



FINANCIAL COOPERATION

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CCO BRIEF
ON
FINANCIAL
COOPERATION

COMCEC COORDINATION OFFICE

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BRIEF ON FINANCIAL COOPERATION

A financial system has a vital role in the economic development and the functioning of the economy as a whole. The Banking System and the security markets ease economic growth which is a significant tool to reduce poverty. Sound and Sustainable Financial Systems are the basic requirement for the production of reliable data to take rational decisions in terms of effective allocation of savings and the other factors that enhance the welfare of the whole society.

On the other hand, half of the world's adult population- more than 2.5 billion people- do not have an account at a formal financial institution. 30% of these adults dwell in the COMCEC Member Countries. Furthermore, the account penetration rates in 2012 among Muslims were 10% to 27% less than those of non-Muslims in different regions of the World.

SOME FINANCIAL FIGURES

Except for 2009, the COMCEC Countries recorded high real GDP growth rates from 2007 to 2012 (*see Table 1*). They had much better performance than the developed countries and the World Average, and their performance was almost as good as the developing countries' (excluding China).

Table 1: Real GDP growth rates (%)

ECONOMY	2007	2008	2009	2010	2011	2012
World	4.03	1.38	-2.11	4.02	2.74	2.24
Developing economies	7.89	5.03	2.70	7.71	5.76	4.67
Developed economies	2.58	-0.05	-3.73	2.55	1.41	1.15
Developing economies excluding China	6.11	3.65	0.61	6.81	4.53	3.43
COMCEC Countries	5.58	4.10	1.32	6.30	4.48	4.11

Source: UNCTAD, UNCTADstat

The total GDP of the COMCEC Countries was USD 3.93 trillion in 2007, and it increased approximately by 10.1% between 2007 and 2012 (USD 6.35 trillion). It is expected that the total GDP of the COMCEC countries in 2013 will be USD 6.38 trillion¹. The COMCEC Countries' share in the World GDP has increased constantly in parallel with the Emerging and Developing Countries' share in the World total GDP.

- **Foreign Direct Investments**

After the recent global economic crisis, there has been a dramatic decrease of 39.3 percent in total global FDI flows between 2007 and 2009. Along with the recovery in the global economy, and although FDI flows could not reach the pre-crisis level in all economies as indicated in Table 2, there was a slight recovery in global foreign direct investment flows. In 2012, this positive trend reversed, and the total global FDI flows recorded a decrease of 18.2 percent.

Regarding the COMCEC Region, there was a remarkable FDI flow to the COMCEC Member Countries in 2008 reaching USD 171.6 billion in total. However, it declined to USD 138.7 billion in 2009 parallel to the global trends. This decline also continued in 2010. There was a

¹GDP in current prices (U.S. dollars), International Monetary Fund, World Economic Outlook Database, October 2013

fractional increase in 2011 up to USD 138.3 billion followed by a slight increase in 2012 to USD 139.5 billion (see Table 2). Concerning the distribution of FDI flows in the COMCEC Region, a few member countries attract the great majority of the FDI flows. FDI flows to top ten COMCEC Countries accounted for 71 per cent of the total FDI flows to all COMCEC Member Countries².

Table 2: FDI Flows (Current US Dollars in Billion)

ECONOMY/YEAR	2007	2008	2009	2010	2011	2012
World	2,002.7	1,816.4	1,216.5	1,408.5	1,651.5	1,350.9
Developing economies	589.4	668.4	530.2	637.0	735.2	702.8
Developed economies	1,319.9	1,026.5	613.4	696.4	820.0	560.7
COMCEC Countries	147.0	178.8	138.7	136.5	138.3	139.5

Source: UNCTAD, UNCTADstat

- **International Reserves (Including Gold)**

There was a notable increase of 66.7% in total global reserves from 2007 to 2012 (see Table 3). The world total reserves (including gold) were equivalent to USD 11.5 trillion in 2012 and 69% of this amount was recorded in the developing countries. Their total reserves rose significantly to USD 7.9 trillion in 2012. Although this can be explained, in part, by the increasing trade flows and the large surpluses of some developing countries, such as China, the newly industrialized Asian countries and the oil exporting countries in the Middle East, it is more likely to be due to efforts for financial reforms in some developing countries with chronic current account deficits to improve their reserve position³.

Table: 3 Total reserves (including gold) Current US Dollars in Trillion)

ECONOMY/ YEAR	2007	2008	2009	2010	2011	2012
World	6.9	7.5	8.6	9.7	10.7	11.5
Developing economies	4.5	5.2	5.9	6.8	7.4	7.9
Developed economies	1.8	1.8	2.1	2.4	2.7	2.9
COMCEC Countries	1.2	1.4	1.4	1.5	1.7	1.9

Source: UNCTAD, UNCTADstat,

The total reserves (including gold) of the COMCEC Member Countries amounted to USD 1.9 trillion in 2012. Although there was an increase in the amount of total reserves, the share of the COMCEC Member Countries in the total reserves of developing countries showed a decrease from 27% in 2007 to 23% in 2012. As was the case in the FDI flows, ten COMCEC Member Countries had 83% of the total reserves of all COMCEC Member Countries. Furthermore, Saudi Arabia alone had 33% (USD 657 billion) of the total reserves in 2012⁴.

- **Domestic Credits**

According to World Bank statistics, the amount of domestic credit provided by the banking sector was 168.8% of GDP in the world in 2012 while in high income countries, it was 203% of GDP. This amount was only 43% of GDP in the COMCEC Member Countries, which is

²UNCTAD, FDI Statistics, (Indonesia, Kazakhstan, Turkey, Saudi Arabia, Malaysia, UAE, Nigeria, Mozambique, Iran, Lebanon)

³SESRIC Annual Economic Report 2012

⁴UNCTAD, UNCTADstat (Saudi Arabia, Algeria, Malaysia, Libya, Indonesia, Turkey, Iran, Iraq, UAE, Nigeria)

almost the same as low income countries (42.5%). In the COMCEC Region, only Lebanon was above the world average with its 176% ratio.

- **Islamic Banking Assets**

The Value of the Islamic Finance assets, led by the Islamic banking sector and the global sukuk market, reached about USD 1.6 trillion by the end of 2012.⁵ It used to be USD 150 billion in the mid- 1990s and is estimated to have reached USD 1.9 trillion⁶ in 2013. Although the Islamic Finance assets experienced a significant growth⁷, the share of Islamic Finance remains relatively small in the total global financial assets. Total Islamic financial assets make up less than 1% of the global financial assets.⁸

The Islamic Financial Assets mostly concentrated in some regions (particularly Middle East and Far Eastern Asia) of the world. For instance, according to “*World Islamic Banking Competitiveness Report 2013-Ernst&Young*”, The Islamic Banking Assets concentrate in a few COMCEC Member Countries. The top four markets in the COMCEC Region account for 84% of industry assets. Top 20 Islamic Banks constituted 55% of the total Islamic banking assets and are concentrated in 7 countries, namely Saudi Arabia, Kuwait, the United Arab Emirates, Bahrain, Qatar, Turkey and Malaysia⁹.

MAIN CHALLENGES IN THE COMCEC REGION

Despite its high potential in finance, the COMCEC region has various challenges. The main challenges in the COMCEC Region regarding finance are as follows¹⁰:

- *More integration with the global markets rather than with themselves*
- *Lack of sound financial institutions*
- *Huge diversity in financial sector development across the region*
- *Lack of reliable data*
- *Small size of financial markets*
- *Lack of differentiated products*

COOPERATION EFFORTS UNDER THE COMCEC

Financial Cooperation is one of the significant cooperation areas of the COMCEC. The ideas for enhancing financial cooperation under the COMCEC date back to its initial meetings. Cooperation efforts in this area have been intensified in recent years. The ongoing efforts of the COMCEC are being carried out under the COMCEC Financial Cooperation Working Group as well as cooperation among the Stock Exchanges Forum, COMCEC Capital Markets Regulators Forum and Central Banks and Monetary Authorities.

⁵European Central Bank, Occasional Paper Series, Islamic Finance in Europe, No 146/June 2013

⁶European Central Bank, Occasional Paper Series, Islamic Finance in Europe, No 146/ June 2013

⁷Islamic Banking assets, including commercial bank assets, grew by an annual average of 19% in the period 2008-2011 (2011: 24%, *World Islamic Banking Competitiveness Report 2013-Ernst&Young*)

⁸ European Central Bank, Occasional Paper Series, Islamic Finance in Europe, No 146/ June 2013

⁹World Islamic Banking Competitiveness Report 2013-Ernst&Young

¹⁰ COMCEC Strategy

- **The COMCEC Strategy: Financial Cooperation**

COMCEC Strategy, adopted by the 4th Extraordinary Islamic Summit in 2012, identified the financial cooperation as one of the cooperation areas of the COMCEC. The Strategy determines “*deepening financial cooperation among the member countries*” as the strategic objective of the COMCEC in this field. The Strategy identifies, “*Regulatory and Supervisory Cooperation*”, “*Capital Flows*”, “*Visibility of Financial Markets*”, “*Training, R&D Activities and Statistics*” as output areas in its finance section and specifies several expected outcomes under each of them.

For the realization of its objectives and expected outcomes in its financial cooperation section, within the framework of the implementation of the COMCEC Strategy, COMCEC Financial Cooperation Working Group was established. The COMCEC Finance Working Group provides a regular platform for the experts from Member Countries to discuss their common issues in finance sector and share their knowledge and experiences.

- **The First Meeting of the Financial Cooperation Working Group**

The First Meeting of the Financial Cooperation Working Group was held on December 12th, 2013 in Ankara, Turkey with the theme of “Enhancing Capital Flows in the COMCEC Region”. The analytical study titled “*Barriers and Opportunities for Enhancing Capital Flows in the COMCEC Member Countries*” was prepared to enrich discussions during the Meeting. “*COMCEC Finance Outlook 2013*” was also prepared by the CCO for the Meeting. “*Proceedings of the First Meeting of the COMCEC Financial Cooperation Working Group*” was prepared in order to reflect the outcomes of the Meeting.

- **The Second Meeting of the Financial Cooperation Working Group**

The Second Meeting of the Financial Cooperation Working Group was held on March 27th, 2014 in Ankara, Turkey with the theme of “*Enhancing Financial Inclusion in the COMCEC Member States.*” The analytical study titled “*Enhancing Financial Inclusion in the COMCEC Member States.*” prepared to enrich discussions during the Meeting. “*Proceedings of the Second Meeting of the COMCEC Financial Cooperation Working Group*” was prepared in order to reflect the outcomes of the Meeting.

All the documents prepared for the 1st and 2nd Meetings are placed on the COMCEC website (www.comcec.org).

- **COMCEC Project Cycle Management**

The second mechanism of the COMCEC Strategy for its implementation 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 which have already 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. The first project call was made in September 2013. The Final List of the COMCEC-PCM was announced on March 9th, 2014. The operational and financial agreements were signed between the Development Bank of Turkey and the successful project owners. The implementation phase of the projects has started.

- **Ongoing Efforts under the COMCEC:**

- **OIC Member States' Stock Exchanges Forum:** The 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. Accordingly, the OIC Stock Exchange Forum was established for the harmonization of the rules and regulations governing market operations and for opening communication channels for the stock exchanges of the COMCEC Member Countries and relevant institutions. The Forum has held 7 meetings so far. The 7th Meeting of the Forum was held on September 19th, 2013 in İstanbul. The detailed information regarding the activities of the forum can be found on www.oicexchanges.org.

S&P OIC/COMCEC 50 Shariah Index, which is the Forum's one of the most important projects, was introduced on June 22nd, 2012 in İstanbul. The official launching ceremony of the Index was held during the 28th Session of the COMCEC. The Index was designed to measure the performance of 50 leading companies from the 19 Member States.

The Forum also works on the introduction of sukuk and other Islamic capital market instruments and continues to facilitate and coordinate the work of its Task Forces.

- **COMCEC Capital Market Regulators Forum:** In line with the relevant resolutions of COMCEC, the "COMCEC Capital Market Regulators Forum" was established in 2011 to increase coordination and cooperation in regulatory and legal infrastructure with a view to achieving more harmonized policies and regulations among the Member Countries. The main focus of the Forum is to support market development and reinforce capabilities of regulatory authorities in the COMCEC Region.

The 1st Meeting of the COMCEC Capital Market Regulators Forum was held on September 27th, 2012 in İstanbul. The meeting decided the formation of the Task forces on "Capacity Building", "Market Development", "Islamic Finance" and "Financial Literacy". The 2nd Meeting of the COMCEC Capital Market Regulators Forum was held on September 19th, 2013 in İstanbul. The Meeting considered the endeavors of the Task Forces. 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. Since then, the Central Banks and Monetary Authorities of Member Countries have been convening annually. Three Working Groups have been established in the following areas; Payment Systems, Macro-Prudential Regulations, and Liquidity Management in Islamic Finance. So far, several capacity building programs have been implemented successfully in various member countries.

The Central Banks and Monetary Authorities have convened thirteen times till now. The 13th meeting was held on 27-28 November 2013 in the Kingdom of Saudi Arabia. The subsequent meetings will be held in the Republic of Indonesia and the Republic of Suriname in 2014 and 2015, respectively. The detailed information regarding Cooperation among the Central Banks and Monetary Authorities can be found on <http://www.sesric.org/activities-cb-meetings.php>.

