project was completed. On completion, the financier takes over the ownership stake, but then leases the light railway to the operator under an *ijarah* scheme.22

The workings of this type of scheme are similar in some respects to BOOT arrangements, with the investor/contractors who build the project selling it on to the public sector commissioner on completion, with payments being made in instalments for the duration of the project, and possibly following completion, until the deeds to the project are handed over. The price the state agency pays includes a pre-determined profit margin which covers the cost of the financing. It should be noted that with BOO and BOOT schemes, the financier will make less profit than with an variable interest-based financing scheme when interest rates are rising, and more profit when market interest rates are falling. With *istikana*’ financing there can be some scope for changing the charging structure if the banks profit mark-up rises during the duration of the project.23

The Hub power project in Pakistan was financed using a variant of the *istikana*’ technique which should perhaps be subject to further *fiqh* scrutiny. The 1,292 megawatt oil-fired power station 40 kilometres north-west of Karachi was completed on schedule and within budget with the World Bank participation in the financing.24 Mansoor Khan points out that this project had significant involvement from Islamic financing institutions, including the Al Rajhi Islamic Bank, which provided $92 million for some of the initial work and a consortium of four Islamic Banks which provided $65 million for a transmission line which was part of the project.25 The consortium’s involvement is worth describing in detail to illustrate how the financing works. Under the terms of the Islamic financing agreements the lessee entered into a contract with the seller/supplier as agent of the lessor, in this case the Islamic bank consortium. Once the equipment was delivered, the consortium, as lessor, paid the purchase price directly to the transmission equipment supplier plus other sales expenses. The lessee, the local electricity utility, agreed to pay the consortium, as lessor, twenty rental instalments over a five year period, after which the ownership of the
equipment passes to the power company. The local electricity utility provided a guarantee for the payments period while the central bank provided a currency repatriation undertaking as the financing was in US dollars.

There are a range of alternatives to istisna’ financing which can be used to secure funding for BOO or BOOT schemes. One of the most promising is mudarabah or mudarabah contracts, which are a type of Islamic bond issued by a Muslim government issuing a project in its capacity as a mudarabah. In Malaysia, there are a number of Islamic securities that can be used to back BOO or BOOT schemes including Murabahah Notes Issuance Facilities (MuNIFs) and —uk, k Notes Issuance Facilities (—aNIFs) which are traded instruments on the basis of bay’ al-dayn, deferred sale obligations. Such securities are unacceptable to many Arab fiqh scholars because of the uncertainties involved and the possibility of agreements not actually being carried through in practice. In these circumstances, istisna’ financing may be preferred.

8. Conclusions

There seems to be agreement between Mansoor Khan and Muhammad Anas Zarqa that there is an important role for istisna’ in Islamic project finance. The Hub power project demonstrates how this can work in practice. This, however, represents only one financing solution, as other instruments are available, such as murabahah, mudarabah and musharakah. Furthermore although there are similarities between istisna’ and BOOT schemes as already pointed out, there are also differences. In the case of istisna’ it is the Islamic bank that acts as lessor and controls the project until it is handed over. The contractor is merely the supplier. With BOOT, it is the contractor who controls the project until it is handed over, usually some years after it is completed. With istisna’, the cost of the lease can be recalculated each year in line with the bank’s current profit mark-up.
This is not the case with BOOT schemes where the pricing regime is agreed between the contractor and the utility for the duration of the project, although there may be some scope for price adjustments to allow for global changes in energy prices.

Given the increasing reliance on private sector funding for major infrastructure projects in Muslim countries, Islamic banks and finance houses can reasonably expect to become involved to a considerable extent in such business. There is, however, a need for further thinking regarding the development of financial instruments that can be both more participatory, hence \textit{Shar\textsuperscript{c}ah} compliant, and meet the financing requirements of BOOT schemes as well as other similar ventures. Islamic alternatives to conventional project finance are now attracting the attention of major institutions such as the Chase Manhattan Leasing, the International Finance Corporation, the ANZ Investment Bank and the ABN AMRO Bank.\textsuperscript{25} It is the financing details which matter, and these types of organizations are needed, together with those with specialist knowledge of exactly what is required from a \textit{Shar\textsuperscript{c}ah} perspective, if the challenges of providing Islamic project finance are to be meet. This would achieve two desirable objectives: more justice and \textit{Shar\textsuperscript{c}ah} compliance, and the consequent economic benefits of participatory schemes alluded to earlier.

\textbf{Endnotes}

4. Many Islamic economists favour foreign direct investment, but there is a natural preference for it to be undertaken by Muslim companies. See Siddiqi (1996, 115).
5. BOO implies that the foreign company owns and controls the facility for the life of the venture, although not necessarily the land on which the facility is located. With BOOT, the facility and the land are owned by the investor for a fixed period, after which the ownership reverts to the host
government or host country company.

17. For a very clear discussion of the legal implications of *murābaḥah*, see Vogel and Hayes (1998, 140-3).
28. These institutions, together with the Faisal Bank of Pakistan, were involved in a conference on Islamic Leasing and Project Finance in London in March 1998 chaired by Richard Duncan and organized by the International Communications for Management.

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