



Appendix CA-5: Supervisory Slotting Criteria for Istisna in **Project Finance** and Musharakah in a Business Venture

	Strong	Good	Satisfactory	Weak
Financial				
Market conditions	Few competitors or substantial and durable advantage in location, cost, or technology Demand is strong and growing	Few competitors or better than average location, cost, or technology but this situation may not last Demand is strong and stable	Project/business venture has no advantage in location, cost, or technology Demand is adequate and stable	Project/business venture has worse than average location, cost, or technology Demand is weak and declining
Financial ratios	Strong financial ratios considering the level of project/business venture risk; very robust economic assumptions.	Strong to acceptable financial ratios considering the level of project/business venture risk; robust project/business venture economic assumptions.	Standard financial ratios considering the level of project/business venture risk.	Aggressive financial ratios considering the level of project/business venture risk.
Stress analysis	The project/business venture can meet its financial obligations under sustained, severely stressed economic or sectoral conditions	The project/business venture can meet its financial obligations under normal stressed economic or sectoral conditions. The project/business venture is only likely to default under severe economic conditions	The project/business venture is vulnerable to stresses that are not uncommon through an economic cycle, and may default in a normal downturn	The project/business venture is likely to default unless conditions improve soon
Financing structure				
Duration of the contract compared to the duration of the project/business venture	Useful life of the project/business venture significantly exceeds tenor of the financing contract	Useful life of the project/business venture exceeds tenor of the financing contract	Useful life of the project/business venture exceeds tenor of the financing contract	Useful life of the project/business venture may not exceed tenor of the contract
Payment structure of selling price	Partly in advance and in installments	Installments	Installments with limited bullet payment	Bullet payment or in installments with balloon



	Strong	Good	Satisfactory	Weak
(Note: applicable to Istisnā` only)				structure (higher installment amounts towards end of the contract)
Political and legal environment				
Political risk, including transfer risk, considering project/business venture type and mitigants	Very low exposure; strong mitigation instruments, if needed	Low exposure; satisfactory mitigation instruments, if needed	Moderate exposure; fair mitigation instruments	High exposure; no or weak mitigation instruments
Force majeure risk (war, civil unrest, etc),	Low exposure	Acceptable exposure	Standard protection	Significant risks, not fully mitigated
Government support and project/business venture's importance for the country over the long term	Project/business venture of strategic importance for the country (preferably export-oriented) Strong support from government	Project/business venture considered important for the country. Good level of support from government.	Project/business venture may not be strategic but brings unquestionable benefits for the country. Support from government may not be explicit.	Project/business venture not key to the country No or weak support from government
Stability of legal and regulatory environment (risk of change in law)	Favourable and stable regulatory environment over the long term	Favourable and stable regulatory environment over the medium term	Regulatory changes can be predicted with a fair level of certainty	Current or future regulatory issues may affect the project/ business venture
Acquisition of all necessary supports and approvals for such relief from local content laws	Strong	Satisfactory	Fair	Weak
Enforceability of contracts, collateral and security	Contracts, collateral and security are enforceable	Contracts, collateral and security are enforceable	Contracts, collateral and security are considered enforceable even if certain non-key issues may exist	There are unresolved key issues in respect of actual enforcement of contracts, collateral and security
Transaction Characteristics				
Design and technology risk	Fully proven technology and design	Fully proven technology and design	Proven technology and design-start-up issues are	Unproven technology and design; technology issues



	Strong	Good	Satisfactory	Weak
			mitigated by a strong completion package	exist and/or complex design
Construction Risk (for project finance only)				
Permitting and sitting	All permits have been obtained	Some permits are still outstanding but their receipt is considered very likely	Some permits are still outstanding but the permitting process is well defined and they are considered routine	Key permits still need to be obtained and are not considered routine. Significant conditions may be attached
Type of construction contract	Fixed-price date-certain turnkey construction EPC (engineering and procurement contract)	Fixed-price date-certain turnkey construction EPC	Fixed-price date-certain turnkey construction contract with one or several contractors	No or partial fixed-price turnkey contract and/or interfacing issues with multiple contractors
Completion guarantees	Substantial liquidated damages supported by financial substance and/or strong completion guarantee from sponsors with excellent financial standing	Significant liquidated damages supported by financial substance and/or completion guarantee from sponsors with good financial standing	Adequate liquidated damages supported by financial substance and/or completion guarantee from sponsors with good financial standing	Inadequate liquidated damages or not supported by financial substance or weak completion guarantees
Track record and financial strength of contractor in constructing similar project/business ventures	Strong	Good	Satisfactory	Weak
Operating risk (for project finance only)				
Scope and nature of operations and maintenance (O & M) contracts	Strong long-term O&M contract, preferably with contractual performance incentives, and/or O&M reserve accounts	Long-term O&M contract, and/or O&M reserve accounts	Limited O&M contract or O&M reserve account	No O&M contract: risk of high operational cost overruns beyond mitigants
Operator's expertise, track record, and financial strength	Very strong, or committed technical assistance of the sponsors	Strong	Acceptable	Limited/weak, or local operator dependent on local authorities



Off-take Risk (for project finance only)				
a) If there is a take-or-pay or fixed-price off-take contract	Excellent creditworthiness of off-taker; strong termination clauses; tenor of off-take contract comfortably exceeds the maturity of the financing contract	Good creditworthiness of off-taker; strong termination clauses; tenor of off-take contract exceeds the maturity of the financing contract	Acceptable financial standing of off-taker; normal termination clauses; tenor of off-take contract generally matches the maturity of the financing contract	Weak off-taker; weak termination clauses; tenor of off-take contract does not exceed the maturity of the financing contract
(b) If there is no take-or-pay or fixed-price offtake contract	Project produces essential services or a product sold widely on a world market; output can readily be absorbed at projected prices even at lower than historic market growth rates	Project produces essential services or a product sold widely on a regional market that will absorb it at projected prices even at historical growth rates	Product is sold on a limited market that may absorb it only at lower than projected rates	Project output is demanded by only one of a few buyers or is not generally sold on a organised market
Supply Risk (for project finance only)				
Price, volume and transportation risk of feed-stocks; supplier's track record and financial strength	Long-term supply contract with supplier of excellent financial standing	Long-term supply contract with supplier of good financial standing	Long-term supply contract with supplier of good financial standing – a degree of price risk may remain	Short-term supply contract or long-term supply contract with financially weak supplier – a degree of price risk definitely remains
Reserve risks (e.g. natural resource development)	Independently audited, proven and developed reserves well in excess of requirements over lifetime of the project	Independently audited, proven and developed reserves well in excess of requirements over lifetime of the project	Proven reserves can supply the project adequately through the maturity of the financing contract	Project relies to some extent on potential and undeveloped reserves
Strength of Sponsor				
Sponsor's (or partner's, in the case of Musharakah) track record, financial strength and	Strong sponsor (partner) with excellent track record and high financial standing	Good sponsor (partner) with satisfactory track record and good financial standing	Adequate sponsor (partner) with adequate track record and good financial standing	Weak sponsor (partner) with no or questionable track record and/or financial weaknesses



Sponsor's (or partner's, in the case of Musharakah) support, as evidenced by equity, ownership clause and incentive to inject additional cash if necessary	Strong. Project/business venture is highly strategic for the sponsor (partner) – i.e. core business and long-term strategy	Good. Project/business venture is strategic for the sponsor (partner) – i.e. core business and long-term strategy	Acceptable. Project/business venture is considered important for the sponsor (partner) – i.e. core business	Limited. Project/business venture is not key to sponsor (partner)'s long-term strategy or core business
Security Package				
Assignment of contracts and accounts*	Fully comprehensive	Comprehensive	Acceptable	Weak
Pledge of assets, taking into account quality, value and liquidity of assets*	First perfected security arrangement in all project assets, contracts, permits and accounts necessary to run the project	Perfected security arrangement in all project assets, contracts, permits and accounts necessary to run the project	Acceptable security arrangement in all project assets, contracts, permits and accounts necessary to run the project	Little security or collateral for IIFS; weak negative pledge clause
IIFS' control over cash flow (e.g. independent escrow accounts)	Strong	Satisfactory	Fair	Weak
Reserve funds (payment of selling price in Istisna`, O&M, renewal and replacement, unforeseen events, etc.)	Longer than average coverage period, all reserve funds fully funded in cash	Average coverage period, all reserve funds fully funded in cash	Average coverage period, all reserve funds fully funded in cash	Shorter than average coverage period, reserve funded from operating cash flows

*In Musharakah, the collateralisation of underlying assets is restricted to losses arising from negligence and misconduct cases only.