FINANCING INFRASTRUCTURE PROJECTS: What Role for Islamic Finance

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2nd CEOs & Islamic Finance Leaders Roundtable: Financing Infrastructure Projects: What Role for Islamic Finance

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ABSTRACT

In the light of Qatar's huge ongoing infrastructure developments projects, the discussion on infrastructure financing was carried out with particular reference to the role that the Islamic finance industry can play to participate in the efforts. Special attention was given to understand ground realities and challenges; feasible measures towards reducing barriers in accessing Islamic finance; create more sustainable, genuine and ethical Shari'ah compliant products; and encourage a more robust economy that meets the needs of all segments of society. UN Sustainable Development Goals (SDGs) also stress for infrastructure investments such as increasing access to affordable housing and basic services, upgrading slums, substantially increasing health and education financing, and supporting least developed countries in building sustainable and resilient buildings.

INTRODUCTION[1]

The College of Islamic Studies (CIS), Hamad Bin Khalifa University (HBKU), hosted the 2nd CEOs and Islamic Finance Leaders Roundtable event on the subject of "Financing Infrastructure Projects: What Role for Islamic Finance" on Tuesday, 22 November 2016. This report is a summary of the roundtable deliberations.

The event was organized by the Center for Islamic Economics and Finance—a research center at CIS. Over 40 participants including academics, bank CEOs and their representatives, policymakers, and students of HBKU participated in the roundtable. Dr. Ahmad M. Hasnah, President of HBKU, gave the welcoming remarks while the Governor of Qatar Central Bank (QCB), H.E. Sheikh Abdullah Saud Al-Thani, delivered the keynote address. Dr. Habib Ahmed, Professor of Islamic Finance at Durham University and Visiting Professor at HBKU, moderated the one-day event. Others in attendance

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included: Mr. Yousuf Al-Jaida, CEO of Qatar Financial Centre Authority (QFCA); Mr. Khalid Al-Subeai, CEO of Barwa Bank; Ms. Mira Al-Attiyah, CEO of QNB Capital; Mr. Ziad Makkawi, CEO of Qatar First Bank; Dr. Osama Al-Deraie, CEO of Bait Al-Mashura; Dr. Haitham Al-Salama, Chief Economic Adviser at QFCA; Dr. Irfan Aleem Qureshi, Chief Economist at the Ministry of Economy and Commerce, Qatar; Mr. Abdulhakim AlKhayyat, CEO of Kuwait Finance House, Bahrain; Mr. Usman Ahmed, CEO of Citi Bahrain and Citi Islamic Investment Bank; Mr. Khaled Abdulla Neamat Al Khoori, CEO of Al Hilal Bank, United Arab Emirates; Mr. Siraj Yasini, Executive Director at Bank of Tokyo-Mitsubishi, Dubai; Mr. Osama Helmi, Head of Shariah Audit at Qatar Islamic Bank; and Mr. Ali Mohamed, Business Development at QFCA. Academics from HBKU College of Islamic Studies (QFIS), HBKU Law School, and Georgetown University (Qatar) participated in the roundtable. About half a dozen students from HBKU also participated in the event and were given the opportunity to network with the industry leaders.

The roundtable began with a speech by Governor of Qatar Central Bank, H.E. Sheikh Abdullah Saud Al-Thani, who focused his address on the general challenges facing Islamic finance today. Among the challenges that he mentioned include: liquidity management; utilization of pure Islamic finance contracts; issuances of more *sukuk* for multiple purposes including liquidity management; *shariah* governance issues; development of the required human resources to keep up with the growth of the industry; risk management; and the relationship of Islamic finance with monetary policy. Some of these challenges—as pertaining to infrastructure finance—came up again a number of times during the ensuing discussions.

Infrastructure is a very important ingredient in economic development. Not only does infrastructure provide public goods such as transportation, energy, utilities, and other public and social infrastructure like schools, hospitals, housing and parks, it is also a very important instrument for supporting the development of the private sector. There have been numerous studies studying the impact of infrastructure on private sector development and economic growth.

The role of infrastructure is also emphasized in the recently launched United Nations Sustainable Development Goals (SDGs). The SDGs are more ambitious than the earlier Millennium Development Goals (MDGs), and a key component to achieving the SDGs will be to have the right infrastructure. It is estimated that an additional USD 1 trillion in infrastructure investment will be required globally and annually to achieve the SDGs. At the national level, the World Bank estimated that close to 7-9% of the GDPs should be invested in infrastructure, but the current investment in a lot of emerging economies is only 3-4% of the GDP. This suggests that there is a huge gap in terms of investment in infrastructure.

In discussions on infrastructure investment, it is often assumed that the public sector or the government takes the leading role. However, in many countries government budgets are so stressed preventing them from taking the full responsibility for ensuring this huge investment. In the Middle East and GCC, lower oil prices means that it would be more difficult for the governments in the region to invest in infrastructure as they were investing in the past. So alternative private sector sources of investment would need to be explored. For private financiers of infrastructure, the key issue is whether the infrastructure project provides the required financial returns to justify the risk. It is sometimes argued that a change in mindset is required in terms of not only looking at the financial returns but also looking at the social returns or social impact, and this is probably one of the things that the Islamic financial sector can contribute, for example, given its social and ethical orientation. In terms of Islamic finance, *sukuk* potential remains largely unutilized in infrastructure financing—it is mainly used in Malaysia and the GCC with Malaysia alone accounting for two-thirds of total infrastructure *sukuk* in the world. Islamic finance is generally underdeveloped, with a number of challenges facing it as outlined by the QCB Governor in his opening speech.

When we talk of Islamic infrastructure financing, the region of interest naturally becomes Muslim-majority countries, and in these regions infrastructure financing is faced with a number of obstacles. Public funds are generally limited and private sector financing is often complex. There is a general lack of readily available bankable projects. Regulatory environments in these countries are generally weak, which discourages investors. There is a lack of adequate human capital and a lack of public awareness of the benefits and the challenges of infrastructure projects. Subsidized assets make it challenging to attract private sector investment. Finally, political instability downgrades investors' appetite as we saw in the Arab region following the 2011 events.

The purpose of this roundtable was to organize a constructive dialogue between academia and the leaders from the financial industry, providing them an opportunity to understand one another's standpoint on crucial matters and to work collaboratively towards building a robust and stable financial industry in Qatar and beyond. In particular, focus was given during this roundtable to the role of Islamic finance in infrastructure projects in the region. Participants expressed their views on the potential challenges that project sponsors, financiers, and governments face in utilizing Islamic finance for infrastructure projects. The discussion broadly touched upon the political economy of infrastructure projects in the Muslim world. Participants also shared their experiences in arranging or participating in infrastructure projects that were partially or fully funded by Islamic finance. The remainder of the report highlights some of the key issues that were discussed during the roundtable.

ROLE OF ISLAMIC BANKS AND *SUKUK* IN INFRASTRUCTURE FINANCING

A major theme in the discussion was the role of Islamic banks and Islamic financial instruments such as *sukuk* in infrastructure financing. Infrastructure projects were said to be structurally convenient for Islamic finance. A number of challenges, trends, and opportunities were identified, and many perceptions, suggestions, and plausible explanations were made for the trends that were observed.

Most participants agreed that while conceptually Islamic finance is meant to be more aligned with social aims, the reality is that shareholders and depositors expect the same returns from Islamic finance as they would get from conventional banks. They are regulated by the same regulators, have the same capital adequacy requirements, and so on. Therefore it is difficult for Islamic banks to take a more "charitable view" regarding returns in infrastructure financing.

The capital requirements for banks, as imposed by Basel III, were cited as an important factor that has reduced the appetite of Islamic banks for participating in infrastructure financing. Going back 15 years, there was a lot more Islamic project financing activity, either as part of large, multi-tranche financing, or in some cases fully Islamic projects. Examples include Mobily, Rabigh, Dolphin, Sohar, and others. Post-Basel III, these assets are less attractive, and the returns do not justify the risks in the long term.

In addition to Basel III constraints, the sophistication, size and expertise of Islamic financial institutions is also a potential limiting factor. One participant claimed that most of the Islamic project finance deals in the past were in fact arranged by large international conventional banks. The international banks are sophisticated and have dedicated project finance teams, which many Islamic and regional banks do not have. International banks have the expertise to arrange these kinds of deals as well as expertise in distribution.

So in this sense, the size and expertise of the financial institution matters a lot. As long as Islamic financial institutions remain relatively small, they will focus more on the retail business, and SMEs in the wholesale banking side rather than infrastructure financings.

Another claimed obstacle for local banks is to possess the sophistication to manage long-term risks. One participant working for an international bank recalled a time when his team received a call from a large reputable regional bank enquiring about how the treasury operations can manage risks over a period of 10+ years. The point of narrating this story was that even large, relatively sophisticated local banks find it difficult to manage long-term risks. If true, this is potentially an important obstacle for infrastructure financing in the region, as a key characteristic of infrastructure projects is that they are long-term projects.

The CEO of a regional Islamic bank challenged these claims that Islamic banks lacked the expertise to arrange large infrastructure finance deals. The CEO argued that Islamic banks have got the resources in terms of funding. He noted that Islamic banks also possess the expertise, remarking that infrastructure financing "is not rocket science" anymore and, besides, that there are hundreds of CFA holders and holders of other advanced finance qualifications working in Islamic banks. According to him, international banks simply collect money for the government; they do not contribute to financings as much as the local banks do because many of them do not have balance sheets here. He claimed that local Islamic banks could raise money quicker than international banks, and that regional banks have access to high net worth individuals who are willing to invest in Islamic infrastructure funds if such vehicles and instruments are made available.

According to another CEO, the Islamic finance industry might have to be careful about not positioning itself as "us vs them." According to this view, Islamic finance should focus on integrating with the global financial system, of which it is a very small part of. It is not a question of winning mandates to arrange deals and then to be somehow independent of the rest of the system. The reality is that Islamic finance is still using benchmarks like LIBOR, still operates in currency systems that are pegged to the US dollar (as opposed to an "Islamic dinar"), and it is likely to remain that way for quite some time. These factors, in addition to market disruptors such as the rise of Fintech and the potential for disintermediation, suggests that the focus should be on increasing integration with the global financial markets. This is what could drive the issuance of *sukuk*, listing on international venues, and so on. A lot of times issuers of *sukuk* like GE Capital, or the German state of Saxony-Anhalt, and so on, ask the question of whether it is worth the hassle of structuring the financing in an Islamic way. "Is it worth going through the 'legal gymnastics' of making the deal Islamic? How much dedicated Islamic liquidity will I get in the end of the process? Will going Islamic bring me more liquidity, more investors? Will it buy me better pricing?" These are the kinds of questions issuers are asking. And Islamic financiers have to accept that these are what matter to issuers after all.

According to one participant, if you look at the statistics, pure Islamic finance money has not been more than 25-30% of the subscriptions of all these international *sukuks* and Islamic deals. In other words, Islamic banks have not adequately come to the party whenever a deal is announced. In some *sukuk* transactions, for example, there are 300+ international investors in the transaction. In such capital market deals, the arrangers would compress the pricing, especially when it is over-subscribed. Some regional banks find it difficult to afford such transactions. So pricing has possibly been a constraint for Islamic investors to participate in Islamic deals. And at the end of the day, for the issuer it is all about pricing and distribution. And if Islamic financiers continue not to come forward, then issuers will not be interested in exploring Islamic finance.

While many expected Islamic finance to flourish as compared to conventional finance in the post-crisis era, the reality according to many of the participants is that it has not. For instance, *sukuk* issuances were $137 billion in 2012 and $62 billion in 2015. This slowdown should serve as a wake-up call for the industry, according to some participants. The key constraints for *sukuk* are perhaps the lack of standardization in the industry, and the length of time it takes to structure and issue a *sukuk*. *Sukuk* issuances have dropped, according to one CEO of a conventional investment bank, because of the size of the debt issuances. If the issuer is seeking a large size (e.g. >$5 billion), then the issuer is likely to go for a bond issuance. It is cheaper for them to do a bond issuance and they will find the size that they require. A CEO of an Islamic investment concurred with the observation that it is cheaper for issuers to tap into the bond market because it is cheaper to go through a global pool of funds and investors. He pointed out that we are currently in a negative rate environment in most of the developing countries, and that the reality is that cost of funding in our region is much higher. An academic still expressed a degree of puzzlement as to why *sukuk* issuances were down—he observed that each time a *sukuk* is issued, it is oversubscribed which suggests that there is demand for *sukuk*. So even though there is demand, issuances have gone down. A CEO of a large international bank claimed that there is some misunderstanding about the explanations for the observed reduction in *sukuk* numbers. According to this participant, if the *sukuk* numbers are more carefully viewed the main reason for the drop was a reduction in those *sukuk* denominated in Malaysian ringgits. It was claimed that the Malaysian government stopped issuing local currency *sukuk* because international investors subscribing to the *sukuk* were putting pressure on the Malaysian ringgit. If you look at the statistics for US-dollar denominated *sukuk* on the other hand, there is no decline—and in fact, this CEO expected the US-dollar denominated *sukuk* numbers to increase with the kind of demand for financing and refinancing of projects that exists in the market. So the discussion on *sukuk* trends revealed that there was a diversity of views among participants regarding the status of *sukuk* markets.

Islamic securitizations were also talked about. Some participants who have been working in the industry for decades talked about how they rarely saw true-sale securitizations in the region, particularly when it came to *sukuk*. Such kinds of securitizations would allow investors to take on ownership of project assets and hence share in the risks of the project. Most prevailing *sukuk* structures in the market are hybrid/debt-based *sukuk*.

An optimistic observation was made by a CEO following the discussions on *sukuk* trends: there appears a good appetite for *sukuk* among non-Islamic financial institutions. It seems *sukuk* are now very well understood by the conventional financial community. This is also a signal that the product structure is sound. As mentioned before, problems will remain, however, if Islamic investors and Islamic banks do not subscribe to *sukuk* or other Islamic debt arrangements (e.g. syndications). Issuers will ask the question why bother issuing a *sukuk* if unique Islamic liquidity is not being attracted. The counter-argument to this was that if mandates are given to Islamic banks, then you would see the participation of more Islamic financial institutions as subscribers to a *sukuk* issue or participants in syndications. According to this view, there has to be a willingness or vision on the part of issuers to support Islamic finance, to bear that extra cost in the initial stages until a threshold is reached and efficiencies in scale are achieved. A participant argued that for long-term strategic reasons, it is important that this relatively new industry of Islamic finance be supported by all stakeholders. According to this view, the current problems stems from a lack of commitment to Islamic finance by all stakeholders, such as governments and the issuers.

It was stated by one participant that even without the commitment and political will, Islamic finance is growing because people realize its benefits and the public is demanding for financing to be *shariah*-compliant. If we want

Islamic finance to enhance further, we need to get the public involved in financing infrastructure projects. We need more instruments that allow the public to invest, such as retail *sukuk*, funds, and so on. This is where the emphasis should be on—on practical issues that can allow the general public the opportunity to get involved and to have access to a wide array of financial instruments that are in line with their preferences for Islamic instruments. The general public in most Muslim societies are usually looking for Islamic financing opportunities. So this is an opportunity that must be addressed by thinking of innovative ways to finance the infrastructure needs which are huge. For instance, in some countries governments have issued retail *sukuk*[2]. So everyone in the society is eligible to participate in investing in these retail *sukuk*, enabling the masses of the population to contribute to these large infrastructure projects. There is a need to look beyond typical Islamic financing in terms of bank financing and the usual *sukuk* and think of other ways (e.g. BOT).

ROLE OF GOVERNMENTS, POLICYMAKERS, AND REGULATORS IN ISLAMIC INFRASTRUCTURE FINANCE

Governments play an important role in the provision of public infrastructure. They create standards and develop important enabling framework, on issues like double taxation, for example. One banker stated that for infrastructure projects, there is an utmost need for political and institutional long-term stability. For instance, changes in governments should not mean a change in priorities when it comes to infrastructure, such as cancellation of ongoing projects. Infrastructure requires long-term government focus and support. Broadly speaking, there is also a need for governments to foster greater economic integration and remove barriers, because sometimes markets are too small to have economies of scale so there is a need to integrate regional projects. This requires coordination between governments and jurisdictions.

When it comes to Islamic finance, an important aspect of getting Islamic banks involved in projects is for them to be awarded mandates. One CEO of a regional Islamic bank claimed that governments do not look to the Islamic banks as first choice, and prefer the large international banks for mandates. He urged the need for government to award mandates to Islamic banks if the industry would like to see an increase in *sukuk* issuances again. Another

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[2] Notable examples are in Indonesia and Malaysia, where minimum subscriptions for the retail *sukuk* were set at approximately $250 in both countries.

participant echoed the sentiment that governments in the region are not treating Islamic finance as they do conventional finance. Islamic finance is not viewed as a pillar or backbone of the economy as conventional finance is. In some ways, governments view it as a periphery to mainstream finance. The point here was that the relationship of governments with Islamic finance is not that strong, and without establishing stronger relationships Islamic finance will always remain a small part of the system.

Policymakers need to play an enabling role for Islamic finance to be utilized for infrastructure financing. For instance, restrictions set by policymakers on international banks to participate in Islamic finance deals might be counter-productive for the infrastructure sector—for instance, international banks licensed domestically can participate in local currency transactions, but if the deal is Islamic and if there are restrictions on an international bank's Islamic finance activities, then such opportunities might be missed. So policymakers have a responsibility to strategize together with Islamic and conventional banks to anticipate all the consequences of certain policy decisions.

Whilst a lot of emphasis has been placed on the inadequacy of human resources and talent in Islamic finance, an Islamic banking CEO claimed that even governments in the region suffer from the same problem. He pointed out that there was a lack of clear and transparent infrastructure planning by regional governments, making it difficult for local banks to be prepared. Platforms need to be created for infrastructure needs so that pipelines and estimated financing needs for the different infrastructure sectors can be better coordinated among the stakeholders. A policymaker at the table agreed that this a potential area that government in the region can improve upon for the benefit of all stakeholders.

The desire and need for the participation of the private sector in infrastructure projects is very clear. There is a clear direction to involve the private sector in the GCC in general. So it is expected that we are going to see a lot of activity, but there are some structural things that need to be changed in this regard. The institutionalization of investors—insurance companies, pension funds, sovereign wealth funds—is needed to create investors who can invest long-term as per the requirements of infrastructure projects. For this to happen, government support is needed. When Singapore decided to become a financial center, the government of Singapore allocated, over $5 billion to provide seed funding to asset managers, funds, etc. In Qatar, it is said that there were efforts a few years ago to do something like this; Qatar was enticing global players to come to the region and to set up shop here, and in exchange for that, it was understood that the government would provide seed funding for assets under management. So creating these asset managers, these pools of money, is the first thing. After that, they have to be provided the right incentives for them to invest in longer-term projects. Frameworks need to be in place. The Public Private Partnership (PPP) framework, for example, in Qatar is still being drafted—it is not there yet. Thus, it is very important for these institutional factors to be addressed if the private sector is to be enticed into infrastructure projects. Without the enabling regulatory environment, appropriate PPP legislation, etc., private investors will not come forward.

At the macro level, the role of *zakah* and *waqf* in infrastructure financing is not often talked about. One participant argued for more innovation in our conception of *zakah*. Whilst not all projects may qualify for *zakah*, there are some infrastructure projects such as education, housing, and so on that can potentially qualify for *zakah*. It was also argued that *waqf* is one of the most badly managed sector in the Islamic world today, generally speaking. Participants made the argument that *awqaf* properties and funds should be managed by professional asset managers to maximize profits and to strategize a*wqaf* towards infrastructure financing. Most *awqaf* assets are managed today by people with backgrounds in *shariah*—not professional investors[3]. It was argued that most *awqaf* properties are dead assets that need to be revived. Hospitals, education institutes, housing—these are all examples of infrastructure projects for which the Islamic non-profit sector can play a potentially huge role in. Since currently much of the non-profit sector in this region—especially *awqaf*—are managed by governments, the role of government becomes very important in reforming this sector.

When it comes to asset management and funds supporting infrastructure financing, pension funds can play a very important role. One participant argued that it is the responsibility of regulators and governments especially in Muslim-majority countries to either Islamize pension funds, or at least to allow opportunity for the beneficiaries of pension funds to choose Islamic options if they prefer that. It was cited that in Malaysia, they have allowed government employees and others who benefit from pension funds to choose their investment preference, to tell the pension fund whether they want to invest in a *shariah*-compliant way or if they prefer conventional investments. This option appears not to exist in GCC/Middle Eastern

[3] A participant stated that we might see shifts from government managing *awqaf* to private sector managing *awqaf*, which has been an initiative in Asia, but has taken off yet in the Arab world. Within the Qatar Financial Center regulations, they are looking into setting up *waqf* structures. They currently have trust structures, which are quite similar.

countries. Although a relatively simple idea, it would tremendously boost Islamic asset management, and the option to invest in infrastructure projects could also be easily incorporated.

An economist in the group talked about the need to address informational asymmetries in financing arrangements in the region. Without addressing the information problems, we will always see debt instruments preferred over equity arrangements. The long-term issue is, how can we enhance information flows? In infrastructure financings, you typically see very high debt-to-equity ratios. Theoretically speaking, if information problems can be resolved, we might be able to tap into equity funding for infrastructure projects, even the long-term ones. Once again, it was claimed that central authorities and government agencies can help to facilitate better flow of and access to financial information among project stakeholders.

The other area that needs to be addressed is the role of Export Credit Agencies (ECAs). Most developed economies such as Japan, Canada, and USA have ECAs, so whenever their manufacturing companies explore to projects in this region, they are backed with the support of their ECAs. The Emirates Airline Sukuk of 2015, for instance, was supported by the UK export credit agency, UK Export Finance (UKEF), that provided a guarantee. This enabled finances to come into the deal because of this strong credit enhancement.

It was noted that the social and political dimension of infrastructure service delivery is not sufficiently covered or discussed. Questions about the social contract between the people and the government (i.e. what do they expect from each other?) are pertinent in the infrastructure sector. For example, it appears that people generally accept to pay for using an airport through some tax on the air ticket, but they are not willing to pay higher prices for electricity, water or a toll road. In this sense, the issue of *funding* is more important than *financing*, and these funding-related and public policy issues need to be addressed before we consider the challenges of financing.

In terms of future trends that governments can support, one of the most important trends that some participants identified was Fintech and digital finance more broadly[4]. Fintech, in some ways, is actually meant to disrupt the

[4] It was claimed by a participant that we are going through a world of financial dis-intermediation, and the role that banks are going to play is changing, and it's being changed and influenced by ever increasing levels of regulations that are making a lot of traditional types of banking just not worth it. So the prediction here is that finance is going to move into the asset management field and into off-balance-sheet type of activity, facilitated by technological developments.

conventional financial models, and in some countries like UK, the governments and regulators are encouraging this. There is also a strong interest in other countries—in Singapore they recently had a huge conference on Fintech. Just as an example, there is an Islamic Fintech company based in Singapore called EthisCrowd, which is a crowd-funding platform that has arrange funding for low-income housing projects in Indonesia. There exist these very small initiatives, but some feel that they will become an important part of the future of infrastructure development. Government and policymakers can encourage such technological innovations to spur infrastructure investments.

ROLE OF MULTILATERAL DEVELOPMENT BANKS IN INFRASTRUCTURE FINANCING

Dr. Walid Abdelwahab, Director of the Infrastructure Department at the Islamic Development Bank (IDB), gave a presentation on the role of the IDB in providing infrastructure financing. Dr. Walid gave a number of statistics of the bank's involvement in infrastructure projects, claiming that in many ways the IDB can be described as an Islamic infrastructure bank because of the very large ratio of infrastructure projects in its portfolio of projects. However, despite IDB's very active role in infrastructure projects, Dr. Walid stated that, in fact, all the infrastructure financings of all the multilateral development banks (MDBs) combined (such as IDB, World Bank, Asian Development Bank, etc.) amounts to about $75 billion a year, which is far less than the $1 trillion required globally and annually. Alternative sources of financing would need to be unleashed[5]. The question is if multilaterals like the IDB have a lot of infrastructure financing appetite, how can that appetite be leveraged for the benefit of the wider industry? Participants suggested that multilaterals like the IDB can focus more on providing guarantees and credit enhancements which may make it more attractive to invest in infrastructure and thus can unlock the broader pool of equity.

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[5] Despite the perceived infrastructure investment gap, one participant pointed out that if the pension funds, investments funds, and sovereign funds are considered, then even less than 1% of these total global assets under management could fill the $1 trillion annual infrastructure finance gap. It requires, in the view of this participant, the creation of an infrastructure asset class and then convincing these national and supranational funds to invest in it. Sovereign funds and government pension funds need to play a proactive role in leading such activities and need to take initiatives to understand the benefits of doing so.

MDBs such as the IDB take a number of initiatives to support infrastructure projects, for instance, by providing technical advisory services for the country, by providing long-term debt, equity financing, and credit enhancement through guarantees, insurance and syndications. The 9 MDBs meet every spring in Washington at the Global Infrastructure Forum to strategize about what to do for infrastructure. The MDBs are contributing to the development of the International Infrastructure Support System which is a global platform that provides comprehensive information on infrastructure. The Global Infrastructure Facility (GIF) is a collaborative infrastructure platform that tries to bring private sector investment, such as invention funds, insurance funds and so on, into play.

An important constraining factor for infrastructure financing in the Muslim world is the credit rating of these countries, which are generally quite low (except for a few resource-rich countries). This is an area where the insurance arm of the IDB, the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), can potentially play a role.

ROLE OF EDUCATION AND TRAINING IN ISLAMIC FINANCE

The CEO of an investment remarked that we are good at building hard infrastructure—a glance at the skylines in this region is evidence of that. However, what's important in the long-run is the soft infrastructure, specifically, education. Ultimately it is the intellectual assets—the people who will eventually be occupying these buildings and infrastructure that we are building—and quality of education that will determine long-term and sustainable economic growth, competitiveness, and productivity. Education should be treated as an infrastructure asset class in its own right, and given its due importance.

Part of the pedagogical challenge in Islamic finance is that Islamic economists and academics have normative views on what Islamic banks should do. These academics argue that the problem is with the industry and practitioners who have taken the industry away from its ideals and intended objectives. This disconnect between Islamic economists normative views and the actual practice of Islamic banks results in graduates not being adequately prepared for the market that they will be entering. A lot of discussion ensued on what can be done to improve the state of affairs. A number of concrete and realistic proposals were made. The practitioners at the roundtable expressed a great interest in being involved in teaching in Islamic finance programs as part of the classroom activity. The involvement of practitioners in the classroom would help ensure that the curriculum is not too theoretical. This involvement requires commitment by the practitioners as well as academia, and proper coordination and planning well in advance, during the preparation stage of course syllabi. Another proposal was to provide students internships throughout their studies, not just at the end of their degrees. The incorporation of real-life experience throughout their studies would help reinforce key concepts in Islamic finance.

Some participants remarked that infrastructure financing was absent from course curriculums. This problem was not unique to Islamic finance program—infrastructure financing was even absent in mainstream finance education. A practitioner suggested that this is perhaps an area that a university like HBKU can focus on developing an expertise in.

Academics suggested that more data availability is required and that the industry has to cooperate on making available data, for example, on who is investing in *sukuk* and other Islamic deals. These kinds of data are needed to come up with better analysis of the industry, to identify the problem areas, and propose solutions, and to help improve pedagogy. Development of case studies and teaching notes on Islamic infrastructure financing is another area that educators can cooperate with practitioners on in order to improve the quality of education.

A banker suggested that what academia can do is to contribute to product development. He argued that considering the amount of Islamic capital that is available, there are not enough products available to practitioners. There are constraints on the applicability of some instruments, as mentioned by the QCB governor, e.g., how to manage liquidity, tradability of *sukuk*, *shariah* authenticity of some of the products, and so on. These can be addressed by academia. Academia can also help to provide specialized training, increase public awareness about benefits and challenges, and correct any prevailing misconception and misperceptions. All these educational initiatives can help to enhance the system as well as to build trust in the system.

A CEO of a large Islamic bank stated that the issue in infrastructure financing is ultimately about identifying infrastructure projects that have sustainable, inflation-adjusted cash flows. As long as you have the right economic fundamentals in place for the project with assured cash flows, then Islamic financing is easy to arrange. While educational needs of Islamic financiers are often talked about, what is also needed is to provide training to potential clients, i.e., the demand side. Inevitably, they are the ones who will be putting out requests for proposals for financing and so it is pertinent for society as a whole to be sophisticated and to be able to come up with value-propositions and sound business/financial models that are bankable, feasible, and that would attract financing.

These are very interesting times when it comes to this particular asset class—infrastructure—because many of the GCC governments are looking for ways to diversify away from oil and gas, and to have the private sector manage some of these government assets. This shift of infrastructure to the private sector would mean there will be an important role to play for Islamic asset management, Islamic funds, infrastructure funds, and so on. For education providers, what this means is that there is an opportunity to provide training to Islamic asset managers. Academia should be prepared to address this need.

Finally, cooperation in the area of providing professional certifications in Islamic finance was discussed. The Qatar Financial Center (QFC) expressed that it is open to cooperate with academia on such a project.

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