



FINANCIAL COOPERATION

OIC/COMCEC/32-16/D(47)



CCO BRIEF ON FINANCIAL COOPERATION

**COMCEC COORDINATION OFFICE
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The Financial System is a crucial component of the economy, due to its important role to encourage savings and channel them efficiently to the investments, thereby supporting economic growth and stability. Since there has been an increasing connectivity among the national financial systems and their interplay within the international financial system, efficient and resilient financial systems that are well-regulated and well-supervised are essential for both domestic and international financial stability.

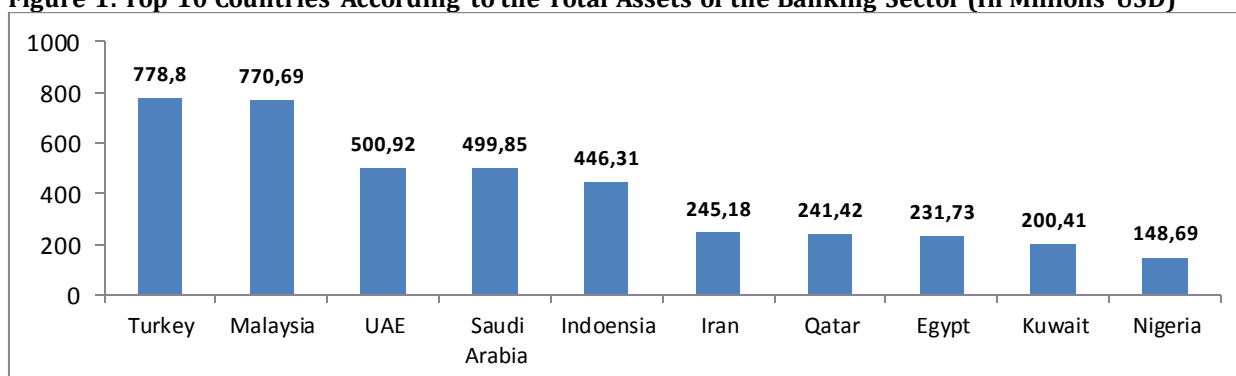
In this sense, financial cooperation among relevant parties has an important function to remove barriers on capital mobility, increase financial literacy, manage financial risks, supervise financial institutions, increase product diversity and broaden and deepen financial markets.

SELECTED FINANCIAL FIGURES

- **Banking Sector in the Member Countries**

Total assets in the Banking sector in OIC region in 2014 was about US\$5.1 trillion and top 5 OIC countries, Turkey, Malaysia, United Arab Emirates, Saudi Arabia and Indonesia, accounted for about US\$3 trillion of the total assets. The first 10 countries have approximately 4.1 trillion USD total assets corresponding to 80 percent of all assets in OIC member countries (Figure 1).

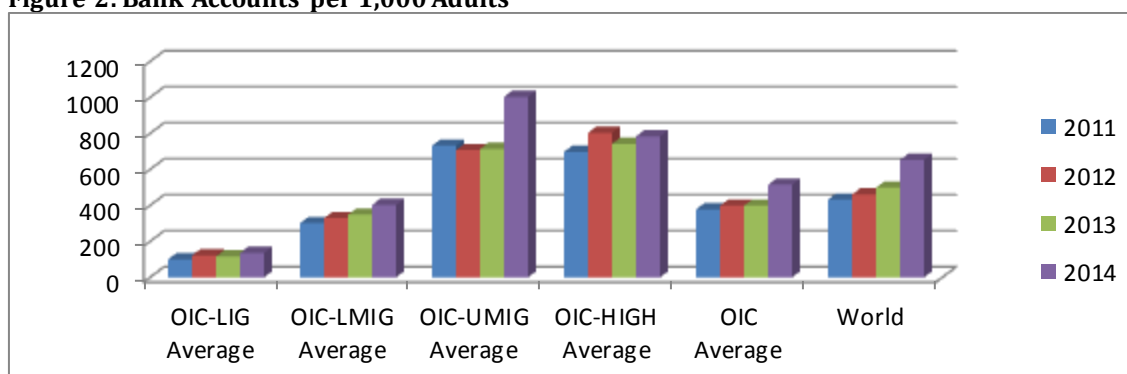
Figure 1: Top 10 Countries According to the Total Assets of the Banking Sector (In Millions USD)



Source: *Financial Outlook of the OIC Member Countries 2016*

From 2011 to 2014, the number of bank accounts per 1,000 adults, which shows how actively individuals use bank services, has increased in all OIC member country groups, commensurate with the world trends. As expected, higher income levels lead to a higher number of bank accounts, perhaps as they become more likely to demand bank services. Bank accounts in OIC-UMIG surpassed 1,000, meaning more than one account per adult.

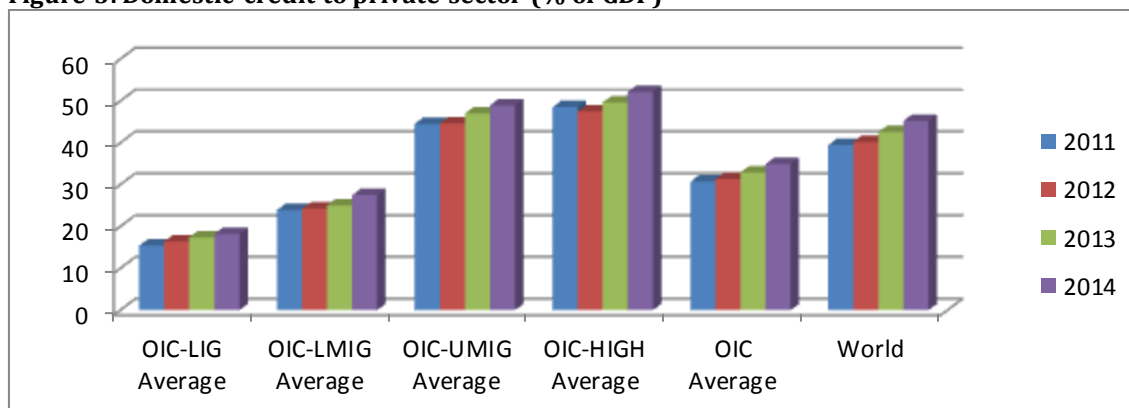
Figure 2: Bank Accounts per 1,000 Adults



Source: *Financial Outlook of the OIC Member Countries 2016*

From 2011 to 2014, this indicator shows an increasing trend among the OIC country groups. The levels of domestic credit to the private sector (% of GDP) shows the percentage of people who saved money, regardless of whether they have deposited in a financial institution or not. 2011-2014 figures are higher in all years for OIC-UMIG and OIC-HIGH, and lower in all years for OIC-LIG and OIC-LMIG as compared to the world averages.

Figure 3: Domestic credit to private sector (% of GDP)



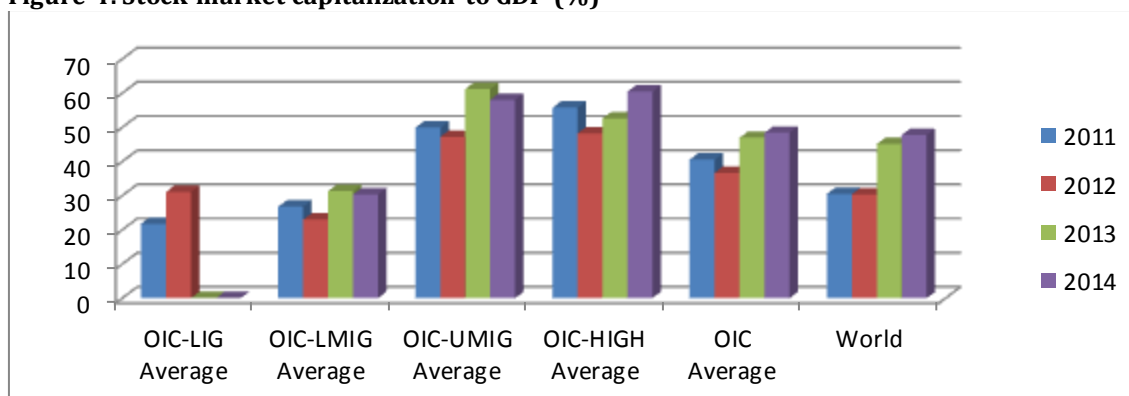
Source: *Financial Outlook of the OIC Member Countries 2016*

- **Capital Markets**

According to OIC Member States' Stock Exchanges Forum Integrated Statistics Report - 2014, which covers 25 stock exchanges from 21 OIC member Countries, the number of listed domestic companies was 4,949 and the number of foreign companies was 41 in 2014. The top 5 Stock Exchanges, Bursa Malaysia (18%), Karachi Stock Exchange (11%), Indonesia Stock Exchange (10%), Lahore Stock Exchange (9%) and Tehran Stock Exchange (6), accounted for 54% of the total listed companies. The OIC Stock Exchanges' market capitalization was US\$ 2.7 trillion, since the average ratio of the market capitalizations of the OIC Stock Exchanges to the GDP values of their respective countries was 37% in 2014.

Although the number of OIC member countries with an organized exchange is limited, Stock market capitalization to GDP (%), shows the total value of firms which trade within an organized stock exchange in percentage of the GDP. This figure has reached 30.4, 58.1 and 60.4 per cent in 2014 for OIC-LMIG, OIC-UMIG and OIC-HIGH respectively, compared to 47.8 per cent world average in the same year.

Figure 4: Stock market capitalization to GDP (%)



Source: *Financial Outlook of the OIC Member Countries 2016*

ISLAMIC FINANCE: National Strategies and Islamic Financial Architecture

Islamic finance is one of the fastest growing sectors within the international financial system. Total assets of the Islamic Financial Services Industry (IFSI) has reached 2.143 trillion USD in 2015, with a 15 percent annual growth rate between 2009-2015. IFSI is still a niche market, compared to the global conventional finance industry and, inherently, it has mostly grown in a limited number of regions. With its strong ethical principles and asset based approaches, IFSI can play an important role in the stabilization of the financial systems, not only in Member Countries, but also for the global financial system.

Furthermore, according to the World Bank Global Financial Development Report 2014, Shari'ah-compliant financial products and instruments can have a significant function in enhancing financial inclusion among Muslim populations.

Table 1: Architectural Features and Islamic Infrastructure Institutions

Architectural Features	Infrastructure Institutions
Legal Infrastructure	➤ International Islamic Center for Reconciliation and Commercial Arbitration (IICRCA) , (2004) Dubai, UAE (alternative dispute resolution platform for Islamic finance using Islamic law)
Regulatory Standards	➤ Islamic Financial Services Board (IFSB) , (2002) Kuala Lumpur, Malaysia (standard-setting body for regulations and supervision of Islamic banking, takaful and Islamic capital markets) ➤ International Islamic Financial Markets (IIFM) , (2002) Bahrain (develop contracts for Islamic capital markets, corporate finance and trade finance)
Shariah related	➤ Islamic Fish Academy (İsa) , (1981) Jeddah, Saudi Arabia (issues Islamic legal resolutions on different issues, including Islamic finance) ➤ Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) , (1991) Bahrain (develop Shariah standards for Islamic finance)
Liquidity Infrastructure	➤ Liquidity Management Center (LMC) , (2002) Bahrain (develops Islamic inter-bank money markets and liquidity instruments) ➤ International Islamic Liquidity Management Corporation (IILM) , (2010) Kuala Lumpur, Malaysia (develops and issues short-term Islamic instruments for cross-border liquidity management)
Information Infrastructure	➤ Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) , (1991) Bahrain (develops accounting and auditing standards for Islamic finance) ➤ Islamic International Rating Agency (IIRA) , (2002) Bahrain (provides credit and Shari'ah ratings)
Knowledge and Human Capital	➤ Islamic Research & Training Institute (IRTI) , (1983) Jeddah, Saudi Arabia (promotes research & training in Islamic economics & finance) ➤ World Bank Global Islamic Finance Development Center (GIFDC) , (2013) Istanbul, Turkey (conducts research, training, advisory services for development of Islamic finance)
Facilitating Institutions	➤ Islamic Development Bank (IDB) , (1975) Jeddah, Saudi Arabia (promotes economic development in member countries and Islamic finance) ➤ General Council of Islamic Banks and Financial Institutions (CIBAFI) , (2001) Bahrain (trade association of Islamic financial institutions to enhance best practices)

Source: National and Global Islamic Financial Architecture: Problems and Possible Solutions for the OIC Member Countries, Prof. Dr. Habib AHMED, COMCEC 2016

Given the importance of the issue, the Financial Cooperation Working Group has devoted 3 Meetings to Islamic Finance since its establishment. The 3rd Meeting of the Financial Cooperation Working Group was held with the theme of "Risk Management in Islamic Finance Instruments. The 6th Meeting was held with the theme of "Developing Islamic Finance Strategies in the OIC Member Countries". The 7th Meeting of Financial Cooperation Working Group was held with the theme of "National and

Global Islamic Financial Architecture: Problems and Possible Solutions for the OIC Member Countries”.

The research reports prepared for the aforementioned meetings and the discussions during the Meetings put forth that, to promote IFSI, there is an obvious need to raise the public awareness and to build a stronger financial architecture. An efficient architecture for financial institutions are vitally important to promote the growth and stability of the financial sector, not only for conventional finance, but also for Islamic financial services industry.

In this context, a national Islamic finance strategy should be developed. It would play a crucial role by providing a roadmap for the Islamic Finance Industry and facilitating the adoption of the necessary legal, regulatory and supervisory framework, etc. which are the components of the Islamic financial architecture.

SELECTED FINANCIAL FIGURES

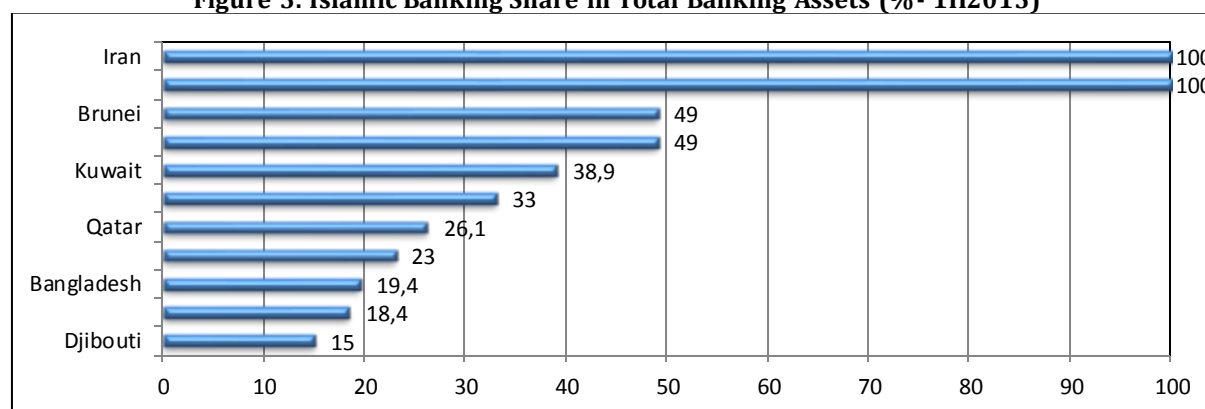
According to the Global Islamic Finance Report 2016, the potential size of Islamic financial services industry has grown from US\$4 trillion in 2009 to US\$7.1 trillion in 2015; yet the actual size of the industry was \$ 2.143 trillion in 2015, with an annual growth rate of 15%. The actual size of the industry is still 30 percent of the potential size, but the gap is narrowing, as this figure was 26 percent in 2009. The sector is led by the Islamic banking sector (%75) and the global Sukuk market (%15).

Table 1: Potential and Actual Size of the Islamic Financial Services Industry

	2009	2010	2011	2012	2013	2014	2015
Potential size of the global Islamic financial services industry (US\$ trillion)	4.0	4.4	4.8	5.3	5.9	6.5	7.1
Actual size of the global Islamic financial services industry (US\$ trillion)	1.036	1.139	1.357	1.631	1.813	1.981	2.143
Size gap (US\$ trillion)	2.964	3.261	3.483	3.693	4.043	4.47	4.953
Growth in actual size of the global Islamic financial services industry (%)	26	9.9	19.1	20.2	12.3	9.3	7.3
Average growth rate between 2009-2015 (%)							15
Catch-up period - based on 10% growth in potential size and 15% growth in actual size (years)							27

Source: Edbiz Consulting, GIFR 2016,

Figure 5: Islamic Banking Share in Total Banking Assets (%- 1H2015)

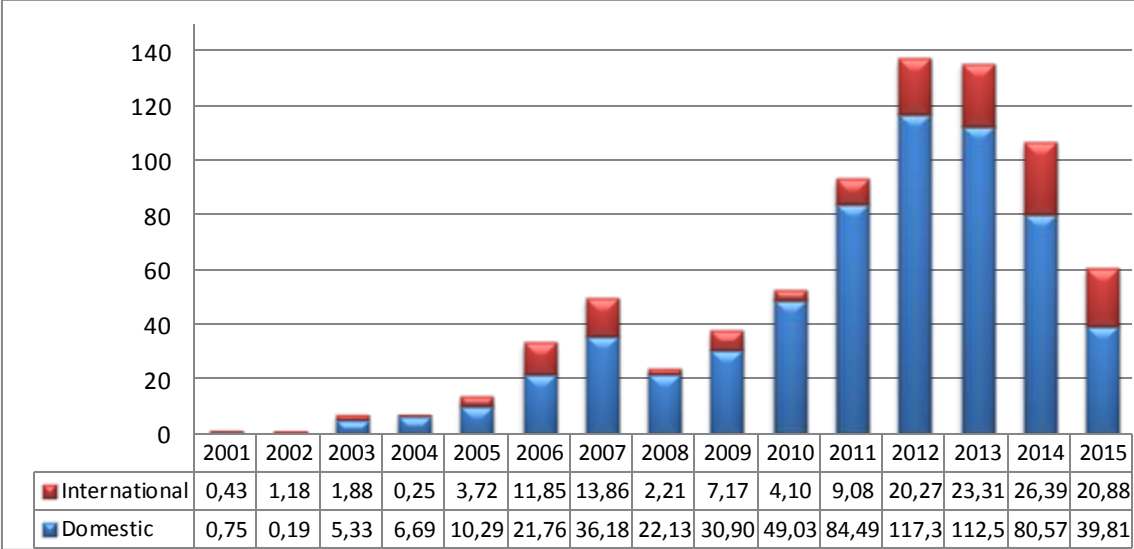


Source: IFSB, Islamic Financial Stability Report 2016

As the largest segment of the global Islamic finance industry, the total asset of the Islamic Banking sector was approximately \$1.6 trillion in 2015. The Compound Annual Growth Rate (CAGR) between 2010 and 2014 was 16.1%.

The global Sukuk issuances were 60.6 billion USD in 2015, with a dramatic 43 percent fall as compared to 2014. IIFM (2016) identified the main reason behind this drop as the Bank Negara Malaysia policy decision to discontinue issuance of short-term investment Sukuk.

Figure 6: Total Global Sukuk Issuance (Jan 2001-Dec 2015) - Billion USD



Source: IIFM Sukuk Report 5th Edition

The total value of the Islamic Funds as of October 2015, has declined \$4.5 billion from the total value of the Islamic funds as of September 14 (\$75.8 billion), was \$71.3 billion (IFSB, 2016). The main hub for Islamic funds is Saudi Arabia with a 40% share of total Islamic Funds.

The global tankful’s gross contribution was \$22.1 billion and growth rate of gross premiums was 15.5% in 2014. The main jurisdictions for the sector are the GCC, Iran and EPAC. According to Islamic Financial Stability Report 2016 of IFSB, Saudi Arabia (36.6%- \$8.1 billion), Iran (33.6%- \$7.5 billion) and Malaysia (13.6%- \$3 billion) are the top three domiciles, accounting for 83.8% of the total global contributions in 2014.

COOPERATION EFFORTS UNDER THE COMCEC: THE COMCEC STRATEGY AND FINANCIAL COOPERATION

Financial Cooperation is one of the six cooperation areas of the COMCEC Strategy adopted by the 4th Extraordinary Islamic Summit in 2012. Efforts for enhancing financial cooperation under the COMCEC have been intensified with the implementation of the COMCEC Strategy. These efforts are carried out under the COMCEC Financial Cooperation Working Group and COMCEC Project Funding Mechanism as well as cooperation among the Stock Exchanges Forum, COMCEC Capital Markets Regulators Forum and Central Banks and Monetary Authorities.

I. COMCEC Financial Cooperation Working Group

Within the framework of the implementation of the COMCEC Strategy to meet the objectives in the financial cooperation field, COMCEC Financial Cooperation Working Group was established. This Working Group provides a regular platform for the experts from Member Countries to discuss their common issues in the finance sector and share their knowledge and experiences.

The Sixth Meeting of the COMCEC Financial Cooperation Working Group was held on 17-18 March 2016 in Ankara with the theme of *“Developing Islamic Finance Strategies in the OIC Member Countries”*. The analytical study titled *“Developing Islamic Finance Strategies in the OIC Member Countries”* was prepared to enrich discussions during the Meeting. *“Proceedings of the Sixth Meeting of the COMCEC Financial Cooperation Working Group”* was also prepared for reflecting the outcomes of the Meeting.

The Sixth Meeting of the COMCEC Financial Cooperation Working Group also considered the preparations for the Ministerial Exchange of Views Session of the 32nd COMCEC Session to be held with the theme of *“Developing Islamic Finance Strategies in the OIC Member Countries in line with the relevant resolution of the 31st Session of the COMCEC*. Within this framework, the participants, in light of the discussions that have taken place during the 6th Meeting of the COMCEC Financial Cooperation Working Group and the research report prepared specifically for this Meeting, identified some challenges and problems confronted by Member countries and have come up with possible policy options with regard to developing Islamic Finance Strategies in the member countries.

Some of the challenges and problems highlighted in the Meeting were:

- Weak regulatory systems
- Inadequate infrastructural framework
- Inadequate Islamic financial instruments and services
- Inadequate high quality research and intellectual discussions.

Some of the policy recommendations to be submitted to the Exchange of Views Session of 32nd COMCEC Session are as follows:

- Reviewing existing Islamic financial regulations and guidelines to ensure compatibility with Shari`ah guidelines
- Establishing a National Shari`ah Board/necessary institutional set up to provide oversight and governance to internal and independent Shari`ah boards of financial institutions
- Increasing range of Islamic products and services to meet the needs and demands of the Islamic finance.

The Seventh Financial Cooperation Working Group was held on October 20th, 2016, in Ankara with the theme of *“National and Global Islamic Financial Architecture: Problems and Possible Solutions for OIC Member Countries”*. The analytical study titled *“National and Global Islamic Financial Architecture: Problems and Possible Solutions for OIC Member Countries”* and the *“Financial Outlook of the OIC Member Countries 2016”* have been prepared to enrich discussions during the Meeting. *“Proceedings*

of the Seventh Meeting of the COMCEC Financial Cooperation Working Group” have also been prepared to reflect the outcomes of the Meeting.

During the Meeting, the means and ways of overcoming the challenges confronted by the Member Countries in improving Islamic Financial architecture in the Member Countries have been elaborated. Accordingly, the working group has come up with policy advices as follows:

- Developing/ Supporting Legal Framework for Islamic Finance by Reviewing Islamic Financial Laws, Tax Regimes, Dispute Settlement Framework and Bankruptcy Law
- Developing Necessary Regulatory and Supervisory Institutional Framework for the Islamic Financial Services Industries (IFSI) through Adopting Standards Developed by Islamic Financial Architecture Institutions and Improving the National Framework
- Establishing a Sound Governance Framework by Introducing the Requirement of Shariah Governance at the Financial Institution Level in Islamic Financial Laws and in Regulations
- Enhancing Consumer Protection and Financial Education through Ensuring Full Disclosure in Islamic Finance Contracts and Having Financial Education Programs to Increase Awareness and the Level of Understanding of Islamic Financial Transactions
- Developing Liquidity Infrastructure for Islamic Financial Sector by Issuing Shariah Compliant Liquidity Instruments, Developing an Active Islamic Money Market and Ensuring Lender of the Last Resort to Offer Shariah Compliant Facilities

All the documents prepared for the Working Group Meetings are available on the COMCEC website (www.comcec.org).

II. COMCEC Project Funding Mechanism

The second mechanism of the implementation of the COMCEC Strategy is the COMCEC Project Cycle Management (PCM). Within the framework of the PCM, the COMCEC Coordination Office provides grants to the cooperation projects of the Member States registered to the Financial Cooperation Working Group and the OIC Institutions operating in the field of economic and commercial cooperation. The projects to be financed should be in line with the objectives and the principles of the Strategy.

In this regard, within the scope of the 2nd Project Call, Gambia’s and Malaysia’s projects titled “Enhancing Financial Literacy and Capacity Building on Islamic Financial Instruments” and “Islamic Capital Market Capacity Building Programmes” were final-listed and implemented in 2015.

The third project call of the COMCEC PCM was made in September 2015. The Final List of the COMCEC-PCM was announced on January 15th, 2016. Within this framework, Gambia’s project titled “Towards an Improved Institutional Framework for Islamic Finance” is being implemented in 2016.

The COMCEC Coordination Office made the fourth call for project proposals in September 2016. More detailed information on COMCEC Project Funding mechanism is available in the COMCEC PCM Website: (pcm.comcec.org).

III. Ongoing Efforts under the COMCEC:

- **OIC Member States’ Stock Exchanges Forum:** Cooperation among the Stock Exchanges was launched in 2005 by the COMCEC, in line with the decision taken by the 20th Session of the COMCEC. The Forum has held 10 meetings so far. The 10th Meeting of the Forum was held on October 27th, 2016 in Istanbul.

In the 31st Session of the Follow-up Committee Meeting, the Committee requested the Forum Coordinator to conduct a study on the feasibility of a Gold Exchange among the OIC Member States in line with the proposal put forward by H.E. Recep Typo Erdoğan, President of the Republic of Turkey and Chairman of COMCEC in his statement. The Forum coordinator prepared a report and presented it to the 31st meeting of COMCEC Ministerial Session. The Ministerial Session welcomed the report on “Gold Market Initiative for the OIC Member Countries” prepared by the OIC Member States' Stock Exchanges Forum and requested it to further study, through its Task Force on Precious Metals, to accelerate the process of integration of exchanges and harmonization of regulatory frameworks, with a view to establishing a gold exchange among the OIC Member Countries and submit a report on this issue to the 32nd Session of the COMCEC. The 32nd Session of the Follow-up Committee Meeting welcomed the progress achieved on “Gold Exchange Initiative for the OIC Member Countries” and requested the OIC Member States' Stock Exchanges Forum to further extend its work on the initiative and submit a report to the 32nd Session of the COMCEC.

The detailed information regarding the activities of the forum is available on www.oicexchanges.org.

- **COMCEC Capital Market Regulatory Forum:** The COMCEC Capital Market Regulatory Forum was established in 2011 in line with the relevant resolutions of 27th Session of the COMCEC. The Forum has held 5 meetings so far. The 5th Meeting of the COMCEC Capital Market Regulators Forum was held on October 27th, 2016 in İstanbul.

In the 31st Session of the Follow-up Committee Meeting, recalling the proposal made in the statement of H.E. Recep Tayyip ERDOĞAN, Chairman of the COMCEC, in the 30th Session of COMCEC on establishing a Real Estate Exchange among the OIC Member Countries, the Committee requested the Secretariat of the COMCEC Capital Market Regulators Forum to conduct a study on the feasibility and the ways and means of putting the proposal to action and to submit it to the 31st Session of the COMCEC. The Forum Secretariat prepared a report and presented it at the 31st meeting of COMCEC Ministerial Session. The Ministerial Session welcomed the report on “Real Estate Securities Exchange Initiative” prepared by the COMCEC Capital Markets Regulators Forum and requests it to further study the matter with the ultimate aim of establishing an exchange for the trading of real estate / real estate securities for the OIC Member Countries and submit a report on this issue to the 32nd Session of the COMCEC. The 32nd Session of the Follow-up Committee Meeting welcomed the progress on “Real Estate Securities Exchange Initiative” and requested the COMCEC Capital Markets Regulators Forum to further extend its work on this initiative and submit a report to the 32nd Session of the COMCEC.

The details regarding the Forum activities are available on the Forum web-site. (www.comceccmr.org)

- **Cooperation among the Central Banks and Monetary Authorities:** In line with the relevant resolution of the 24th Session of the COMCEC, cooperation among the Central Banks and Monetary Authorities of the Member Countries has been revitalized. 14 Meetings have been held so far. The 15th meeting was planned to be held on 23-24 October 2015, but has been postponed to a later date.

The 32nd Session of the Follow-up Committee Meeting requested the SESRIC to take necessary actions for the early convening of the 15th Meeting of the Central Banks and Monetary Authorities of the OIC Member States and urged the Member States to actively participate in this meeting.

The detailed information regarding Cooperation among the Central Banks and Monetary Authorities is available at www.sesric.org/activities-cb-meetings.php.