Northwestern Law

International Team Project: United Arab Emirates, Spring 2011

ISLAMIC PROJECT FINANCE: PAST AND FUTURE

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The fact that Islamic finance is intertwined with religion requires that the industry have twin, co-equal objectives: profit maximization and religious piety. Nevertheless, Islamic finance has existed in its current iteration only since the mid-1960s, but it is a fast-growing industry that is gaining traction even among secular, non-Muslim investors. The entire industry has more than doubled in size since 2006.[1] The total value of the industry is at about $895 billion as of the close of 2010.[2]

However, while Islamic finance is growing quickly and gaining in popularity and appeal, it remains a small sector of the worldwide financial markets that many remain unfamiliar with or even unaware of. This paper begins by introducing the five basic principles underlying Islamic finance. Then, it identifies and outlines some of the most commonly used structures in Islamic finance and presents case studies of *ijara*, *sukuk*, and *murabaha* transactions. The paper will continue by discussing some of the most pressing issues facing the industry, and then forecasting trends and making some predictions as to the future of Islamic project finance.

This paper concludes by arguing that Islamic finance is heading toward increased convergence and standardization. The convergence of Islamic financing standards and

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[1] David Oakley, *Growth Survives the Storms*, FINANCIAL TIMES, Dec. 14, 2010, at 1 (The Future of Islamic Finance: Special Report).
[2] *Id.*

conventional financing is necessary in order for Islamic finance to remain competitive with its conventional counterparts. Standardization has similarly been seen as necessary in order to provide greater certainty to investors and promote greater investment levels. Nevertheless, notwithstanding its continued growth, Islamic finance is likely to remain a niche market for the foreseeable future—the smaller pool of investors, coupled with the greater restrictions and inefficiencies act as a significant limiting factor in its growth.