Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)

Proceedings of the 12th Meeting of the COMCEC Financial Cooperation Working Group

"Infrastructure Financing through Islamic Finance in the OIC Member Countries"

COMCEC COORDINATION OFFICE
April 2019

Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)

PROCEEDINGS OF THE 12TH MEETING OF THE
COMCEC FINANCIAL COOPERATION WORKING GROUP
ON

"Infrastructure Financing through Islamic Finance in the OIC Member Countries"
(March 28th, 2019, Ankara, Turkey)

COMCEC COORDINATION OFFICE
April 2019

For further information please contact:

Mr. Can AYGÜL

Expert

Mr. Okan POLAT
Expert

COMCEC Coordination Office
Necatibey Caddesi No: 110/A
06100 Yücetepe
Ankara/TURKEY
Phone : 90 312 294 57 10
Fax : 90 312 294 57 77
Web : www.comcec.org
e-mail : finance@comcec.org

TABLE OF CONTENTS

Introduction

The 12th Meeting of the COMCEC Financial Cooperation Working Group was held on March 28th, 2019 in Ankara, Turkey with the theme of "Infrastructure Financing through Islamic Finance in the OIC Member Countries". The representatives of 23 Member States, which have notified their focal points for the Financial Cooperation Working Group, attended the Meeting. Representatives of COMCEC Coordination Office, SESRIC, SMIIC, IIRA, CIBAFI, AAOIFI, the OIC Exchanges Forum, the COMCEC Capital Markets Regulators Forum, OIC-COMCEC Central Banks Forum, IDB Group and Kuveyt Turk Participation Bank have also attended the Meeting.[1]

At the outset, the representative of the COMCEC Coordination Office informed the participants about the financial outlook of the OIC Member Countries. It was followed by the presentations made by Prof. Habib AHMED on the infrastructure financing through Islamic finance.

The participants elaborated the infrastructure financing through Islamic finance by focusing on the research report titled "Infrastructure Financing through Islamic Finance in the Islamic Countries".

The Representatives of the Member States shared their experiences, achievements and challenges on the infrastructure financing through Islamic finance in their respective countries. The participants had the chance to discuss the policy options for enhancing the cooperation in this important field in a moderation session.

The efforts exerted by the international institutions and private sector on the infrastructure financing through Islamic finance were also reflected to the discussions.

[1] The list of participants is attached as Annex 1.

1. Opening Session

In line with the tradition of the Organization of the Islamic Cooperation (OIC), the Meeting started with the recitation from the Holy Quran. At the outset, Mr. Selçuk KOÇ, Director at the COMCEC Coordination Office, briefly mentioned about the COMCEC and its activities as well as the Programme of the meeting.

Mr. Deniz YILMAZ, Deputy Director General at the Ministry of Treasury and Finance of Turkey, as the Chairperson of the Meeting, introduced himself, thanked all the participants, and made a short opening speech.

2. Financial Outlook of the OIC Member Countries

Mr. Cezmi ONAT, financial sector specialist at the COMCEC Coordination Office, presented the main findings of the Financial Outlook of the OIC Member Countries in 2018. In his presentation, Mr. ONAT focused on the recent financial developments in the global financial system and financial outlook of the OIC Member Countries. Mr. ONAT underlined that while preparing the report, the various sources of information have been used, such as the World Economic Outlook of the IMF, the World Bank database, the UN reports etc.

Mr. ONAT stated that the presentation consists of three chapters: recent global economic and financial developments; financial developments in the OIC member countries; and Islamic finance.

In the first part of the presentation, Mr. ONAT presented an evaluation of global economic developments based on global regions and economic growth in the OIC member countries. Mr. ONAT expressed that global growth projection is downwardly revised from 3 percent to 2.9 percent in 2019 with reference to World Bank Global Economic Prospects Report. Mr. ONAT stated that the OIC member countries' growth rates were analyzed based on income levels according to World Bank Income Grouping Methodology. The OIC member countries average growth rate is projected to reach 4.1 percent in 2019. In 2020 and 2021, against the slowdown in global economy, the OIC member countries growth rate is projected to reach at 4.8 percent in 2020 and 4.7 in 2021.

In the second part of the presentation, Mr. ONAT mentioned about the financial developments in the OIC member countries. He emphasized that in the relevant section of the COMCEC Finance Outlook, an extensive dataset including more than 200 economies and the annual data from 1960 to July 2018 were utilized. Furthermore, Mr. ONAT expressed that the Outlook provides four main measures of the financial systems. These measures are (1) Financial Access: the degree to which individuals can and do use financial institutions and markets, (2) Financial Depth: the size of financial institutions and markets, (3) Financial Efficiency: the efficiency of financial institutions and markets in providing financial services, and (4) Financial Stability: the stability of financial institutions and markets. He mentioned that in order to achieve a well-functioning system, financial markets require these measures.

After summarizing the features of the dataset, Mr. ONAT stated that the OIC member countries have been categorized in four major groups according to the World Bank Income Grouping Methodology: OIC-Low income group; OIC-Lower middle income group; OIC-Upper middle income; and OIC-High income group. All these groups along with the OIC average and world average have been analyzed by using the following indicators under the measures of depth, access, efficiency, and stability: (i) Depth: private credit by deposit money banks to GDP, deposit money banks' assets to GDP, stock market capitalization; (ii) Access: bank accounts per 1,000 adults, bank branches per 100,000 adults, and Market Capitalization Excluding Top 10 Companies to Total Market Capitalization; (iii) Efficiency: bank lending-deposit spread, bank return on assets, bank return on equity; (iv) Stability: Bank nonperforming loans to gross loans, bank capital to total assets, bank regulatory capital to risk-weighted assets.

Mr. ONAT briefly informed the participants about financial developments of the OIC member countries. In terms of financial depth which is defined as the size of financial institutions and markets, the OIC member countries have a lower performance than world average. Upper middle and high income OIC country group supply better financial access.

Afterwards Mr. ONAT presented recent the developments in Islamic finance sector. The Islamic finance industry assets grew 8.3% and assets value surpassed USD 2 trillion in 2017. He stated that Islamic finance becomes an inseparable part of international financial system and it has the potential to help address the challenges of ending poverty and sharing prosperity. Mr. ONAT mentioned that data used in this chapter collected mainly from International Financial Services Board's (IFSB) reports, International Islamic Financial Market (IIFM) reports and Thomson Reuters Islamic Finance Development Report.

Mr. ONAT stressed that based on the regional development in Islamic finance, the Gulf Cooperation Council (GCC) continues as the largest region but the share of GCC slightly decreased in 2017. Asia's market share has improved with expansions in key markets such as Malaysia, Indonesia and Pakistan. It was highlighted that Islamic banking is the biggest segment of Islamic finance industry and its assets value was around USD 1.56 trillion in 2017 representing approximately 76% of the industry's total assets.

In addition,Mr. Onat expressed that the sukuk market continues to grow and some new jurisdictions have issued sovereign sukuk in 2017. Global sukuk issuances have increased to USD 116.7 billion in 2017. He also touched on the developments in Islamic funds which are the other commonly used capital market instruments. The number of Islamic funds decreased in 2017, but assets under management increased by 19 percent (USD 67 billion). The two key domiciles for Islamic funds are Saudi Arabia and Malaysia. Mr. ONAT also stated that global takaful industry continued its upward trend in many countries and has been gaining popularity in recent years. The global takaful contributions reached to USD 26 billion in 2016.

Question(s) and Comment(s):

Question: Sukuk market remained attractive to issuers and investors in various regions and financial hubs. What are the main factors that make Malaysia global leader in sukuk market?

Answer: Mr. ONAT stated that Malaysia continues to dominate sukuk market but also Indonesia, the UAE and Turkey are other important sukuk issuers. Malaysia's comprehensive capital market regulations, policies and best-practice guidelines with regard to sukuk market make sukuk an attractive instrument for both issuers and investors.

Comment: Malaysia's Islamic finance infrastructure, Shariah legal framework and a dynamic Islamic capital market support this development.

3. Infrastructure Financing through Islamic Finance

Prof. Dr. Habib AHMED presented Chapters 1, 2 and 3 of the COMCEC research report entitled "Infrastructure Financing through Islamic Finance in the OIC Member Countries". He began by identifying three themes of the presentation which were: (i) Infrastructure and financing—Introduction; (ii) Status of OIC Member Countries; and (iii) Islamic Finance and Infrastructure Investments. The discussions on these issues provided the background information on the second part of the research report which relates to country case studies and policy recommendations.

Prof. AHMED started by defining infrastructure and identifying two key types of infrastructure as economic and social. While the former would include energy, telecom, transportation, water & sanitation sectors, the latter comprises education, health, social housing. He stated that although the specific features of infrastructure vary across the sectors, some characteristics that are common to all projects were identified. The common features of infrastructure projects include: large, lumpy, indivisible; capital intensive with high sunk costs; long gestation and payback periods; natural monopoly and public good characteristics; non-tradability of output; large externalities; and interconnected network systems. Prof. AHMED then discussed the important role that infrastructure plays in growth and development by providing basic and essential services to household sector (transportation, power, water, etc.) and being used as an input in production which lowers the cost and enhances productivity. Furthermore, a sound infrastructure would be essential in achieving some key Sustainable Developmental Goals (SDGs) such as SDG3, SDG 4, SDG 6, SDG 7, SDG 9 and SDG 11.

Prof. AHMED then presented data on the global spending on various infrastructure sectors and the status of infrastructure in different regions including the OIC member countries. Almost one-third (33%) of the global infrastructure spending went to social infrastructure, followed by transportation (28.7%), power (20.7%), telecommunications (11.3) and water (6.2%). The information on the overall infrastructure shows that its status for OIC member countries was better that the Sub-Saharan Africa and South Asia regions, but had a lower index compared to other five regions of the world. Prof. AHMED stressed that the results indicate that there is need to invest in the infrastructure sector to improve its status.

Having identified the need to invest in infrastructure, Prof. AHMED discussed the sources of infrastructure financing. Traditionally governments have been responsible for infrastructure development. However, increasing demands on public funds, budget deficits, and increasing public debt on the one hand and huge investments needs for infrastructure finance to meet the SDGs on the other hand necessitates seeking alternative sources to funds. While the private sector can potentially invest in infrastructure, its involvement would depend on the risk-return features of the projects. In this regards, he identified three types of projects: fully self-sustainable projects (such as power, energy, telecommunications, highways); partially self-sustainable projects (such as railways, urban light rails, water and sewerage); and financially unsustainable projects (such as schools, hospitals and public housing).

The private sector invests in infrastructure projects through the public-private partnerships (PPP) which Prof. AHMED defined to be a long-term contract between a private party and government entity to provide a public asset or service. The private party bears significant risk and management responsibility and its remuneration is linked to performance of projects. He then identified three parameters of PPPs. First relates to type of assets which can be brownfield or greenfield. Second parameter involves the functions and responsibilities of private party that can be design, build or rehabilitate, finance, maintain and operate. The final aspect relates to how the private party is paid in terms of fees/tariffs from service users or government or from both.

Although various types of PPP contracts can be structured depending on the functions that the private sector performs, Prof. AHMED asserted that the focus on the research report was on the 'finance' component. He then identified different sources of financing that can be broadly classified into dimensions of domestic/international and public/private. Other than categorizing sources of financing as domestic-public, domestic-private, international-public, and international-private, he also identified public-private partnerships and blended finance that mixes various types of financing. Prof. AHMED indicated that the bulk of the infrastructure funding (close to 60%) comes from government and the private sector contributes around 23%, followed by national development banks (10%) and overseas sources (6%). The objective of the research was to focus on expanding the private sector component of infrastructure financing by using Islamic finance.

Prof. AHMED showed that total assets under management by different institutional investors globally was valued at USD 200 trillion in 2016. Banks held almost one-third (33.5%) of the global financial assets followed by investment companies that held 24.2% of the assets. Asset holdings of other institutional investors include insurance companies & private pensions (22.1%), public pensions and superannuation plans (9.1%), sovereign wealth funds (5.3%), infrastructure operators and developers (2.8%), infrastructure & private equity funds (2.3%) and endowments and foundations (0.8%). He then presented the investment horizon and risk appetite of different financial institutions as shown in the table below:

Institution	Investment Horizon	Risk Appetite
Commercial Banks	Short term	Low to medium
Nonlife insurance	Short term	Medium
Investment Company	Short to medium term	Depends on funds mandates
Life insurance and private pension	Long term	Medium
Public pension	Long term	Medium
Sovereign wealth funds	Long term	Medium to high
Endowments and foundations	Long term	High

Prof. AHMED asserted that although a significant percentage of the financial assets are held by banks and investment companies, their contribution to infrastructure sector could be limited due to their investment horizon and risk appetite. He continued that given the investment horizon and risk appetite, the financial institutions that are most suitable to invest in infrastructure projects would be life insurance and private pensions, public pensions, sovereign wealth funds and endowments and foundations. Data from infrastructure investment show that the bulk of global investments in infrastructure comes from corporates (50%) followed by infrastructure funds and investment firms (32%) and pension funds and sovereign wealth funds contributing 5% each.

Next, Prof. AHMED identified five factors that affect the private financing of infrastructure projects which are listed below.

1. **Infrastructure Policy Framework:** The enormity of investments and the long-term nature of infrastructure financing require appropriate policies and capabilities for implementation. A lack of a list of bankable pipelines of infrastructure projects in many countries makes it difficult to estimate demand and needs. The policies and plans would prioritize between different projects of national importance.

2. **Legal and Regulatory Framework:** Prof. AHMED identified three types of enabling laws to promote infrastructure financing. First, PPP and concession laws that would provide legal basis and clarity for private sector involvement. Second, since different infrastructure sectors are have unique features, there is a need for sectorial specific laws and regulations. Finally, Islamic financial laws to support operations of Islamic banking, nonbank financial institutions and Islamic capital markets.

3. **Institutional Arrangements for Procurement Processes & Procedures:** Prof. AHMED then discussed the procurement frameworks by identifying World Bank's three key elements of PPP procurement regimes. Preparation relates to selection of PPPs and would depend on the priorities identified in an integrated infrastructure plan. Procurement deals with processes of bids, evaluation and award of contracts. Finally, contract management phase tracks progress, completion, and contract implementation after the completion of the PPP project.

4. **Project Related Factors:** A key issue from a private sector's perspective is the bankability of projects which relates to adequate cash flows to repay the investors. Since infrastructure projects are complex and long-term, investors are careful to assess the risks of variation of cash flow and ensure that they remain within the expected margins.

5. **Human Capital:** Structuring financial contracts for infrastructure projects is complicated and requires not only financial expertise but also an understanding of the project's features along with the knowledge on risks and return. A key constraint is the lack of professionals with the knowledge and experience of structuring and financing large infrastructure projects.

After providing the background of infrastructure and the role of private sector in contributing to its development, Prof. AHMED discussed the methodology used in the research. He pointed out that the research was descriptive and evaluative and arranged, summarized and presented data/information to enable meaningful interpretation. The research analyzed both quantitative and qualitative data with the former including examining size and status of the infrastructure financing needs and the status of Islamic financial sector in different jurisdictions. He continued that some analyses are qualitative and conceptual in nature and information for them were collected using content analyses of various sources which included relevant literature, surveys of countries, policy documents from international organizations and standard setting bodies, national level public policy and legal/regulatory documents, etc. Case studies on different countries were carried out by principal investigator and country level specialists. The information was gathered from national level public policy and legal/regulatory documents and meetings and interviews with key stakeholders (policy makers, industry players, regulators).

In the second part of the presentation, Prof. AHMED started by presenting the status of overall infrastructure, transport, electricity and telephony infrastructure of OIC member countries and other regions. While the status of the infrastructure sectors for OIC member countries is better than Sub-Saharan Africa and South Asian regions, their status is lower compared to other four regions of the world. He then showed the projected infrastructure spending requirements of different regions over the period 2016-2040. The results for 13 OIC member countries show that over the period, these countries will need USD 7.2 trillion for investments in the infrastructure sector and would have a gap of USD 1.6 trillion. These figures translates to total investment needs per member country per year of USD 22.1 billion and an investment gap per country per year USD 4.9 billion.

Next, Prof. AHMED showed the infrastructure gap of the individual OIC member countries both in terms of amount and percentage of GDP for the period 2016-2040. He also presented the figures of total infrastructure investments and the contribution of the private sector for a set of countries during 2011-2015. The figures indicated that the needs and gaps for infrastructure investments vary significantly across countries.

In the third part of presentation, Prof. AHMED began by affirming that the basic principle of Islamic commercial law is permissibility (*ibahah*) which states that all transactions are permitted except what is prohibited by Shariah. Since two broad categories of prohibitions are *riba* and *gharar,* contracts that avoid these would be considered Shariah compliant. He identified the key contracts that are used in Islamic finance which can be debt based (*Murabahah, Istisna, Salam*), asset based (*Ijarah), e*quity based (*Mudarabah, Musharakah*), agency based (*Wakala)* and interest free loans (*qard hassan*) or loans at service charges. Prof. AHMED then discussed Islamic perspectives of infrastructure financing by referring to AAOIFI Standard Number 22 which permits use of concessions as long as the contracts do not contradict the rules and principles of Shariah such as *riba* and *gharar*.

Prof. AHMED discussed how equity, debt and hybrid contracts in Islamic finance would be used for financing infrastructure projects. While equity provided by sponsors can take the form of *musharakah* or *mudarabah,* the fund manager works as an agent (*wakil*) to manage the infrastructure equity funds. Debt based financing can take the forms of either sale-based financing instruments (*murabahah* and *istisna*) or debt based *Sukuk.* Although certain features such as convertibility of debt to equity are allowed by Shariah, other structures such as preferred shares are not permissible. Furthermore, structures combining various contracts such as *istisna-ijarah, wakala-ijarah*, etc. can be used. Prof. AHMED then presented a case-study showing how Islamic banks used syndicated financing to provide USD 50 million tranche in a USD 100 million investment for installing wind turbines to generate electricity in Pakistan.

After presenting the status of the overall financial sectors in OIC member countries relatively to other income groupings, Prof. AHMED showed the relative sizes of different Islamic financial sectors globally. With the total Islamic financial assets valued at USD 2.2 trillion, Islamic banking dominates the sector with 72.6% of the assets. The other sectors are relatively small with sukuk constituting 15.7%, other financial institutions 5.7%, Islamic funds 4.1% and takaful 1.9% of the assets. He further disclosed that 11.57% of the sukuk were issued by the infrastructure sector and investment by takaful industry in the infrastructure projects in the GCC was nil. While Islamic Development Bank (IDB) is the only Shariah compliant multilateral bank providing project financing, its contribution was relatively small with USD 54.84 million per member country per year.

Prof. AHMED concluded the presentation by showing the estimates of contribution of different Islamic financial sectors in infrastructure projects. The total estimated investments in infrastructure by Islamic finance was estimated to be USD 119.7 billion in 2017-2018 with Islamic banking contributing USD 75.8 billion, sukuk USD 39.9 billion, IDB USD 3.12 billion and the takaful sector providing USD 0.9 billion only. These figures indicate that the average contribution of Islamic finance investments per member country was USD 2.1 billion.

Question(s) and Comment(s)

Question: Can you please explain further on the methodology used for the report in particular related to content analysis?

Answer: Prof. AHMED explained that the study employed triangulation method which entails using various methods of collecting and analyzing data/information. Specifically, both quantitative and qualitative data were collected from different sources and analysed. The content analysis was applied to qualitative research whereby the various documents were scanned to extract relevant information.

Question: Can you explain why the funding gaps for different regions and OIC member countries are so large?

Answer: Prof. AHMED explained that the gaps depend on the differences in supply and demand. Since the status of infrastructure in the most OIC member countries is not good, the implication is that there is a need to make huge investments in the sector. The supply of funds has traditionally come from the government. However, with budget deficits, increasing debt levels and other commitments the governments have limitations to meet these demands. Hence, the gaps in funding arise and the non-public sector can play an important role to fill this gap.

Question: What is the difference between the debt and equity in Islamic finance in relation of infrastructure financing?

Answer: Prof. AHMED clarified that some instruments in Islamic finance create debt and other instruments take the form of equity. For example, sale based contracts such as murabahah and istisna used in infrastructure would be debt based contracts and mudarabah and musharakah would be equity based contracts. One difference between the two is the risk that provider of funds face. While in debt based contracts the key risk is credit risk, in equity based contracts the investors take the risk of performance of the project.

Question: The prices of Islamic financial products are usually more expensive than conventional finance. Should the regulators try to reduce the price of Islamic financial products?

Answer: Prof. AHMED explained that while it is true that Islamic financial products are more expensive compared to their conventional counterparts, this may be due to the smaller size of the Islamic financial institutions. When the Islamic financial sector would become large, it is expected that their prices will be closer to the conventional financial institutions. It may be difficult for regulators to dictate prices of products since these are determined in the market.

Comment: The conventional bonds market in countries such as US has grown and become large mainly due to the existence of ratings on the offerings. There is a need to have good ratings for Islamic financial instruments for them to grow.

Answer: Prof. AHMED acknowledged that ratings are important part of development of capital markets. However, in most developing countries the capital markets are underdeveloped partly due to their developing economies. As economies develop, the capital markets are expected to become mature and larger. In Islamic banking most of the growth has come from the banking side. There is also need to increase the share of Islamic capital markets to increase the contribution of the industry in infrastructure financing.

Question: Can you explain the concepts of takaful and sukuk?

Answer: Prof. AHMED explained that takaful is Islamic insurance. OIC Fiqh Academy declared conventional insurance to be not Shariah compliant due to excessive gharar. Takaful is alternative to conventional insurance based on the concepts of tabarru (donation) and taawun (cooperation). Sukuk are Islamic securities that are alternatives to conventional bonds. AAOIFI standards identify 14 different types of sukuk depending on the underlying contract used.

4. Lessons Learnt from the Selected Case Studies and the Policy Options

Prof. Ahmed's presentation on "Lessons Learnt from Selected Case Studies and the Policy Options" covered Chapters 4, 5 and 6 of the research report. The presentation had three parts: Background and Methodology; Country Case Studies—Results; and Key Issues and Policy Recommendations.

After reminding about the huge infrastructure financing gap in the OIC member countries amounting to USD 4.9 billion per member country per year expected during the period 2016-2040, Prof. Ahmed reiterated the need for seeking alternative financing sources to fill the gap. In this regards, one option that can be tapped into is Islamic finance which has over USD 2 trillion in assets globally. With key features of risk-sharing, direct linkages with the real economy and ideological standing of ethical, social and legal ethos compatible with infrastructure financing, he asserted that Islamic finance can potentially play an important role in the development of infrastructure sector. Given this, the aims of the presentation were to analyse the prospects and challenges facing infrastructure financing using Islamic finance in selected OIC member countries and identify policy recommendations to enhance the role of Islamic finance in promoting investments in infrastructure sector.

Next, Prof. Ahmed identified four criteria used to choose countries for the case studies. First, ensuring regional diversification among three regions identified by OIC as Africa, Arab and Asia. Second, countries were chosen to represent different levels of development in terms of income group classifications of World Bank (i.e., low income, lower-middle income, higher-middle income and higher income groups). Third criterion related to the diversity of size of the Islamic financial industry. Finally, countries were chosen to represent diverse legal systems (i.e., Islamic law, common law and civil law). Based on these criteria five OIC member countries (Indonesia, Malaysia, Nigeria, Saudi Arabia and Sudan) and one non-OIC country (United Kingdom) were chosen for the research. To analyse the contribution of Islamic finance in the development of infrastructure, Prof. Ahmed identified eight themes that were examined for each country which are shown below.

1. Infrastructure Related Strategy and Policies
2. Legal and Regulatory framework
3. Government and Government Linked Companies
4. Islamic Banks
5. Islamic Nonbank Financial Institutions
6. Islamic Capital Markets
7. Islamic Social Sector
8. Multilateral Development Institutions

The second part of the presentation covered the key results from the country case studies. Prof. Ahmed started the section by showing the infrastructure financing needs and the size of the Islamic financial sector in each country. The average investment needs per year for infrastructure in Indonesia was estimated to be USD 68.5 billion and the size of the Islamic financial sector was USD 73.8 billion. The Islamic banking sector accounted to USD 30.3 billion and invested only USD 2.55 billion in the infrastructure sector. For Malaysia, the infrastructure investment needs was estimated to be USD 18.4 billion per year and the size of the Islamic financial sector was USD 398.8 billion. The Islamic banking sector is large with USD 204.4 billion in assets. However, only USD 8.95 billion was invested in infrastructure sector. The infrastructure investment needs per year in Nigeria is estimated at USD 35.1 billion. The size of the Islamic financial sector in the country is small with assets of USD 0.648 billion only. The Islamic infrastructure financing came from issuance of sukuk valued at USD 0.34 billion. The investment needs for the infrastructure sector in Saudi Arabia is estimated at USD 24.5 billion per year and the size of the Islamic financial sector is USD 438.9 billion. While the assets of Islamic banks in the country are estimated at USD 371.2 billion, only USD 13.8 billion of this was invested in the infrastructure sector. Sudan would need USD 3.18 billion infrastructure investments annually and the size of the financial sector is valued at USD 12.6 billion. While Islamic banks form the bulk of the financial sector with assets worth USD 11.7 billion, only USD 0.42 billion was invested in the infrastructure sector.

Prof. Ahmed then presented the highlights from the country case studies under the themes identified above.

Infrastructure Related Strategy and Policies: Prof. Ahmed identified the long, medium and short term strategies and plans that were adopted by different countries to identify projects that would be implemented in the economy. Indonesia uses Five-year Medium Term National Development Planning to ascertain infrastructure projects for development. The overall development policies in Malaysia are driven by the Vision 2020 which was adopted in 1991. The 10 year policy documents and Five Year Plans then identify the infrastructure projects that are implemented. Nigeria adopted the National Integrated Infrastructure Masterplan 2014-2043 which guides the infrastructure sector in the country. The overall development including the key infrastructure projects in Saudi Arabia are driven the Vision 2030. In the United Kingdom, the National Infrastructure Commission is an independent body that identifies infrastructure projects in an objective way in terms of benefits to the economy. Once the projects are identified, the Infrastructure and Projects Authority oversees the proper implementation of the infrastructure initiatives.

Prof. Ahmed then presented the national level PPP framework that facilitates investments by the private sector in different countries. In Indonesia the PPP Directorate of Indonesia (under the Ministry of National Development Planning) and Committee for the Acceleration of Priority Infrastructure Delivery (KPPIP) deal with private sector related issues in infrastructure development. While in Malaysia the PPP Unit under the Prime Minister's Department is responsible for PPP related issues, in Nigeria the Infrastructure Concession Regulatory Commission performs this role. Saudi Arabia established the National Centre for Privatization and PPP which will be responsible to implement infrastructure projects with private sector involvement under the Vision 2030. Sudan has set up a PPP Unit in 2018 with support from World Bank.

Prof. Ahmed also presented the status of the procurement in the sample countries and average of OIC member countries. The procurement regime in Indonesia is better than the OIC average, Nigeria has a similar status as the OIC average and the statuses of procurement regimes of the remaining countries (Malaysia, Saudi Arabia and Sudan) are lower than the OIC average. United Kingdom has the best overall procurement regime in the sample.

Legal and Regulatory framework: Prof. Ahmed provided the key features of the legal framework under which Islamic finance operates in different countries. While in Indonesia there is Islamic Banking Law 2008 and Sukuk Act 2008, the takaful industry operates under the insurance law of the country. In Malaysia the Islamic Financial Service Act 2013 provides a comprehensive legal framework for Islamic banks and takaful and the Capital Markets and Services Act 2007 also covers issues related to sukuk. The Islamic financial sectors are accommodated in conventional finance laws in Nigeria and Saudi Arabia does not have any specific laws for Islamic finance. Sudan's whole financial sector is Islamic and the financial laws support the industry.

Government Linked Companies: Prof. Ahmed presented different roles that various government-linked companies play in supporting the infrastructure sector in case studies countries. In Malaysia government-linked investment companies (GLICs) provide financing for infrastructure projects. For example, Lembaga Tabung Haji, a specialized hajj savings fund owns significant stakes in Axiata Group Berhad (provider of mobile telecommunications). Furthermore, some GLICs help raise funds for infrastructure projects. Examples include DanaInfra Nasional Berhad (wholly-owned by the Ministry of Finance) in Malaysia which has issued sukuk for construction of infrastructure projects and PT Sarana Multi Infrastructure (PT SMI) in Indonesia provides funding for infrastructure projects in the form of equity, debt and securities. Prof. Ahmed then identified other GLCs that provide support services which include Infrastructure Guarantee Fund (IIGF) in Indonesia providing guarantees for fulfilment of the contractual obligations in PPP projects and Danajamin Nasional Berhad in Malaysia that provides guarantees and insurance for bonds and sukuk to investments in infrastructure sector.

Islamic Banks: Prof. Ahmed showed the contribution of Islamic banks in the infrastructure sectors and investments in sukuk in the sample countries. Islamic banks in Indonesia invested 8.4% of their assets in the infrastructure sectors and their investments in sukuk were 9%. Malaysian Islamic banks invested 13.1% in sukuk and only 4.38% in infrastructure. Nigerian Islamic banks did not invest in the infrastructure sector due to their small size, but invested 6.8% of their assets in sukuk. The investments in infrastructure by Islamic banks in Saudi Arabia and Sudan were 3.7% and 3.59% respectively and investments in sukuk in these countries accounted to 8.6% and 7% respectively. Prof. Ahmed concluded that direct financing in infrastructure sector by Islamic banks appears to be lower than investments in sukuk. This may be due to the short-term and liquid liability structure of Islamic banks that limits investments in long-term illiquid infrastructure assets.

Islamic Nonbank Financial Institutions: Prof. Ahmed affirmed that takaful sectors and Shariah compliant component of pension funds and sovereign wealth funds in the sample countries was relatively small. For example, the takaful sector Sudan does not have any investments in infrastructure sector. In Malaysia 45% of AUM (RM266.5 bn.) of largest retirement fund EPF was Shariah-compliant and in Saudi Arabia the sovereign wealth fund Public Investment Fund (PIF) invests in many infrastructure-related companies (power, water utility and sewerage, telecommunications and transportation sectors).

Islamic Capital Markets: Prof. Ahmed presented the relative size of the sukuk markets in the countries included in the study. Malaysia dominates the global sukuk market with 32.9% of the sovereign sukuk and 60.6% of the corporate sukuk issued in the country. While Saudi Arabia accounts for the largest sovereign sukuk issuance accounting to 38.8% of the global issuances, the corporate sukuk issuances in the country are relatively small at 3.2%. Indonesia accounts to 6.6% of global sovereign sukuk issuances and 2.8% of the corporate sukuks.

After showing the overall size of the sukuk issuances, Prof. Ahmed presented some of the ways in which sukuk is used to raise funds for infrastructure projects by both the government and corporates. In Indonesia government and infrastructure entities issued sukuk for budgets and infrastructure projects. Malaysia has extensively used sukuk for infrastructure projects. In Nigeria USD 289.33 million raised by issuing two sukuk by federal and state governments (for roads and education). The government in Saudi Arabia raised USD 19.2 billion domestically in 2017 by issuing bonds and sukuk to cover budgetary deficits. Sudan issues Government

Investment Certificates (Sarh) to finance infrastructure projects. Furthermore, Sudan Financial Services Company Ltd. (SFSC) provides advisory services, designs and executes marketing policy for the issuance of sukuk.

Islamic Social Sector: After asserting that Islamic social sector (*zakat* and *waqf*) can contribute to providing certain social infrastructure services, Prof. Ahmed presented some examples from the sample countries. In Malaysia and Saudi Arabia, *waqf* has been used to provide medical services to the needy and in Indonesia BAZNAS and UNDP used *zakat* funds to provide a Micro Hydro Power Plant to provide electricity to 803 households in four remote villages.

Multilateral Development Institutions: Prof. Ahmed showed the contribution of Islamic Development Bank in infrastructure projects in the sample countries since 2016. Indonesia received the highest allocation of USD 836.3 million for 6 projects followed Saudi Arabia receiving USD 119.5 million for 3 projects. Sudan got funding for 2 projects (USD 21.5 million) and Nigeria for one project (USD 1.6 million).

The third part of the presentation covered Key Issues and Policy Recommendations. Prof. Ahmed presented the key challenges and issues arising in financing infrastructure sector by Islamic finance under the following heads:

Infrastructure Related Strategy and Policies: Prof. Ahmed asserted that infrastructure needs and gaps are huge and there is a need to identify key projects and attract alternative funding sources. Furthermore, long-term investments in projects are large with long gestation periods which introduce various risks that inhibit investments. There may be a need for guarantees to mitigate some of the risks.

Legal and Regulatory Framework: The issues that Prof. Ahmed identified included a stable and supportive legal environment to mitigate risks and attract investments in infrastructure projects. He also pointed out that infrastructure projects and PPP contracts are complex and new to Islamic finance and there is a need for a sound legal/regulatory framework for PPPs. Furthermore, the regulatory framework for capital requirements discourages banks from investing in long-term projects.

Financial Institutions: Prof. Ahmed argued that investment by Islamic banking sector in long-term infrastructure projects is small partly due to their short-term and liquid liabilities. Furthermore, lack of underdeveloped money market instruments/markets increases liquidity risks. He also stressed the need for a sound legal and contractual framework for Shariah compliant syndicated financing to enable financing with other Islamic banks and conventional banks. He pointed out that the Islamic nonbank financial institutions are not contributing to infrastructure investments due to their small size.

Capital Markets: Although sukuk can be used to raise large amounts of funds from different sources, Prof. Ahmed highlighted that their issuances are complex and costly. There is a need to diversify sources of funds to meet the huge demand for infrastructure investments. Among other, this can be done by using retail sukuk to raise funds from retail investors.

Islamic Social Sector: Prof. Ahmed argued that while traditional sources of Islamic social finance (zakat, waqf and sadaqat) have huge potentials to provide social infrastructure services, in most countries these are not utilized fully.

International Sources: Prof. Ahmed emphasized that Shariah compliant funds for infrastructure sector from international sources are limited as IDB is the only multilateral development bank (MDB) providing Islamic project financing. Since IDB has other mandates, the project financing component is relatively small compared to the needs.

Knowledge Gap and Capacity Building: Prof. Ahmed also pointed out that stakeholders lack the knowledge and expertise on Islamic infrastructure contractual arrangements since Islamic infrastructure investments are new and complex.

Prof. Ahmed then presented the following key policy recommendations, their rationale and the stakeholders who could implement them.

1. **Identify a pipeline of innovative sustainable projects that are essential for long-term economic growth:** Prof. Ahmed explained the rationale for this recommendation is that Infrastructure investments are large and long-term and require appropriate forward looking planning, policies and implementation frameworks. The recommendation should be implemented by relevant government ministries or a specialized public body.
2. **Develop standardized Shariah compliant contract templates for infrastructure projects:** The rationale for the recommendation is that Shariah compliant contracts used in infrastructure financing are complex and new to most stakeholders which increases legal uncertainty and inhibits financing. It can be implemented by government agencies and regulators in collaboration with the Islamic Development Bank.
3. **Establish a National Islamic Infrastructure Bank (NIIB):** Prof. Ahmed explained that relative newness and smaller size of the Islamic financial sector and large investments needed for infrastructure projects is the reason for establishing NIIB. The government can take the initiative to establish and provide the initial equity and them raises funds from market and other stakeholders.
4. **Adapt Islamic banking law to establish restricted investment accounts for use in longer-term investments:** The reasons of doing this including that deposits of banks are short-term and liquid and infrastructure projects are long-term and illiquid and capital adequacy requirements impose higher capital charges on long-term unsecured investments. Relevant government ministry and bank regulators can implement this recommendation.
5. **Establishment of a Shariah compliant infrastructure fund:** Prof. Ahmed explained that most Islamic banks and nonbank financial institutions are small and a specialized fund will be able to raise resources for infrastructure investments from different stakeholders. The government can form a GLC or the proposed NIIB can drive the establishment and operations of the proposed fund.
6. **Establish a GLC that can advise on the structuring and issuance of sukuk:** The reason for this policy is that sukuk structures are complex and new to most stakeholders which increases costs and discourage their use. Prof. Ahmed recommended that the government or capital markets regulator can form a GLC that will provide such services.
7. **Develop innovative models of using zakat and waqf for providing social infrastructure services:** Prof. Ahmed mentioned the huge potentials and untapped Islamic social finance for this recommendation. Further, given the large investment needs to achieve the SDGs, these sources can be tapped in to provide social

infrastructure services. Zakat institutions, waqf institutions, government bodies and international organizations could implement the policy.

8. **Establish an International Islamic Infrastructure Bank (IIIB):** The rationale for this recommendation is that IDB is the only Islamic MDB and has mandates beyond project financing. Since investment needs for infrastructure sector of member countries is large, IIIB can mobilize funds from different international sources. IIIB can be established by multilateral organizations and/or large private sector organizations can take the lead. OIC member countries can provide the initial capital for establishing the IIIB.
9. **Build capacity and human capital for implementing Islamic infrastructure financing:** Prof. Ahmed explained that PPP projects are multifaceted and new for many Islamic financial institutions and knowledge gap exists on how Islamic finance can be used for PPP projects. The proposal can be implemented by multilateral development organizations such as IDB, COMCEC or the proposed IIIB by providing the technical assistance for training professionals of Islamic financial sector.

Question(s) and Comment(s)

Question: What is the role of Islamic syndication in enhancing project financing?

Answer: Prof. Ahmed mentioned that most Islamic banks that invest in infrastructure projects do so by using syndication given their small sizes and large investment amounts needed. In many cases, the syndication involves conventional banks also. In these cases there are issues that need to be resolved contractually so the terms and conditions related to risks and returns for both Islamic and conventional investors are similar.

Question: There is a need for skilled people who have knowledge about project financing which may be lacking in Islamic finance.

Answer: Prof. Ahmed acknowledged that project financing is complex that requires skills and knowledge that are scant. He pointed out that on top of the complexities that are present in conventional project financing, in Islamic project finance there is another layer of issues that arise due to requirements of Shariah compliance. That is why one of the recommendations of the study is to enhance capacity and human capital for implementing Islamic infrastructure financing.

Question: What is the impact of infrastructure on jobs and environment?

Answer: Prof. Ahmed reiterated that infrastructure is useful input for growth and development of economies. While better infrastructure has the potential to create jobs both directly and indirectly through growth, care has to be taken to deal with the negative externalities that projects can create. For example, when World Bank invests in projects, they not only do due diligence in terms of risks and returns but also do environmental and social screening.

Question: A key issue about investments is to monitor them. How would this be done in infrastructure projects?

Answer: Prof. Ahmed responded that the issue about monitoring will depend on the type of contract used. In case of debt, credit risk of financiers is usually secured by some sort of guarantees and the need to monitor performance is less. However, for equity providers the returns depend on the performance of the assets and there will be more incentives to monitor the assets and the operations.

Comment: There is a need for collaboration between different stakeholders so that parties can learn from each other. Also, there is need for standardization and rule of law to increase investments in infrastructure projects.

Answer: Prof. Ahmed agreed that there is need for collaboration of different stakeholders in particular because Islamic infrastructure financing in new and complex. In this regards, multilateral development organizations such as IDB and COMCEC can play an important role of bring together stakeholders to exchange ideas and experiences. The same applies to standardization of laws and in particular the Shariah contracts. World Bank and Asian Development Bank play an important role in providing templates and advise on laws that are relevant for development. The same can be done by multilateral development organizations for contacts used in Islamic project finance.

Comment: There is a need to use alternative capital market instruments beyond sukuk such as infrastructure funds, yield based bonds.

Answer: Prof. Ahmed agreed with the suggestion and mentioned that there are many innovations taking place in the conventional sector that can be adapted to Islamic finance. Among others, impact investment and blended finance that combines non-profit and for-profit funds can be used to finance social infrastructure.

Question: In case of Sudan, what are the types of instruments used for infrastructure projects?

Answer: Prof. Ahmed mentioned that the government of Sudan uses different instruments to raise funds for both budget and infrastructure projects. Most of these instruments are called certificates instead of sukuk. Government Investment Certificates (Sarh) are used to raise funds for financing infrastructure projects.

5. Policy Debate Session on Infrastructure Financing through Islamic Finance in the OIC Member Countries

The policy debate session was moderated by Chairperson of the Meeting, Mr. Deniz YILMAZ. At the beginning of the session, Mr. Selçuk KOÇ, Director at the COMCEC Coordination Office, made a brief presentation on the responses of the Member Countries to the Policy Questions on infrastructure financing through Islamic Finance in the OIC Member Countries and introduced the Room Document including draft policy recommendations.

After extensive discussions, the Working Group has come up with the following policy recommendations.

- ***Policy Recommendation 1:*** *Developing Legal and Regulatory Framework to Provide an Enabling Environment for Realizing Large Infrastructure Investments through Islamic Finance.*

- ***Policy Recommendation 2:*** *Increasing the Number and Share of Islamic Nonbank Financial Institutions to Enhance the Contribution of Islamic Finance in Infrastructure Investments.*

- ***Policy Recommendation 3:*** *Developing the Islamic Capital Markets Infrastructure to Facilitate the Issuance of Different Types of Project Sukuk and other Instruments as Appropriate for Infrastructure Projects.*

- ***Policy Recommendation 4:*** *Encouraging Innovative Models to use Islamic Social Sector (i.e., Zakat, Waqf and Sadaqah) to Provide Social Infrastructure Services (such as Education and Health) provided that they are Shariah-compliant.*

- ***Policy Recommendation 5:*** *Improving Capacity and human capital for increasing the use of Islamic Finance for infrastructure financing.*

(The policy recommendations with their rationale are attached as Annex 4)

6. Utilizing the COMCEC Project Funding

Mr. Burak KARAGÖL, Director at the COMCEC Coordination Office, made a presentation on the COMCEC Project Funding. At the outset, a short video on COMCEC Project Funding has been showed to the participants. Afterward, Mr. KARAGÖL informed the participants about the essentials of the COMCEC Project Funding.

Mr. Burak KARAGÖL, Director at the COMCEC Coordination Office, made a presentation on the COMCEC Project Funding. At the outset, Mr. KARAGÖL shared the outline of his presentation. Afterwards, Mr. KARAGÖL informed the participants about the essentials of the COMCEC Project Funding. He emphasized that the supported themes in financial cooperation can be found in COMCEC website.

Mr. KARAGÖL continued his presentation by sharing information on funded projects in the last 5 years. At the final part of his presentation, he informed the participants on the project submission process. He highlighted the timeline for the project submission. He shared brief information with participants regarding online project submission system. He introduced the COMCEC Project Funding Webpage and invited the participants to frequently visit this webpage.

Question(s) and Comment(s)

Question: Can CCO organize a regional workshop on COMCEC Project Funding for West African Member Countries?

Answer: Mr. KARAGÖL stated that COMCEC Coordination Office took note of the request of Benin and underlined that there will be a COMCEC Project Funding training at the 7th Annual Focal Point Meeting of the COMCEC. He highlighted that it will be a good opportunity for the focal points from the West-African Member Countries to learn how to prepare a proposal and implement a project.

7. Member Country Presentation

7.1 The Gambia

Mr. Suleyman GAYE, Planner at Ministry of Transport, Works and Infrastructure, presented The Gambia's experience in infrastructure financing through Islamic finance in The GAMBIA.

Mr. GAYE underlined that given the scale of resources needed to address the infrastructure investment gap in The Gambia, they believe that mobilizing the private sector for this goal has become imperative. In addition, investment in quality and sustainable infrastructure helps finance the transition towards a low carbon and low emission transport sectors. He added that the specific nature of Islamic finance structure and its emphasis on sharing risks make it an important instrument for Public-Private Partnerships in Infrastructural development. Therefore, the conventions of Islamic Finance are particularly suitable for Infrastructural development.

Mr. GAYE continued his presentation by sharing information on financing options of the national transport policy of The Gambia for infrastructural development. He stressed that the National Transport Policy articulates that the Government will continue leveraging private investments through the development and use of innovative financial instruments. Mr. GAYE highlighted that Islamic Finance is one of the Innovative Financial instruments The Gambia can utilize for Infrastructural Development. He expressed that, Islamic finance investors (banks, sovereign wealth funds, and other asset managers) have large pools of liquidity that can be channeled to the Islamic Infrastructure investments with low risks.

Mr. GAYE briefly informed the participants on the project financed under the COMCEC Project Funding. Afterwards, he expressed the following challenges of The Gambia in utilizing Islamic finance for infrastructural development:

- Scaling up Islamic finance in The Gambia requires overcoming important legal, regulatory, and institutional challenges.
- Capacity challenges.
- Inadequate viable Islamic finance-compliant liquidity management instruments.

At the final part of his presentation Mr. GAYE, elaborated on how to enhance the infrastructure financing through Islamic finance in The Gambia.

8. Private Sectors' / International Institutions' Contributions

8.1 Islamic finance practices in PPP projects

Mr. Ali Rıza KAYAR, Project Management Specialist at IsDB, made a presentation on the Islamic finance practices in PPP projects with a focus on IsDB Member Countries. Since inception, IsDB Group has cumulative approvals of around USD 138 billion including USD 72 billion of trade financing and USD 61 billion of project financing.

To begin with, Mr. KAYAR made a definition of PPPs based on PPP Knowledge Lab platform. A public-private partnership (PPP) is a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance. Upon this definition, he explained a typical PPP structure. In the following part, he listed benefits of PPPs which are increasing transparency, improving service delivery, reducing construction time and costs, ensuring regular maintenance and providing better value for money.

To explain the link between Islamic finance and PPPs, Mr. KARAR reiterated key principles of Islamic finance. Those are prohibition of Interest based financing/transactions, prohibition of excessive risk/uncertainty in transactions, prohibition of speculative transactions and asset/service backed/based financing. These principles go hand in hand with the general requirements of PPPs which are transparent bidding process for the concession agreement part, experienced sponsors, risk mitigation and adequate risk allocation between the public entity, the private entity and the banks. Overall, there is a perfect match between PPPs and Islamic finance. PPP projects are often based on a participatory approach due to the no/limited recourse and all the parties take the risk of the project. They are often based on an underlying asset which supports the real economy. PPP promotes efficiency and development. Islamic Finance has been extensively tested in various PPP projects.

In relation to conventional finance, Mr. KAYAR clarified that Islamic finance products could perfectly co-exist with conventional tranche. When the mode of financing entails ownership of part of the project's assets, IsDB does not drive any privilege due to such asset. Cash flow treatment in the financial model as well as the cash waterfall is identical. There is no additional impact in terms of taxation.

Mr. KAYAR gave examples of IsDB interventions to address the global infrastructure financing gap which has gone up beyond trillions of dollars. PPP Knowledge Lab and Global Infrastructure Forum are among those examples where IsDB has been increasing cooperation and knowledge sharing platforms with other Multilateral Development Banks (MDBs). There are enabling environment and transaction advisory services of IsDB to promote capacity development and PPP advisory. IsDB also engages direct financing and mobilizing resources from other financiers via A/B Financing Scheme. The Bank has successfully financed PPP projects in several Member Countries.

Mr. KAYAR presented some of the IsDB financed PPP projects from different regions as case studies:

1. Queen Alia Airport Transaction Structure: The Jordanian Government awarded a 25-year concession to AIG to reconstruct and expand the airport's terminal in 2007. It was the first successful airport PPP in the Middle East. The number of international flights has increased from 120 flights per day to more than 190 daily flights in 2015. The sale of AIG's shares marks the first transaction of its kind in the Middle East as it was the first sale of a secondary infrastructure asset in the Middle East. The consortium of investors consist of Groupe ADP, Meridiam, IsDB Infrastructure Fund II and EDGO Group.
2. Manisa PPP Hospital Transaction Structure: The Manisa Hospital in Turkey has a total capacity of 558 beds consisting of a general hospital and technical buildings for training and research. IsDBG was the mandated lead arranger in the transaction. The senior finance facility has garnered significant Islamic finance support. About 80% of the funding commitments consist of Islamic finance tranches. The cumulative fund arrangement was oversubscribed by almost 35%.
3. New Bong Hydro Power Project Transaction Structure: The Project is the first run-of-river type hydropower PPP of Pakistan. The Project also has the distinction of being the first hydropower project of Pakistan which has been registered with the United Nations' Framework Convention on Climate Change as Clean Development Mechanism (CDM) project. It avoid greenhouse gas emissions equal to 218,988 tons of carbon dioxide annually by supplanting fossil fuel-fired power plants. The Project added 84 MW installed capacity to the system. It is estimated that the project's direct beneficiaries reached up to 100 thousands households or around 0.6 million people as of 2015.
4. Dakar Airport Project: AIBD is a high priority project for the Government of Senegal, and it fits well with their overall plans to improve connectivity and positioning Dakar as a regional hub for business. Turkish construction companies Summa and Limak were selected as contractors, which is a demonstration of a south-south initiative.

Challenges of PPPs in Member Countries were elaborated by Mr. KAYAR subsequently which are as follows: lack of robust regulatory framework, lack of awareness, weak institutional capacity required for project preparation, underdeveloped capital markets and unavailability of equity etc.. He also listed his recommendations to address the challenges which are providing PPP advisory and project preparation services, mobilization of 3rd party resources via B-financing, raising infrastructure focused funds, awareness activities such as workshops, conferences and increasing cooperation among MDBs and other donors.

He summarized his presentation with the following points: 1) There is a huge financing gap to finance development goals. 2) PPP is a relevant tool to help Governments close this gap. 3) Islamic finance products can perfectly co-exist with conventional finance. 4) IsDB is open to consider further PPP financing and advisory transactions.

Question(s) and Comment(s)

Question: Are feasibility studies conducted for PPP projects?

Answer: Mr. KAYAR stated that feasibility studies are conducted for PPP projects and it is an important part of project preparation.

8.2 Private Sector Perspective on Infrastructure Financing through Islamic Finance

Mr. Ragıp Ali KILINC, Head of Project and Structured Finance of Kuveyt Turk Katılım Bankası A.Ş., made a presentation on the private sector perspective on infrastructure financing through Islamic finance. He commenced his presentation from the synopsis of Kuveyt Turk.

Mr. KILINC summarized three different examples of infrastructure financing that they participated. After this brief overview, he addressed the difficulties encountered under four main headings such as “Limited Islamic Financing Products”, “Limited Time Span for Financial Close”, “Financial Risks” and “Legal and Regulatory Framework”.

Mr. KILINC explained the limitation of Islamic finance product for financing the infrastructure projects. He stated that there are only three products (Tawarruk, Ijaraj, Parallel Istisna) they can use to finance the infrastructure projects, however, those products also have different challenges in themselves. For example, Ijarah has hesitation over pari passu sharing of securities. When you consider to use Parallel Istisna, you have to be involved in financing with a fixed rate. Tawarruk or Commodity Murabaha is not a highly preferred product in Kuveyt Turk because of resemblance to conventional banking.

Secondly, Mr. KILINC informed the participants that all PPP Projects’ financial closure has to be completed within a very short period which tights their internal evaluation timeline. He also said that determining a project and allocating the credit line requires some times for need of financial and legal due diligence and receiving Board of Directors approval due to facility lines. However, most of the project has to be closed financially within a few months.

Mr. KILINC underlined that as another challenge, which is related to financial risks, exposure to currency risk is one of the most critical features of infrastructure financing. However, there are ways to minimize this currency risk by hedging mechanism. Mr. KILINC stated that a solution for this issue is enhancing the capacity of capital markets to supply long term debt capital in form infrastructure Sukuk which is critical for the financing of infrastructure projects with long term assets.

9. Closing Remarks

The Meeting ended with closing remarks of Mr. Deniz YILMAZ, Deputy Director General at the Ministry of Treasury and Finance of Turkey, as the Chairperson of the Meeting and Mr. Selçuk KOÇ, Director at the COMCEC Coordination Office.

In his closing remarks, Mr. KOÇ informed the participants that the 13th Meeting of the COMCEC Financial Cooperation Working Group will be held on October 17th, 2019, in Ankara, with the theme of "*Improving Takaful Sector in the OIC Member Countries*". He stated that a research report will also be prepared for the meeting and shared with the focal points and other participants at in advance of the meeting. Mr. KOÇ also highlighted the importance of COMCEC Project Funding and invited the Member Countries as well as the relevant OIC Institutions to submit project proposals to benefit from this important asset.

Annex 1: List of Participants

LIST OF PARTICIPANTS
12th MEETING OF THE FINANCIAL COOPERATION WORKING GROUP
March 28th, 2019, Ankara

A. MEMBER COUNTRIES OF THE OIC

ISLAMIC REPUBLIC OF AFGHANISTAN

- Mr. MOHAMMAD MOIN IBRAHIMI

  Economist, Ministry of Finance

PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA

- Mr. DJAMEL ADOUANE

  Deputy Director, Ministry of Finance

- Ms. RAZIKA MEGATELI

  Deputy Director, Ministry of Finance

REPUBLIC OF AZERBAIJAN

- Mr. GUNDUZ ALIYEV

  Senior Advisor, Ministry of Finance

- Mr. ELNUR ASGAROV

  Expert, Small and Medium Business Development Agency

REPUBLIC OF BENIN

- Mr. MENSAH HYACINTHE MONTCHO

  Head of Department, Ministry of Planning and Development

BRUNEI DARUSSALAM

- Ms. NOOR HIDAYAH MUTALIP

  Manager, Autoriti Monetari Brunei Darussalam

- Ms. AIDA TUAH

  Acting Senior Manager, Autoriti Monetari Brunei Darussalam

REPUBLIC OF COTE D'IVOIRE

- Mr. ANGE URIEL KOUDOU BEHI

  Deputy Director, Ministry Of Finance

ARAB REPUBLIC OF EGYPT

- Mr. KHALID KHALID

  Deputy Minister of Finance for Capital Markets, Ministry of Finance

- Ms. AMANY FAHMY

  Deputy Assistant Minister, Ministry of Foreign Affairs

- Mr. AMR SELİM

  Deputy Head of Mission, Embassy of Egypt in Ankara

REPUBLIC OF THE GAMBIA

- Mr. BAI MADI CEESAY

  Director, Ministry of Finance and Economic Affairs

- Mr. SULAYMAN GAYE

  Planner, Ministry of Transport, Works and Infrastructure

ISLAMIC REPUBLIC OF IRAN

- Mr. MORTEZA CHESHAN

  Senior Expert, Securities & Exchange Organization of Iran

- Mr. MOJTABA KARIMI

  Senior Officer, Central Bank of Iran

REPUBLIC OF IRAQ

- Mr. SALMAN THARWAT

  Commercial Counsellor, Embassy of Iraq in Ankara

- Ms. BASMA AL DABBAGH

  Expert, Ministry of Finance

- Ms. ABEER AL-HUMAIRY

  Director, Ministry Of Finance

THE STATE OF KUWAIT

- Ms. HANADI ALENEZI

  Foreign Relations Researcher, Ministry of Finance

MALAYSIA

- Mr. SHAHRUL AZMAN BIN ABD RAZAK

Director, Ministry of Finance

- Mr. MOHD AZRIN ABDULL RAHIM

Principal Assistant Secretary, Ministry of Finance

REPUBLIC OF MOZAMBIQUE

- Mr. SAIDE OMAR

Expert, Ministry of Economy and Finance

- Mr. ORLANDO MAZIVE

Expert, Ministry of Economy and Finance

REPUBLIC OF NIGER

- Mr. MADOU GAMBO GANA

Chief of Division, Ministry of Finance

FEDERAL REPUBLIC OF NIGERIA

- Mr. ZAYYAD ABDUSSALAM

Expert, Ministry of Foreign Affairs

SULTANATE OF OMAN

- Mr. AHMED AL MEZEINI

Expert, Ministry Of Finance

- Mr. ABDULMALIK AL HINAI

Advisor of Minister of Finance, Ministry Of Finance

THE STATE OF PALESTINE

- Mr. SHADI RUBO'

Manager, General Accountant Department

KINGDOM OF SAUDI ARABIA

- Mr. TAHNOON ALZUNAIDI

Expert, Ministry of Finance

REPUBLIC OF SENEGAL

- Mr. MAME ALASSANE SENE

  Analyst, Ministry Of Economy and Finances

REPUBLIC OF SURINAME

- Ms. JOY TEN BERGE

  Chief Economist, Ministry of Finance

- Ms. NANCY ECHTELD

  Economist, Ministry of Finance

REPUBLIC OF TUNISIA

- Mr. BECHIR ELGARBI

  Deputy Director, Ministry of Finance

REPUBLIC OF TURKEY

- Mr. DENİZ YILMAZ

  Deputy Director General, Ministry of Treasury and Finance

- Mr. MÜCAHİT DUMAN

  Head of Department, Ministry of Treasury and Finance

- Mr. UTKU ŞEN

  Expert, Ministry of Treasury and Finance

- Mr. MUHARREM CEVHER

  Expert, Ministry of Treasury and Finance

- Mr. HÜSEYİN ÜNAL

  Expert, Ministry of Treasury and Finance

- Mr. BERK MESUTOĞLU

  Expert, Banking Regulation and Supervision Agency

- Mr. FATİH BOZKURT

  Officer,Association of Participation Insurance

- Mr. HÜSEYİN ÇAĞRI GÜRGÜR

  Advisor, the Union of Chambers and Commodity Exchanges of Turkey

- Mr. YUNUS EMRE GÜRBÜZ

Secretary General, Association of Participation Insurance

- Ms. AYŞE NUR AYDIN

Expert, Participation Banks Association of Turkey

REPUBLIC OF UGANDA

- Mr. BOSCO ISABIRYE

Economist, Finance Planning and Economy Director

B. THE OIC SUBSIDIARY ORGANS

STATISTICAL, ECONOMIC, SOCIAL RESEARCH AND TRAINING CENTER FOR ISLAMIC COUNTRIES (SESRIC)

- Mr. ABDULHAMİT ÖZTÜRK

Research Assistant, SESRIC

GENERAL COUNCIL FOR ISLAMIC BANKS AND FINANCIAL INSTITUTIONS (CIBAFI)

- Mr. RACHID ETTAAI

Research Associate, CIBAFI

C. SPECIALIZED ORGANS OF THE OIC

ISLAMIC DEVELOPMENT BANK (IDB)

- Mr. ALİ RIZA KAYAR

Specialist, Islamic Development Bank

- Mr. CEM ÖZENEN

Specialist, Islamic Development Bank

D. AFFILIATED ORGANS OF THE OIC

STANDARDS AND METROLOGY INSTITUTE FOR ISLAMIC COUNTRIES (SMIIC)

- Mr. İHSAN ÖVÜT

Secretary General, SMIIC

E. OTHER INTERNATIONAL INSTITUTIONS

THE ACCOUNTING AND AUDITING ORGANIZATION FOR ISLAMIC FINANCIAL INSTITUTIONS (AAOIFI)

- Mr. MOHAMMAD HAJJ BAKIR

Director, AAOIFI

F. SPEAKERS

KUVEYT TURK KATILIM BANKASI AŞ

- Mr. RAGIP ALİ KILINÇ

  Head of Project and Structured Finance, KUVEYT TURK KATILIM BANKASI AŞ

- Ms. ZEYNEP ÇALIKIRAN

  Project and Structured Finance Supervisor, KUVEYT TURK KATILIM BANKASI AŞ

G. INVITED INSTITUTIONS

SECRETARIAT OF OIC COMCEC CENTRAL BANK FORUM

- Ms. GÜLSÜM ÇINAR DOLGUN

  Expert, OIC COMCEC Central Bank Forum

- Mr. ERHAN AKKAYA

  Expert, OIC COMCEC Central Bank Forum

- Mr. İBRAHİM KÜÇÜKİKİZ

  Assistant Expert, OIC COMCEC Central Bank Forum

SECRETARIAT OF COMCEC CAPITAL MARKET REGULATORS FORUM

- Mr. HASAN BELBER

  Expert, COMCEC Capital Market Regulators Forum

- Assoc. Prof. Dr. BURAK PİRGAİP

  Expert, COMCEC Capital Market Regulators Forum

- Mr. HANEFİ KÖROĞLU

  Expert, COMCEC Capital Market Forum

SECRETARIAT OF OIC EXCHANGES FORUM

- Mr. RECEP BİLDİK

  Director, COMCEC OIC Exchanges Forum

ISLAMIC INTERNATIONAL RATING AGENCY (IIRA)

-Mr. FAHEEM AHMAD

President

EL MAQASID

- Mr. HABIB AHMED
  Consultant, Durham University

H. COMCEC COORDINATION OFFICE

- Mr. M. METİN EKER

Director General, Head of COMCEC Coordination Office

- Mr. SELÇUK KOÇ

Director

- Mr. BURAK KARAGÖL

Director

- Mr. MEHMET ASLAN

Director

- Mr. CEZMİ ONAT

Financial Sector Specialist

- Mr. OKAN POLAT

Expert

- Mr. CAN AYGÜL

Expert

Annex 2: Agenda of the Meeting

AGENDA
12th MEETING OF THE COMCEC
FINANCIAL COOPERATION WORKING GROUP
(March 28th, 2019, Crowne Plaza Hotel, Ankara, Turkey)
"Infrastructure Financing through Islamic Finance
in the OIC Member Countries"

Opening Remarks

1. COMCEC Financial Outlook

2. Infrastructure Financing through Islamic Finance

3. Lessons Learnt from the Selected Case Studies and the Policy Options

4. Policy Debate Session on Infrastructure Financing through Islamic Finance in the OIC Member Countries

5. Utilizing the COMCEC Project Funding

6. Member Country Presentations

7. Private Sectors' / International Institutions' Contributions

Closing Remarks

Annex 3: Program of the Meeting

DRAFT PROGRAMME
12TH MEETING OF THE
COMCEC FINANCIAL COOPERATION WORKING GROUP
(March 28th, 2019, Crowne Plaza Hotel, Ankara, Turkey)

"Infrastructure Financing through Islamic Finance in the OIC Member Countries"

08.30-09.00	**Registration**
09.00-09.05	**Recitation from Holy Qur'an**
09.05-09.15	**Opening Remarks**
	COMCEC Financial Outlook
09.15-09.35	Presentation: *Mr. Cezmi ONAT, Financial Sector Specialist, COMCEC Coordination Office*
09.35-09.45	Discussion
	Infrastructure Financing through Islamic Finance
09.45-10.25	Presentation: *Dr. Habib AHMED, Durham University*
10.25-10.55	Discussion
10.55-11.10	**Coffee Break**
	Lessons Learnt from the Selected Case Studies and the Policy Options
11.10-11.50	Presentation: *Dr. Habib AHMED, Durham University*
11.50-12.30	Discussion
12.30-14.00	**Lunch**
	Policy Debate Session on Infrastructure Financing through Islamic Finance in the OIC Member Countries
	There will be a moderation session under this agenda item. Participants are expected to deliberate on the policy options/advices for infrastructure financing through Islamic finance in the OIC Member Countries. At the beginning of the session, the CCO will make a short presentation on the responses of the Member Countries to the policy questions as well as the Room Document.

14.00-14.10	Presentation: "Responses of the Member Countries to the Policy Questions on Infrastructure Financing through Islamic finance in the OIC Member Countries" *Mr. Selçuk KOÇ, Director* *COMCEC Coordination Office*
14.10- 15.30	Discussion
	Utilizing the COMCEC Project Funding
15.30-15.45	Presentation: *Mr. Burak KARAGÖL, Director* *COMCEC Coordination Office*
15.45-16.00	Discussion
16.00-16.15	**Coffee Break**
	Member Country Presentations
16.15-17.15	- Presentations
	- Discussion
	Private Sectors' / International Institutions' Contributions
17.15-17.30	Presentation: *"Islamic finance practices in PPP projects"* *Ali KAYAR, Project Management Specialist,* *Islamic Development Bank Group*
17.30-17.45	Presentation: *"Private Sector Perspective on Infrastructure Financing through Islamic Finance"* *Ragıp Ali KILINÇ, Head of Project and Structured Finance* *Kuveyt TÜRK*
17.45-18.00	Discussion
18.00-18.15	**Closing Remarks and Family Photo**

Annex 4: Policy Recommendations

**POLICY RECOMMENDATIONS OF THE 12TH MEETING OF
THE COMCEC FINANCIAL COOPERATION WORKING GROUP**

The COMCEC Financial Cooperation Working Group (FCWG) has successfully held its 12th Meeting on March 28tt, 2019, in Ankara, Turkey with the theme of "*Infrastructure Financing through Islamic Finance in the OIC Member Countries*". During the Meeting, FCWG made deliberations on infrastructure financing through Islamic finance in the member countries. Accordingly, the participants have come up with some policy recommendations.

Policy Recommendation 1: Developing Legal and Regulatory Framework to Provide an Enabling Environment for Realizing Large Infrastructure Investments through Islamic Finance.

Rationale: Infrastructure projects are large and complex with long maturity periods. There is a need to mitigate the legal and regulatory risks arising from investments in these projects for encouraging the financial sector to invest in the infrastructure sector. This can be done by providing a sound PPP legal framework that would outline the key principles on how the infrastructure projects are procured and implemented. Given the uniqueness of various infrastructure sectors, sector-specific laws (e.g., energy, airports, railways, etc.) may be needed to cater to their individual features. Furthermore, financial laws and regulations for different Islamic financial sectors (i.e., banking, non-banking, and capital markets) are needed to provide an enabling environment for Islamic finance to grow and contribute to infrastructure development. Finally, the tax laws need to be adjusted to level the playing field of Islamic finance and conventional finance, where appropriate.

Policy Recommendation 2: Increasing the Number and Share of Islamic Nonbank Financial Institutions to Enhance the Contribution of Islamic Finance in Infrastructure Investments.

Rationale: The balance sheet features of nonbank financial institutions (constituting takaful operators, investment banks, pension funds, etc.) are more suitable for financing long-term infrastructure projects. However, Islamic nonbank financial institutions are relatively small and not contributing much to the investments in the infrastructure sector. There is a need to establish more Islamic nonbank financial institutions and increase their share in the overall nonbanking sector. In particular, enhancing the shares of Shariah compliant pension funds and sovereign wealth funds has the potential of increasing the size of contribution of infrastructure financing by the Islamic financial sector.

Policy Recommendation 3: Developing the Islamic Capital Markets Infrastructure to Facilitate the Issuance of Different Types of Project Sukuk and other Instruments as Appropriate for Infrastructure Projects.

Rationale: Capital markets facilitate raising funds for infrastructure projects from various types of investors. The investors can range from large institutional investors, to nonbank financial institutions and retail investors. Furthermore, financial institutions, such as Islamic banks, prefer to invest in tradable project sukuk rather than financing in infrastructure projects directly since they are illiquid. To encourage the development of Islamic capital markets and increase its role in infrastructure development would require a sound and enabling legal and regulatory framework for sukuk issuance. In addition, since project sukuk structures are complex, provision of templates for various types of sukuk can further increase their issuances.

Policy Recommendation 4: Encouraging Innovative Models to use Islamic Social Sector (i.e., Zakat, Waqf and Sadaqah) to Provide Social Infrastructure Services (such as Education and Health) provided that they are Shariah-compliant.

Rationale: A key untapped source that has potential to provide social infrastructure services is the Islamic social sector such as Zakat, Waqf and Sadaqah. In some countries such as Malaysia and Indonesia innovative models of these institutions have been used to provide certain social infrastructure services to the poorer segments of the population. Since the size of zakat, waqf and Sadaqah is potentially large and many member countries face financing constraints to fund infrastructure projects, the Islamic social finance can be mobilized to provide some of the social infrastructure services such as education and health, provided that they are Shariah-compliant.

Policy Recommendation 5: Improving Capacity and human capital for increasing the use of Islamic Finance for infrastructure financing.

Rationale: One of the key issues of involving Islamic finance in infrastructure projects is having appropriate Shariah-compliant products. Since the projects are large and involve complex contractual arrangements, there are many intricacies that need to be resolved from a Shariah point of view. However, there are a limited number of Islamic financial institutions that understand the complexities of project financing and Shariah advisory services on these can also be scant and costly. There is, thus, a need to reduce the knowledge gap and build capacity on the use of Islamic finance for PPP projects and enhance the awareness among stakeholders to increase the use of Islamic finance for infrastructure projects.

Instruments to Realize the Policy Advices:

COMCEC Financial Cooperation Working Group: In its subsequent meetings, the Working Group may elaborate on the above-mentioned policy areas in a more detailed manner.

COMCEC Project Funding: Under the COMCEC Project Funding, the COMCEC Coordination Office issues calls for project proposals each year. With the COMCEC Project Funding, the member countries participating in the Working Groups can submit multilateral cooperation projects to be financed through grants by the COMCEC Coordination Office. For realizing above-mentioned policy recommendations, the member countries can utilize the COMCEC Project Funding facility. These projects may include organization of seminars, training programs, study visits, exchange of experts, workshops and preparation of analytical studies, needs assessments and training materials/documents, etc.