Emily Fuller, Deborah Low, Ellen McGinnis, Emma Russell in PrivateEquityWire: Shariah in the Spotlight: Shariah-Compliant Investors, ESG and Fund Finance

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In the context of capital call facilities, where investors are unwilling to participate in certain investments due to ESG or Shariah law concerns, these investor restrictions (and the related excuse rights bestowed on such investors) can impact how lenders evaluate investors for purposes of calculating a borrowing base.

'Shariah', which literally translates from Arabic as 'the path to water', is a set of principles derived from Islamic sources including the Quran and Sunnah which govern all areas of life, including financial transactions in the Muslim community. In general, Shariah law encourages investment as it helps grow the economy but places a focus on investing in a manner that will facilitate projects and development that benefit society as a whole. Shariah law dates back over a thousand years, but the recent growth in Islamic finance over the last few decades has made understanding it in that context increasingly relevant for lenders and borrowers alike.

Where the term 'Islamic financial institutions' is used in this article, it is a reference to financial services providers (for example lenders, fund managers and insurance providers) that operate in compliance with Shariah law. These Islamic financial institutions may be Shariah-compliant because they are looking to provide a service to Shariah-compliant customers or they may be part of a banking system which is wholly Shariah-compliant; for example, the banking systems in Iran and Sudan, where Shariah law has been codified into legislation.

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This article is the first part of a series.