

## Islamic financing for Malta's railway construction projects



MALTA

By Reuben Buttigieg

**Traffic is a growing concern in Malta and is a headache for any Maltese citizen. Whether it's your daily trip to work or a casual drive, at a certain point in time, you are going to come to a halt, stare into oblivion and wait for the front car's brake lights to turn off so you could move a couple of inches toward your desired destination. The prime minister admitted that Malta's infrastructure needs to change, as currently, public transport is being frowned upon by many Maltese due to the reliability issues it posed a few years back. Hence, the prime minister announced the proposal of a new project which would see the setting up of a railway, adding that there may indeed be different alternatives to this proposal.**

Having a project of this magnitude requires a substantial amount of financing. The Maltese government's budget revenue finances most of the current infrastructure projects in Malta along with co-financing from the

European structural and investments funds. As this may seem to be a tried and tested formula to finance these kinds of projects, we may also have an opportunity to tap into a different method of financing: Islamic financing.

It's a fact that infrastructure projects attract investors. Financing the proposed railway project through Islamic finance will most definitely attract entities that invest only in Shariah compliant investments. Moreover, investors who are more accustomed to dealing with conventional products may also look into this kind of investment. Islamic finance has numerous ways to finance national-scale projects; one of the most popular is called Sukuk Ijarah.

Sukuk Ijarah is generally considered an alternative to conventional bonds. The main difference between Sukuk Ijarah and conventional bonds is that the former does not involve the payment of fixed interest/dividend rates. Furthermore, it needs to be asset-based.

In order to build the railway, the government will need to identify the

path of land on which the railway will pass. This land may be used to generate the financing to build the railway as the government may sell this land to an SPV in order to generate the capital. The government would still be allowed the usufruct of this land while it will undertake the commitment to buy this land back after a number of years. The SPV will issue these alternative bonds (Sukuk) to the public and investors.

The SPV would rent the very same land back to the government, hence the government has to pay rent. Proceeds from the rent would be distributed to the Sukukholders, proportionate to the amount invested in the Sukuk.

Investors will also be able to sell Sukuk that they hold before the maturity date as the Sukuk would be listed on the Malta Stock Exchange which already has a Shariah index.<sup>(2)</sup>

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## Summer in Qatar



QATAR

By Amjad Hussain

**This past month has witnessed a substantial turn of events. The change in the geopolitical situation in the GCC as a result of a number of countries severing all diplomatic ties with Qatar and blocking all borders (air, land and sea) with it has raised some initial concerns and fears about the strength of the Qatari economy. However, key decision-makers in the banking and finance sector have made reassuring statements about the Qatari economy.**

The governor of Qatar Central Bank (QCB), Sheikh Abdullah Saoud Al-Thani, affirmed that Qatar's banking sector is functioning normally and without disruption to any domestic or international transactions and that QCB has a range of monetary and financial tools that are adequate and capable of ensuring that the banking sector in the State continues to function normally without disruption.

Equally, Ali Sherif Al Emadi, the minister of finance, stated that the value of the reserves and investment funds of Qatar are more than 250% of GDP and that there is no reason that people need to be concerned about what's happening or any speculation on the Qatari riyal.

The banking sector has witnessed a number of notable developments over the past month. Qatar National Bank announced that it has priced a US\$750 million five-year RegS only Sukuk offering which was issued at par with an annual profit rate of 3.25% (payable semi-annually), representing a spread of 135bps over five-year midswaps.

Meanwhile, Qatar International Islamic Bank (QIIB) recently announced the launch of the operations of Ummia Bank in Morocco, which is the result of a partnership between QIIB, Cr dit immobilier et hotelier (CIH) and Moroccan Deposit and Management Fund. Ummia Bank's operations began

through its branches in Casablanca and Rabat.

In other news, QInvest recently announced its results for the first quarter of 2017. The bank generated revenues of QAR98 million (US\$26.71 million) across all three of its business lines. Operating profit was maintained at QAR51 million (US\$13.9 million) and net profits were QAR15 million (US\$4.09 million). QInvest's assets stood at QAR4.58 billion (US\$1.25 billion) at the end of the first quarter.

As we head into the summer months, we will monitor the Qatari banking sector and wider economy to understand what (if any) significant impact will result from the regional fallout even though an initial assessment in light of the statements of officials in Qatar suggests that Qatar will remain on its course of growth and development.<sup>(3)</sup>

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