

# Islamic syndicated financing: Potentials to be optimized



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**Syndicated financing is a term used when there are two or more banks or financial institutions that join together to finance a deal and each contributes its part of financing to a borrower. There are at least two benefits of a syndicated financing for banks or financial institutions.**

First, it will reduce the concentration risk for banks or financial institutions to a particular borrower.

Secondly, it will minimize the use of banks' legal lending limit. Technically, Islamic syndicated finance is similar to the conventional one in terms of having a lead bank and participating financial institutions. The lead bank will normally play the role of originating the deal, coordinating the preparation and finalization of documentation, and closing the deal. Normal Shariah compliant modes of financing will be used in Islamic syndicated finance.

According to AAOIFI, there is no Shariah restriction for the participation of conventional banks and/or financial institutions in Islamic syndicated finance as long as the contracts, projects financed and the modes of financing are arranged in line with Shariah. The same also applies to the lead syndicate, where a conventional bank or financial institution can also be the lead bank.

## Review of 2021

According to an S&P Global Ratings report, 2020 marked the increasingly important role played by Islamic syndicated finance which performed better than the Sukuk market. By mid-2021, the total syndicated financings in the Middle East rose 33% to US\$50.4 billion compared with the same period in 2020 (Table 1). Saudi Arabia and the UAE accounted for 91.3% of all financing proceeds.

Considering the share of Islamic banking assets in Saudi Arabia and the UAE stood at 68% and 19% respectively by the third quarter of 2020 (IFSB, 2021), the portion of Islamic syndicated finance of the overall syndicated deal could be around US\$26.7 billion.

In 2021, some Islamic syndicated finance started involving some non-core Islamic finance countries such as Egypt and Pakistan.

The government of Egypt has mandated Emirates NBD Capital and First Abu Dhabi Bank as the joint global coordinators, lead arrangers and bookrunners on the deal. It is a three-year syndicated financing having green and Islamic finance components aimed at mobilizing US\$2 billion.

In Pakistan, Ajman Bank and Commercial Bank of Dubai concluded a US\$350 million Murabahah syndicated financing for the Ministry of Finance. Other participating financial institutions include the Gulf International Bank, the Arab Investment Company, the Islamic Corporation for the Development of the Private Sector and the UAE.

Other smaller syndicated deals in Pakistan include the PKR4.5 billion (US\$25.4 million) facility arranged by Meezan Bank and Faysal Bank in favor of Engro Enfrashare. Participating banks include National

Bank of Pakistan, MCB Islamic Bank and Allied Islamic Bank. The funds raised would be used to finance the development of tower sites for various mobile network operators operating in Pakistan.

One major Islamic syndicated finance deal took place in Bahrain amounting to US\$200 million, as an addition to the existing deal of US\$1.4 billion for the state-owned Oil and Gas Holding Company (nogaholding).

The company is the hydrocarbon and energy investment and development arm of the Kingdom of Bahrain. This five-year Islamic syndication led by National Bank of Bahrain attracted the participation of eight financiers consisting of regional banks from Bahrain, Saudi Arabia, Kuwait, the UAE and international banks active in the region.

Other Islamic syndications taking place in a core Islamic finance country involved Abu Dhabi Islamic Bank (ADIB). ADIB led the Islamic syndicated finance deal amounting to AED1.32 billion (US\$360 million) in favor of Abu Dhabi-based Gulf Marine Services (GMS), the largest provider of self-propelled, self-elevating jack-up barges in the world. ADIB tailored the Islamic syndication to meet the particular needs of GMS including refinancing existing facilities and financing the acquisition of two extra vessels.

## Preview of 2022

As Islamic syndicated finance is increasingly playing a more significant role in the Islamic finance industry, it will attract even more players into it. Islamic syndication has shown that it could expand the choices for fund mobilizations in the market in addition to Sukuk.

Global Islamic banking assets, which stood at US\$2.35 trillion in 2020, are the potential pools of funds for the further growth of Islamic syndication; this is not to mention the possible participation of conventional banks. This in turn could also foster the development of Islamic markets — given competitive alternatives, more economic players in Muslim countries may be attracted to use Islamic financing instruments.

Islamic syndicated finance is actually a perfect match with the needs of many Muslim countries for infrastructure financing. Syndicated deals, compared with normal bank financing, could naturally provide larger financing amounts with a longer duration. Here, a group of participating banks would share the financing risks. From the beneficiaries' perspective, they might be more efficient in terms of timing and documentation. Thus, there are indeed potentials to be optimized in the area of Islamic syndicated finance.

## Conclusion

Islamic syndicated finance is basically part of Islamic banking activities. However, it has not really become mainstream in the operations of the Islamic banking industry. This may change as Islamic financial institutions will always be in constant need of coming up with more innovation and product diversifications to stay relevant.

Times of crisis are actually a blessing in disguise for the growth and expansion of Islamic syndication, taking into consideration the need for banks and other financial institutions to spread the risk and pool resources. Here, through syndicated financing, Islamic financial institutions could actually realize their developmental role more by financing large infrastructure needs in Muslim-majority countries. ☺