



FINANCIAL COOPERATION

OIC/COMCEC / 35



COMCEC

CCO BRIEF ON FINANCIAL COOPERATION

COMCEC COORDINATION OFFICE
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CCO BRIEF ON FINANCIAL COOPERATION

Financial Cooperation among the Member Countries is of particular importance for facilitating capital mobility, increasing financial literacy, managing financial risks, supervising financial institutions, increasing product diversity and broadening and deepening financial markets.

SELECTED FINANCIAL FIGURES

- **Islamic Finance**

The asset size of the Islamic finance sector has grown 8.3% in 2017¹. The industry's total assets size is estimated at \$2.05 trillion in 2017 (Table 1), which was \$1.89 trillion in 2017 and \$1.88 trillion in 2016. The Islamic Finance industry consists of three main segments as banking, capital markets and takaful. Islamic banking sector is the dominant component of the Islamic finance industry. The global Islamic banking assets are representing 75,97% of the industry's total assets while Sukuk market, Islamic funds and Takaful market represent 19.51%, 3.25% and 1.27% of the Islamic finance industry respectively in 2017.

Table 1: Breakdown of IFSI by Sector and by Region, US\$ Billion

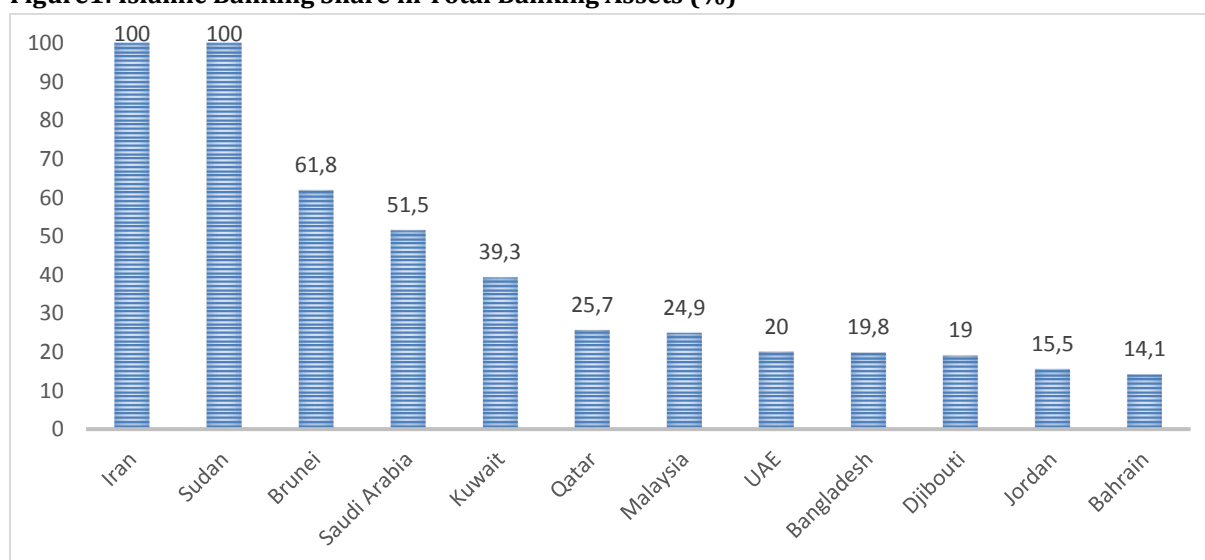
	Islamic Banking	Outstanding Sukuk	Islamic Funds' Assets	Takaful Contributions	Total
Asia	232.0	239.5	24.8	3.3	499.6
GCC	683.0	139.2	26.8	12.6	861.6
Mena (ex-GCC)	569.0	17.8	0.1	9.5	596.4
Africa (ex-North Africa)	27.1	2.0	1.6	0.7	31.4
Others	46.4	1.5	13.3	0.0	61.3
Total	1,557.5	399.9	66.7	26.1	2,050.2

Source: IFSB Stability Report 2018

Note: For Source and the date of the date please check the IFSB Stability Report 2018

The Islamic banking sector has reached systemic importance² in the Financial Sector in 12 member countries, which accounted for 92% of the global Islamic banking assets.

Figure1: Islamic Banking Share in Total Banking Assets (%)



Source: IFSB Islamic Financial Stability Report 2018

¹ IFSB Islamic Financial Stability Report 2018

² Share of Islamic Banking Sector in Total Banking sector >15%

The total Global Sukuk issuances amounted to \$92 billion in 2017, which was driven by large sovereign issuances from the GCC region, of 23% compared with 2016³. The top three markets for the Sukuk issuances in terms of volume were Malaysia (37.9%), Saudi Arabia (33.1) and Indonesia (6.1%) in 2017.⁴ The Global takaful contributions reached \$26 billion⁵ in 2016 and were mainly driven by the top four countries which are holding 85% of the total takaful contributions: Saudi Arabia (38%), Iran (34%), Malaysia (7%) and UAE (6%). Despite the decrease in the number of Islamic Funds in 2017 (1,161), assets under management (AuM) increased 19% and reached \$67 billion⁶. The top five jurisdictions accounted for 88% of the industry's AuM as at the end of 2017, i.e. Saudi Arabia (37.10%), Malaysia (31.66%), Ireland (8.62%), the US (5.25%) and Luxembourg (4.76%). This indicates that the operations of Islamic funds are still limited as key Islamic finance jurisdictions have deep-rooted Islamic banking sectors (e.g. the UAE, Pakistan, Indonesia, Kuwait and Qatar). The remaining 12% of AUM, with a \$8.4 billion value, is distributed across 29 other jurisdictions (including offshore domiciles) (IFSB, 2018).

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

The efforts for enhancing financial cooperation under the COMCEC are carried out under the COMCEC Financial Cooperation Working Group and the COMCEC Project Funding Mechanism, as well as the OIC Exchanges Forum, the COMCEC Capital Markets' Regulators Forum and OIC-COMCEC Central Banks Forum.

- Infrastructure Financing through Islamic Finance in the Islamic Countries (Twelfth Meeting of COMCEC FCWG)

Infrastructure is of particular importance for a proper functioning economy, promotion of economic growth and alleviation of poverty. Nonetheless, the overall status of infrastructure in the OIC member countries is relatively underdeveloped and requires huge investments. Given its social and ethical principles and emphasis on risk-sharing and asset-backed financing, the Islamic finance industry can potentially play an important role in providing financing for infrastructure projects.

COMCEC Financial Cooperation Working Group has been focusing on various aspects of Islamic Finance in its recent meetings. In this respect, given the importance of this issue, the 12th Meeting of the Financial Cooperation Working Group (FCWG) was held on March 28th, 2019 in Ankara with the theme of "Infrastructure Financing through Islamic Finance in the OIC Member Countries." The research report prepared for this meeting highlighted that investment requirements for the OIC member countries, where data is available, are estimated at USD 7.2 trillion for the period 2016-2040. With the current trends, the investments are estimated to be USD 5.6 trillion, which would result in a deficit of USD 1.6 trillion.

³ IFSB Islamic Financial Stability Report 2018

⁴ Ibid.

⁵ Ibid

⁶ Ibid.

According to the research report, while Global Shariah compliant assets exceeded USD 2 trillion for the period 2017-2018, the total contribution of the Islamic financial sector in infrastructure financing was about USD 120 billion. As shown in Table 2, the percentage of assets going to the infrastructure sector in the Islamic banking, takaful and sukuk sectors are estimated to be 4.74%, 2% and 11.57% respectively.

Table 2: Total Islamic Finance Investments in Infrastructure Sector (2017-2018)

	Total assets (USD Billions)	Percentage going to Infrastructure	Infrastructure Investments by Islamic Finance (USD Billion)
Islamic Banking	1,598.9	4.74	75.8
Takaful	42.5	2.0	0.9
Sukuk	344.8	11.57	39.9
IDB Project Financing			3.12
<i>Total</i>			119.7

Source: Estimations of Author.

Furthermore, Table 2 demonstrates that Islamic Banking Sector's contribution to infrastructure financing is very limited. In the 5 five OIC member countries (Indonesia, Malaysia, Saudi Arabia, Nigeria and Sudan) analyzed in detail in the research report, the Islamic Banking sector has played a relatively small role in financing infrastructure projects. Accordingly, only 4.3% of Islamic banks' assets, on average, have been invested in infrastructure related sectors. (Table 3)

Table 3. Islamic Banks Assets and Financing of Infrastructure Sector

Countries	Islamic banking assets (USD Million)	Percentage of total banking assets	Percentage of investments in Sukuk	Infrastructure financing (USD Million)	Percentage of investments in Infrastructure Sectors
Indonesia	21,374.84	5.6	9.0	1,791.51	8.4
Malaysia	172,265.39	30	13.1	7,538.21	4.38
Nigeria	327.20	0.28	6.8	-	-
Saudi Arabia	159,131.82	51.1	8.6	5,955.90	3.74
Sudan	10,440.64	100	7.0	374.88	3.59

Source: *IFSB Prudential and Structural Islamic Financial Indicators (PSIFIs)*

The working Group has highlighted the main challenges faced by member countries as the following:

- Lack of Legal and Regulatory Framework
- Lack of standardized Shariah-compliant contract templates for infrastructure projects and infrastructure fund.
- Lack of human capital
- Shortages of Islamic banks in investing long-term infrastructure projects due to their short-term and liquid liabilities
- Small size of nonbank Islamic financial institutions
- Lack of innovative models of using zakat and waqf.

In order to address these challenges and enhance the utilization of Islamic Finance in infrastructure investments, the Working Group has come up with the following policy recommendations:

- Developing Legal and Regulatory Framework to Provide an Enabling Environment for Realizing Large Infrastructure Investments through Islamic Finance.
- Increasing the number and share of Islamic Nonbank Financial Institutions to Enhance the Contribution of Islamic Finance in Infrastructure Investments.
- Developing the Islamic Capital Markets Infrastructure to Facilitate the Issuance of Different Types of Project Sukuk and other Instruments as appropriate for Infrastructure Projects.
- 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.
- Building capacity and developing human capital for implementing Islamic infrastructure financing

All the reports submitted to the Meetings and the presentations made during the Meetings are available on the COMCEC web page (www.comcec.org).

The COMCEC Project Funding Mechanism

Through its Project Funding Mechanism, the CCO provides grants to the selected projects proposed by the relevant OIC institutions and the Member States that have already registered with the Financial Cooperation Working Group.

In 2018, two financial cooperation projects were supported under the COMCEC Project Funding. The owner of the first project titled “Training and Guidelines on Sukuk Issuance” was Nigeria and their partners were Gambia and Togo. Within the scope of the project, a training program and a workshop were organized in Nigeria. During the training program, key people from agencies related to the Sukuk were trained on effective issuance of Sukuk from the issuance to its resale on the secondary market. Also, in the workshop, which was held in Abuja with the participation of the representatives from issuing agencies, financial regulators, participants discussed effective issuance of the Sukuk. At the end of the project, a project report, in which findings of the workshop and training program were presented, has been prepared.

The project titled “Improving Financial Consumer Protection in the OIC Countries” was implemented by Turkey with the participation of 11 member countries. The project aimed at achieving a better functioning financial consumer protection for the OIC countries by evaluating and standardizing best practices, administrative experiences and rising trends in financial consumer protection policy field. In this regard, an international workshop with the participation of the project partners was held in İstanbul, Turkey. During the workshop, participants focused on determining a comprehensive financial consumer protection strategy by evaluating and standardizing best practices, cross-border trade and dispute resolution, administrative experiences, joint/coordinated actions, and the other rising trends in consumer protection policy field. Also, a financial consumer protection strategy document including the results of the workshop was prepared by the project team.

Under the Sixth Project Call of the COMCEC Project Funding, made in September 2018, three projects have been selected for funding in financial cooperation area. The first project will be implemented by Mozambique and titled “Capacity Building on Islamic Finance in Mozambique, Gambia and Nigeria”. Project partners for this project are the Gambia and Nigeria. The project aims at increasing the capacities of professionals working in the financial sector by providing them necessary literacy and qualification to develop a solid regulatory framework for the licensing and supervision of interest-free bank including Islamic financial services. In this regard, a training program on the essential Islamic Finance topics such as Mudarabah, Musharakah and Murabahah etc., will be conducted in Mozambique. In addition, after the training program, a workshop on importance of Islamic Finance for economic growth, business opportunities, financial inclusion and poverty reduction in the partner countries will be organized.

The second financial cooperation project titled “Islamic Liquidity Management Instruments for Sustainable Development of Islamic Financial Institutions” will be implemented by Nigeria with the

participation of Gambia and Malaysia. The project purpose is developing the capacity of Islamic banks and financial regulators towards effective liquidity management and monetary operations frameworks through the development of Sharia Compliant HQLA (high-quality liquid assets). Within the scope of the project, project team will conduct a study visit to Malaysia to gain knowledge and experience on Sharia Compliant Liquidity Management. After the visit, a training program on Islamic Liquidity Management Instruments will be conducted in Nigeria with the participation of experts from the partner countries.

Another financial cooperation project titled “Assessment of COMCEC Real Estate Securities Markets and Regulatory Landscapes for Strengthening Capital Markets” will be implemented by Turkey with the partnership of Kuwait, Malaysia, Iran, Palestine, Azerbaijan, Saudi Arabia, Tunisia, Gabon, Djibouti and Senegal. The project aims at searching for the possibility of establishing a real estate securities trading platform among COMCEC countries by understanding types, market structures and regulatory features of real estate securities market in the member countries. In this regard, a workshop on assessment of market and regulatory aspects of the COMCEC Real Estate Securities Market will be organized in Turkey.

- **Other Ongoing Efforts under the COMCEC:**

- **OIC Member States’ Stock Exchanges Forum:** Cooperation among the Stock Exchanges was launched in 2005 in line with the decision taken by the 20th Session of the COMCEC. The Forum has held 12 meetings so far. The 13th Meeting of the Forum will be held on September 25th, 2019 in Istanbul.
- Along with the efforts to increase cooperation between stock exchanges, the Forum has realized some important projects such as the OIC/COMCEC Index. The Forum has also been working on Gold Exchange Initiative for the OIC Member Countries. According to relevant resolution of the 34th COMCEC Session, the Forum Secretariat is expected to advance the technical preparations for the establishment of the OIC Gold Exchange and report to the 35th Session of the COMCEC. The detailed information regarding the activities of the Forum is available on www.oicexchanges.org.
- **The COMCEC Capital Market Regulatory Forum:** The COMCEC Capital Market Regulatory Forum was established in 2011 in line with the relevant resolutions of the 27th Session of the COMCEC. The Forum has held seven meetings so far. The 7th Meeting of the COMCEC Capital Market Regulators Forum was held on November 8th, 2018 in Ankara.

Regarding the real estate exchange project, the 34th COMCEC Session took note of the briefing by the Secretariat of the COMCEC Capital Market Regulators Forum on the establishment of the COMCEC Real Estate Electronic Platform/COMCEC Real Estate Exchange among the interested OIC Member States and requested the Forum/the Forum’s Secretariat to finalize necessary legal, administrative and technological preparations for the establishment of the COMCEC Real Estate Electronic Platform/COMCEC Real Estate Exchange before the 35th Session of the COMCEC.

Moreover, the Session called upon the interested Member States to actively participate in the establishment of the COMCEC Real Estate Electronic Platform/COMCEC Real Estate Exchange and invited them to identify their authorized bodies as well as notify them to the Forum’s Secretariat before the 35th Meeting of the COMCEC Follow-up Committee Meeting.

The details regarding the Forum activities are available on the Forum website. (www.comceccmr.org)

- **OIC-COMCEC Central Banks Forum:**
In the 16th Meeting of the Central Banks and Monetary Authorities of the OIC Member States, the central banks of the OIC Member States decided to continue its activities as the “OIC-COMCEC Central Banks Forum”. The 34th COMCEC Session took note of the communique of the said meeting as well as the decision on the establishment of the “OIC-COMCEC Central Banks Forum”. The first Meeting of the Forum will be held on 22-24 September 2019 in Turkey.

