



FINANCIAL COOPERATION

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**CCO BRIEF  
ON  
FINANCIAL  
COOPERATION**

COMCEC COORDINATION OFFICE  
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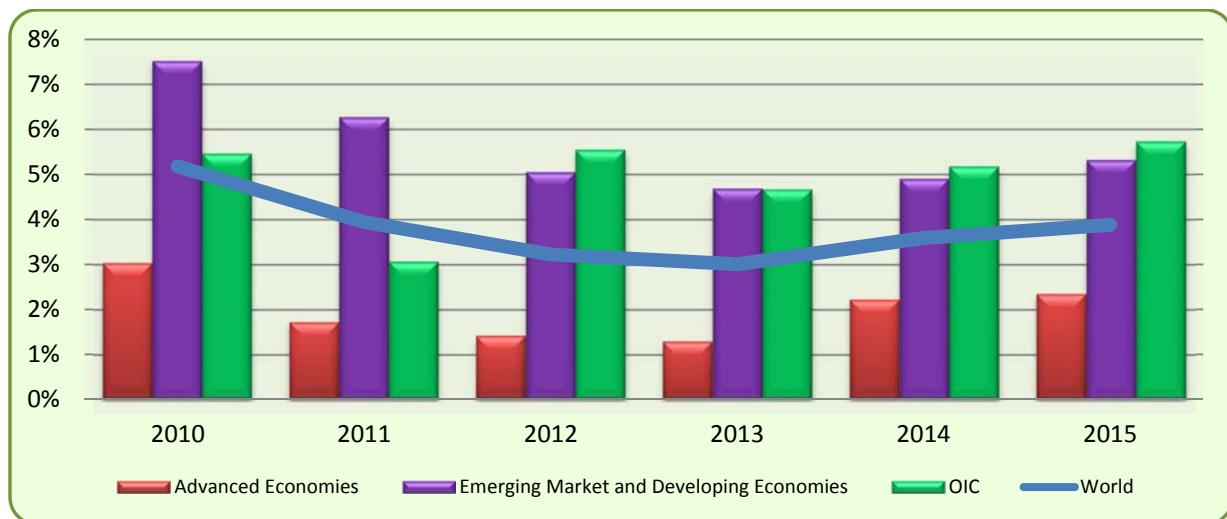
## BRIEF ON FINANCIAL COOPERATION

In 2014, “Enhancing Financial Inclusion” has been an important item for financial cooperation among OIC Member countries. Inclusive financial systems provide individuals and firms with greater access to resources to meet their financial needs, such as savings for retirement, investing in education, capitalizing on business opportunities, and confronting shocks. Indeed, half of the world’s adult population- more than 2.5 billion people- do not have an account at a formal financial institution<sup>1</sup>. 30 percent of them lives in the OIC Member Countries. Furthermore, the account penetration rates in 2012 among Muslims were 10 percent to 27 percent less than those of non-Muslims in different regions of the World<sup>2</sup>.

### SELECTED FINANCIAL FIGURES

The global economy still struggles to handle the financial market fluctuations and macroeconomic imbalances which increase vulnerabilities in global economic recovery and weaken employment expectations. Real GDP growth rate for emerging and developing economies has declined from 6.3 percent in 2011 to 5.1 percent in 2012 and to 4.7 percent in 2013. It is expected to increase to 4.9 percent in 2014. Furthermore, real GDP growth rates for advanced economies decreased from 1.7 percent in 2011, to 1.4 percent in 2012 and 1.3 percent in 2013. It is expected to increase again to 2.2 percent in 2014 due to the recovery policies of these countries. Similarly, world economic growth decreased from 3.2 percent in 2012 to 3 percent in 2013. It is expected to increase to 3.6 percent in 2014 and to 3.9 percent in 2015 mainly due to the high performance of emerging economies.<sup>3</sup>

**Figure 1: Comparison of the Real GDP Growth Rates of Selected Country Groupings**



Source: Calculated by Using IMF Database

The total GDP of the OIC Member Countries was USD 3.93 trillion in 2007, and it increased approximately by 10.1 (CAGR) percent between 2007 and 2012 (USD 6.35 trillion). It is expected that the total GDP of the OIC Member countries will be USD 6.38 trillion in 2013<sup>4</sup>.

<sup>1</sup> The 2014 Global Financial Development Report

<sup>2</sup> Proceedings of the 2nd Meeting of the COMCEC Financial Cooperation Working Group- World Bank Presentation

<sup>3</sup> IMF, World Economic Outlook 2014

<sup>4</sup>GDP in current prices(U.S. dollars), International Monetary Fund, World Economic Outlook Database, October 2013

The OIC Member 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 almost 40 percent decrease in total global FDI flows between 2007 and 2009. Along with the recovery in the global economy, as indicated in Table 1, there has been a slight recovery in global foreign direct investment flows in the following years. Although this positive trend reversed and the total FDI flows declined in 2012, in 2013 FDI flows increased again mainly due to an increase in intercompany loans rather than equity investments, which were down in part due to heightened disinvestments<sup>5</sup>.

Regarding the OIC Member Countries, there was a remarkable FDI flow to the OIC Member Countries in 2008 reaching USD 176.5 billion. However, it declined to USD 140.4 billion in 2009 in parallel with the global trends. This decline also continued in 2010. With a slight increase, the FDI flows to the member countries have reached USD 143.8 billion in 2011 and USD 144.5 billion in 2012 (*see Table 1*). Nonetheless, there has been 5.8 percent decrease in 2013 with USD 136.1 billion.

Furthermore, the share of OIC countries in total FDI flows to developing countries has been declining since 2009. Concerning the distribution of FDI flows in the OIC Member Countries, a few member countries attract the great majority of the FDI flows. FDI flows to top ten OIC Member Countries in 2013 accounted for 69.8% of the total FDI flows to all OIC Member Countries<sup>6</sup>.

**Table 1: FDI Flows** (US Dollars in Billion)

ECONOMY/ YEAR	2007	2008	2009	2010	2011	2012	2013
<b>World</b>	2,001.9	1,818.8	1,221.8	1,422.3	1,700.1	1,330.3	1,4521.0
<b>Developing Economies</b>	591.2	668.8	532.6	648.2	724.8	729.5	778.4
<b>Developed Economies</b>	1,322.8	1,032.4	618.6	703.5	880.4	516.4	565.6
<b>OIC Member Countries</b>	148.0	176.5	140.4	134.6	143.8	144.5	136.1

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 2*). 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

<sup>5</sup> FDI in Figures, OECD, April 2014

<sup>6</sup>UNCTAD, FDI Statistics, (Indonesia, Turkey, Malaysia, UAE, Kazakhstan, Saudi Arabia, Mozambique, Nigeria, Egypt, Morocco)

is more likely to be due to efforts for financial reforms in some developing countries with chronic current account deficits to improve their reserve position<sup>7</sup>.

**Table: 2 Total reserves (including gold)**

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
OIC Member Countries	1.2	1.4	1.4	1.5	1.7	1.9

Source: UNCTAD, UNCTADstat,

The total reserves (including gold) of the OIC 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 OIC Member Countries in the total reserves of developing countries showed a decline from 27% in 2007 to 23% in 2012. As was the case in the FDI flows, ten OIC Member Countries had 83% of the total reserves of all OIC Member Countries.<sup>8</sup>

#### • Domestic Credits

According to World Bank statistics, the amount of domestic credit provided by the banking sector was 166.6% of GDP in the world in 2012 while in high income countries, it was 203% of GDP. This amount was only 43.8% of GDP<sup>9</sup> in the OIC Member Countries, which is almost the same as low income countries (42.5%). In the OIC Region, only Lebanon was above the world average with its 175% ratio.

#### • Islamic Finance 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.<sup>10</sup> It used to be USD 150 billion in the mid- 1990s and is estimated to have reached USD 1.9 trillion<sup>11</sup> in 2013. Although the Islamic Finance assets experienced a significant growth<sup>12</sup>, the share of Islamic Finance assets remain relatively small in the total global financial assets accounting less than 1% of the global total.<sup>13</sup>

The Islamic Financial Assets are 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 are concentrated in a few OIC Member Countries. The top four markets in the OIC 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 Malaysia<sup>14</sup>.

<sup>7</sup> OIC Economic Outlook 2013, SESRIC

<sup>8</sup> UNCTAD, UNCTADstat (Saudi Arabia, Algeria, Malaysia, Libya, Indonesia, Turkey, Iran, Iraq, UAE, Nigeria)

<sup>9</sup> Calculated by Using World Bank Database

<sup>10</sup> European Central Bank, Occasional Paper Series, Islamic Finance in Europe, No 146/June 2013

<sup>11</sup> European Central Bank, Occasional Paper Series, Islamic Finance in Europe, No 146/ June 2013

<sup>12</sup> Islamic 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)

<sup>13</sup> European Central Bank, Occasional Paper Series, Islamic Finance in Europe, No 146/ June 2013

<sup>14</sup> World Islamic Banking Competitiveness Report 2013-Ernst&Young

## MAIN CHALLENGES IN THE OIC MEMBER COUNTRIES

Despite its high potential in finance, OIC member countries have various challenges. The main challenges of the OIC Member Countries regarding the finance sector are as follows<sup>15</sup>:

- *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 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.

- **COMCEC Strategy: Financial Cooperation**

COMCEC Strategy, adopted by the 4<sup>th</sup> 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.

Within the framework of the implementation of the COMCEC Strategy, COMCEC Financial Cooperation Working Group was established in order to realize the objectives and expected outcomes of its financial cooperation section. This 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 12<sup>th</sup>, 2013 in Ankara, Turkey under the theme of Enhancing Capital Flows in the Member Countries. The analytical study entitled “*Barriers and Opportunities for Enhancing Capital Flows in the OIC 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.

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15 COMCEC Strategy

The proceedings of the Meeting underlined that the barriers such as government controls on capital transactions, underdeveloped capital markets, weak enforcement of regulations, unattractive taxation regimes and insufficient capacity are among the major obstacles highlighted during the Meeting. Furthermore, innovative policies, progress on reforms and increasing transparency have been underscored as the promising areas by the Member Countries.

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

The Second Meeting of the Financial Cooperation Working Group was held on March 27<sup>th</sup>, 2014 in Ankara, Turkey with the theme of “*Enhancing Financial Inclusion in the OIC Member States.*” The analytical study entitled “*Enhancing Financial Inclusion in the OIC Member States*” was prepared to enrich discussions during the Meeting. “*Proceedings of the Second Meeting of the COMCEC Financial Cooperation Working Group*” was prepared for reflecting the outcomes of the Meeting.

The participants have deliberated on the institutional framework for financial inclusion in the Member Countries, barriers of enhancing financial inclusion and measures for reducing financially excluded population in the Member Countries and the policy recommendations for enhancing financial inclusion in the Region. During the Meeting, some promising areas such as development of national financial inclusion strategies, utilization of mobile financial services, Islamic finance etc. were highlighted to enhance financial inclusion in the OIC Member Countries.

#### **- The Third Meeting of the Financial Cooperation Working Group**

The third Meeting was held on October 16th, 2014 in Ankara, Turkey under the theme of “*Risk Management in Islamic Financial Instruments*”. The analytical study entitled ““*Risk Management in Islamic Financial Instruments*” was prepared to enrich discussions during the Meeting. The report entitled “*Financial Outlook of the OIC Member Countries 2014*” was also prepared by the CCO for the Meeting. The report entitled “*Proceedings of the Third Meeting of the COMCEC Financial Cooperation Working Group*” was prepared for reflecting the outcomes of the Meeting.

The participants discussed some crucial policy issues in light of the main findings of the research report prepared specifically for the Meeting and the responses of the Member Countries to the policy questions as well as to the capacity inventory questionnaire that have already been sent to the Member States. Accordingly, the working group has come up with the policy advices as under:

- *Developing Islamic Finance Strategies at National Level*
- *Developing Necessary Legal and Institutional Infrastructure for the Islamic Financial Services Industries (IFSI)*
- *Diversification of Islamic Financial Instruments and Services*
- *Increasing Financial Literacy and Awareness on Islamic Finance, and Developing Human Capacity*

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

The Fourth Meeting of the COMCEC Financial Cooperation Working Group will be held on March 19th, 2015 in Ankara with the theme of "*Improving Supervisory Mechanism in the Banking Sector of the OIC Member Countries*".

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

The Fifth Meeting of the COMCEC Financial Cooperation Working Group will be held on October 15th, 2015 in Ankara with the theme of "*Enhancing and Establishing Payment Systems in OIC Member Countries*".

All the documents prepared for the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> Meetings are placed on the COMCEC website ([www.comcec.org](http://www.comcec.org)).

- **COMCEC Project Cycle Management**

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 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 within the scope of the COMCEC PCM was made in September 2013. The Final List of the COMCEC-PCM was announced on March 9th, 2014. Regarding the Financial Cooperation field, Cameroon's project entitled "*Workshop on the Challenges of Electronic Payment Systems in West and Central African States*" has been final-listed and is being implemented successfully. The 2nd project call was made in September 2014 and the three successful projects were short-listed on November 1<sup>st</sup>, 2014.

• **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 20<sup>th</sup> 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 OIC Member Countries and relevant institutions. The Forum has held 8 meetings so far. The 8<sup>th</sup> Meeting of the Forum was held on November 11<sup>th</sup>, 2014 in İstanbul. The detailed information regarding the activities of the forum can be found on [www.oicexchanges.org](http://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 22<sup>nd</sup>, 2012 in İstanbul. The official launching ceremony of the Index was held during the 28<sup>th</sup> 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 1<sup>st</sup> Meeting of the COMCEC Capital Market Regulators Forum was held on September 27<sup>th</sup>, 2012 in İstanbul. The meeting decided the formation of the Task forces on “Capacity Building”, “Market Development”, “Islamic Finance” and “Financial Literacy”. The 2<sup>nd</sup> Meeting of the COMCEC Capital Market Regulators Forum was held on September 19<sup>th</sup>, 2013 in İstanbul. The 3rd Meeting of the COMCEC Capital Market Regulators Forum was held on November 11<sup>th</sup>, 2014 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](http://www.comceccmr.org))

- **Cooperation among the Central Banks and Monetary Authorities:** In line with the relevant resolution of the 24<sup>th</sup> 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. Several capacity building programs have been implemented successfully in various member countries.

The 14<sup>th</sup> meeting of the Central Banks and Monetary Authorities was held on 5-6 November 2014 in Surabaya, Indonesia. The 15th meeting will be held in the Republic of Suriname in 2015. The detailed information regarding Cooperation among the Central Banks and Monetary Authorities can be found at <http://www.sesric.org/activities-cb-meetings.php>.

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