



**FINANCIAL COOPERATION**

**OIC/COMCEC/33-17/D(45)**



**COMCEC**

# **CCO BRIEF ON FINANCIAL COOPERATION**

**COMCEC COORDINATION OFFICE  
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## CCO BRIEF ON FINANCIAL COOPERATION

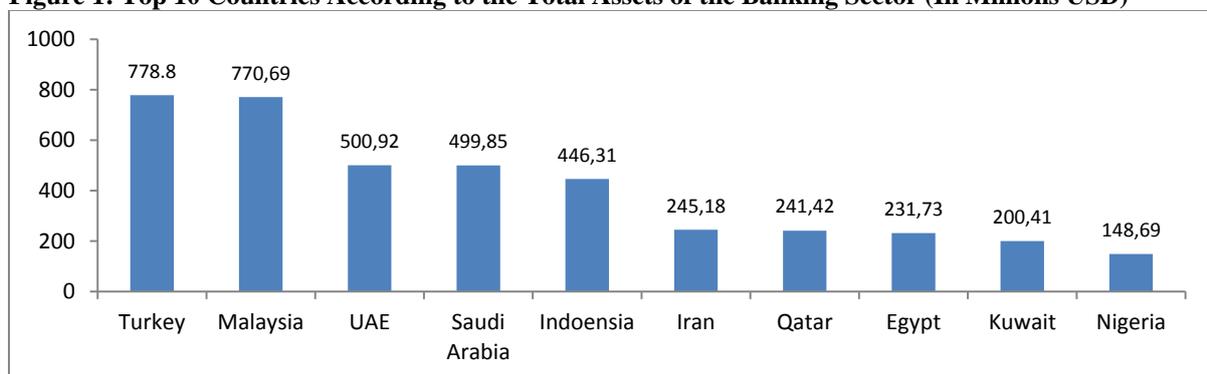
Financial Cooperation among the Member Countries is of particular importance for facilitating capital mobility, increasing financial literacy, managing financial risks, supervising financial institutions, increasing product diversity and broadening and deepening financial markets.

### SELECTED FINANCIAL FIGURES

- **Banking Sector in the Member Countries**

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

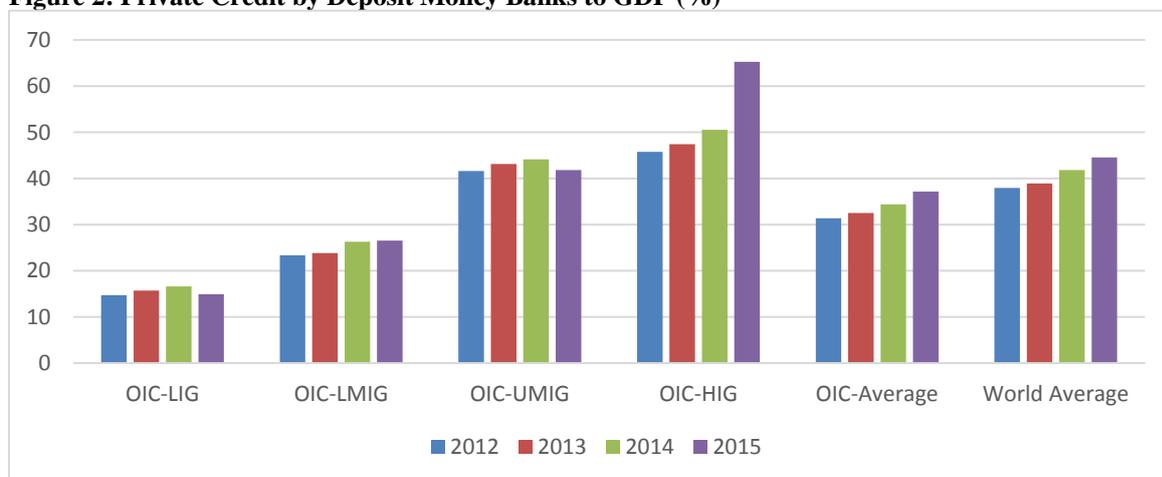
**Figure 1: Top 10 Countries According to the Total Assets of the Banking Sector (In Millions USD)**



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

The level of **Private credit by deposit money banks** (% of GDP) shows the financial resources provided to the private sector by domestic money banks as a share of GDP. The OIC average of the private sector credit given by the domestic banks is lower than the world average. While there has been a slight improvement in recent years, the size of the private sector credit as a share of the GDP clearly indicates the under developed nature of the private sector in the OIC member countries. The OIC average in 2015 reached 37.1%, while the world average for the same period realized 44.5%. Among the OIC member countries, the rates have differed significantly across different income groups.

**Figure 2: Private Credit by Deposit Money Banks to GDP (%)**



Source: *Financial Outlook of the OIC Member Countries 2017*

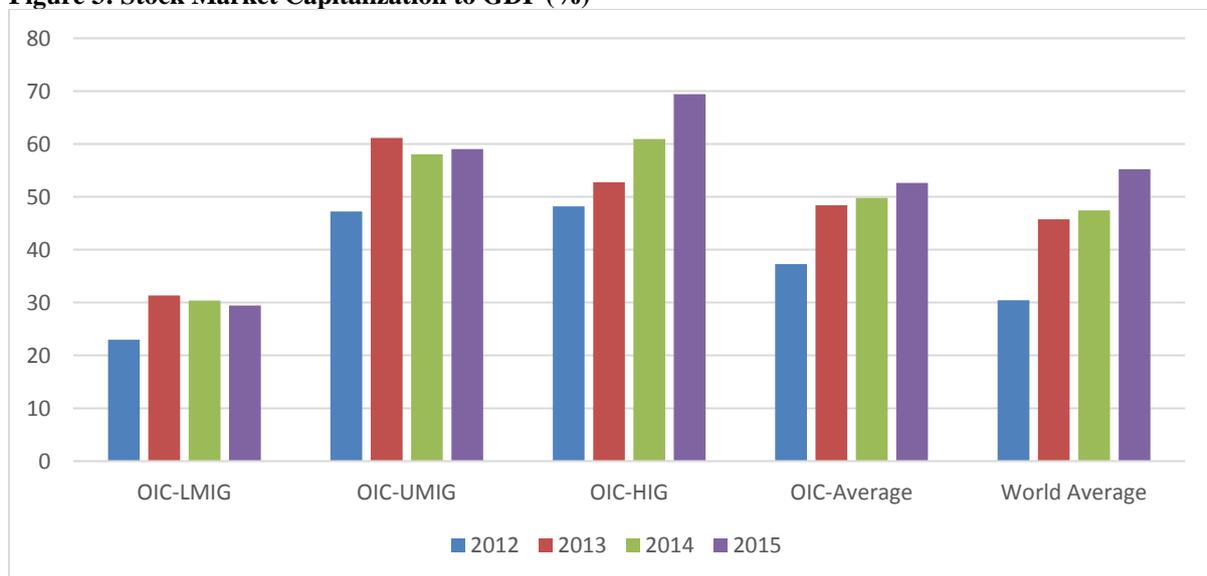
- **Capital Markets**

According to the OIC Member States' Stock Exchanges Forum Integrated Statistics Report - 2015, the number of listed domestic companies at the OIC exchanges was 3,571 and the number of foreign companies was 38 in 2015. The top three Stock Exchanges, Bursa Malaysia (908), Indonesia Stock Exchange (521) and Borsa Istanbul (393) accounted for 50% of the total listed companies.

The OIC Stock Exchanges' market capitalization was \$2 trillion in 2015. The weighted average ratio of the market capitalization of the OIC Exchanges to the GDP values of their respective countries was 62% in 2015<sup>1</sup>.

The Figure below shows the stock market capitalization to GDP ratio of the OIC member countries in terms of income grouping. The world average was recorded as 55.2% in 2015. The OIC average increased continuously over the period and had become 52.6% by 2015. The rates for the high-income group of the OIC member countries is more than the world averages, as the stock markets in these countries have shown significant improvements during recent years, which is highly correlated with the development of stock exchange markets as well as economic growth.

**Figure 3: Stock Market Capitalization to GDP (%)**



Source: *Financial Outlook of the OIC Member Countries 2017*

- **Islamic Finance**

According to the Global Islamic Finance Report 2017, the potential size of the Islamic financial services industry has grown from \$4 trillion in 2009 to \$7.8 trillion in 2016; yet the actual size of the industry was \$2.3 trillion in 2016. The average growth rate during 2009-2016 was 13.9%. The actual size of the industry is still 30% of its potential, and the gap in 2016 widened compared with the potential-actual size gap of 2015. The sector is led by the Islamic banking sector (75%)<sup>2</sup> and the global Sukuk market (15%).

<sup>1</sup> OIC Member States' Stock Exchanges Forum Integrated Statistics Report - 2015

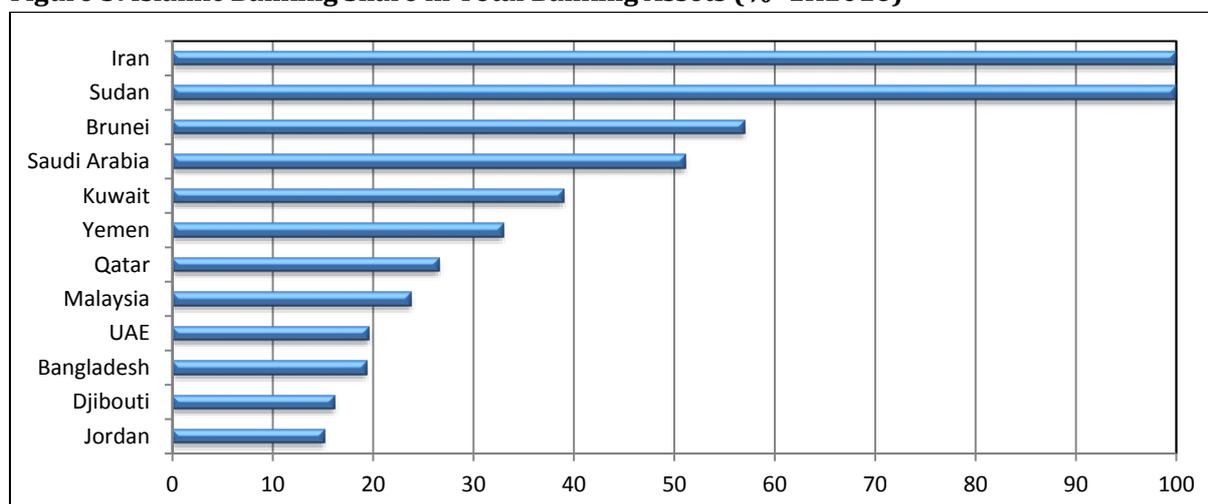
<sup>2</sup> According to IFSB Islamic Financial Stability Report share of Islamic Banking is 79% while the share of Sukuk market is 15%

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

	2009	2010	2011	2012	2013	2014	2015	2016
<b>Potential size of the global Islamic financial services industry (\$ trillion)</b>	4.0	4.4	4.8	5.3	5.9	6.5	7.1	7.8
<b>Actual size of the global Islamic financial services industry (\$ trillion)</b>	1.036	1.139	1.357	1.631	1.813	1.981	2.143	2.293
<b>Size gap (\$ trillion)</b>	2.964	3.261	3.483	3.693	4.043	4.47	4.953	5.513
<b>Growth in actual size of the global Islamic financial services industry (%)</b>	26	9.9	19.1	20.2	12.3	9.3	7.3	5.513
<b>Average growth rate between 2009-2016 (%)</b>								13.89
<b>Catch-up period - based on 10% growth in potential size and 13.89% growth in actual size (years)</b>								35.2

Source: Edbiz Consulting, GIFR 2017

As the largest segment of the global Islamic finance industry, the total asset of the Islamic Banking sector was approximately \$1.7 trillion in 2016.<sup>3</sup> In twelve of the member countries, the Islamic banking sector has reached systemic importance<sup>4</sup> in the Financial Sector.

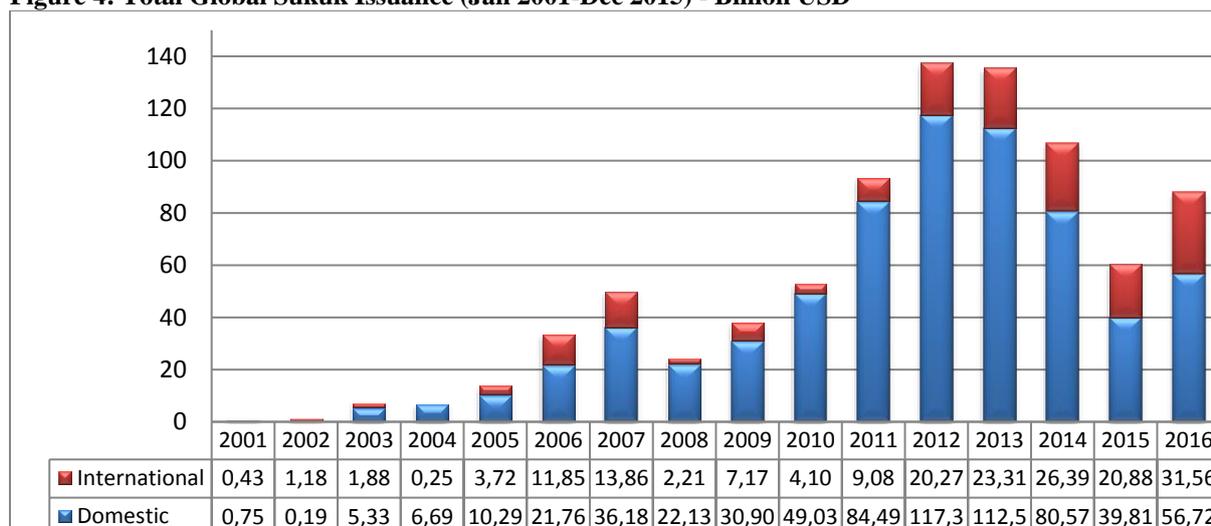
**Figure 3: Islamic Banking Share in Total Banking Assets (%- 1H2016)**

Source: IFSB, Islamic Financial Stability Report 2017

Global Sukuk issuances amounted to \$88.3 billion in 2016 with an increase of 44% compared with 2015. According to International Islamic Financial Markets (IIFM), the increase in volume during 2016 was due to steady issuances from Asia, GCC, Africa and certain other jurisdictions and while Malaysia continues to dominate the Sukuk market, the share of countries like Indonesia and Turkey increased as well.

<sup>3</sup> Edbiz Consulting, GIFR 2017

<sup>4</sup> Share of Islamic Banking Sector in Total Banking sector >15%

**Figure 4: Total Global Sukuk Issuance (Jan 2001-Dec 2015) - Billion USD**

Source: IIFM Sukuk Report 5<sup>th</sup> Edition

As of 2016, the total value of the Islamic Funds was \$56.1 billion (IFSB, 2017). The main hub for Islamic funds' investments has experienced a change, as funds with global investments focus are now the largest category, accounting for 34% of total investments in 2016. The Malaysian hub was the second largest, accounting for 25% of the total investment in 2016.

Global takaful assets reached \$38 billion in 2015 and were mainly driven by the top three countries: Saudi Arabia, Iran and Malaysia. These three countries are holding 85% of total takaful assets. Saudi Arabia is the biggest takaful market as its insurance market is based entirely on a cooperative insurance model. Besides Saudi Arabia, Iran and Malaysia are the prominent countries in the takaful industry. The Iranian takaful sector stands at \$10.5 billion and the Malaysian is \$7.3 billion.<sup>5</sup>

## **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 COMCEC Project Funding Mechanism, as well as cooperation among the Stock Exchanges, COMCEC Capital Markets Regulators and Central Banks and Monetary Authorities.

### **- Eight Meeting of COMCEC FCWG: Public Debt Management**

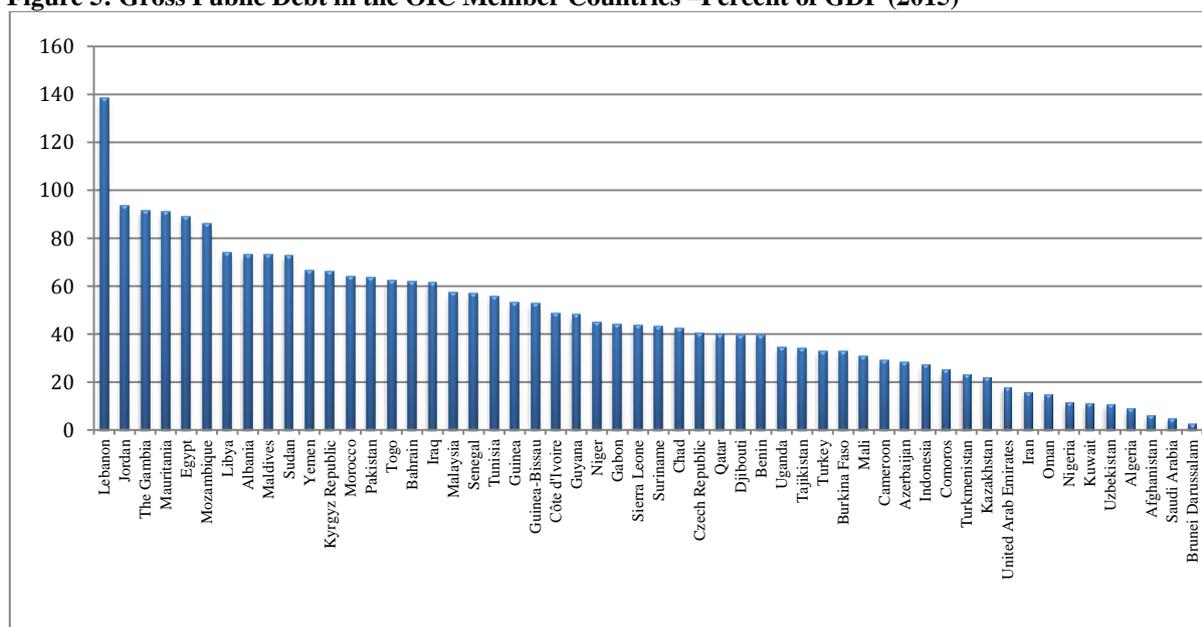
During the past decades, a number of financial crises have occurred due to public debt problems (Mexico-1994, Turkey-1994, Russia-1998, Argentina-2001, European Debt Crisis-2010). The financial stress experienced recently by some Euro Area countries such as Greece, Ireland and Portugal has revealed that unhealthy public finances may cause economic disturbances for all countries, regardless of their economic development level. Furthermore, nowadays, public debt is used as a tool to develop financial markets, to regulate capital movements, and to determine risk-free rates, as well as to finance budget deficits. In this regard, sound public debt management is crucial, not only for undeveloped countries but also for developed ones.

<sup>5</sup> Financial Outlook of the OIC Member Countries 2017

Given the importance of this issue, the Eighth Meeting of the COMCEC Financial Cooperation Working Group was held on March 30, 2017, in Ankara with the theme of “*Improving Public Debt Management in the OIC Member Countries.*”

The research report submitted to the Working Group highlighted that the average public debt level during the 1980-2015 period was between 40% and 80% of GDP with an increasing tendency globally<sup>6</sup>. The ratio of public debt to GDP in the OIC member countries varied from 3% to 138% in 2015.<sup>7</sup> The average public debt to GDP ratio was 36.7% in 2012 and rose to 46.1% in 2015. The public debt to GDP ratio is expected to reach 51.1% by the end of 2017. The decline in oil prices in recent years has led to an increase in budget deficits and debt to GDP ratios in the member countries that have a significant share of oil income in their economies.<sup>8</sup>

**Figure 5: Gross Public Debt in the OIC Member Countries –Percent of GDP (2015)**



Source: WEO (2016), IMF

Some of the main challenges faced by member countries could be defined as shown below:

- Effects of macroeconomic shocks on the structure of the public debt: exchange rate risk, higher refinancing risk, interest rate risk and strong economic dependency on exogenous variables, e.g. prices for natural resources
  - Unclear institutional responsibilities for public debt management
  - Lack of formal debt management strategy
  - Dependency on external borrowing caused by underdeveloped domestic public debt market
  - Short average maturity of public debt
- The research report and the discussions that took place during the Meeting highlighted the need to improve public debt management and the various crucial steps that need to be taken by the member countries. The policy advice highlighted by the Working Group can be summarized as follows:

<sup>6</sup> Improving Public Debt Management in the OIC Member Countries, COMCEC Coordination Office 2017

<sup>7</sup> IMF estimations, World Economic Outlook Database October 2016

<sup>8</sup> Improving Public Debt Management in the OIC Member Countries, COMCEC Coordination Office 2017

- Strengthening/Setting up an independent Public Debt Management Unit with well-defined functions and a dedicated debt management strategy
- Developing/Improving domestic debt market
- Broadening and diversifying the creditor base
- Lengthening the average maturity of public debt
- Apply macroeconomic risk management methods

- **Ninth Meeting of the CFCWG: Diversification of Islamic Financial Instruments**

To a large extent, the current model for Islamic Finance is focused on the adoption of the conventional financial structure; however, there is great potential for financial innovation and expansion in the Islamic financial sector. Moreover, the diversification of Islamic financial instruments is crucial for ensuring sustainable growth and the stability of Islamic Finance, as well as enhancing financial inclusion and taking the necessary measures to protect against financial crises with the powerful structure based on the core tenets of Islam, regarding property rights, social and economic justice, wealth distribution, and governance.

Given the importance of the issue, the Ninth Meeting of the COMCEC Financial Cooperation Working Group, held on October 28th, 2017, in Ankara with the theme of “*Diversification of Islamic Financial Instruments.*” During the Meeting, the analytical study, “Diversification of Islamic Financial Instruments” and “Financial Outlook of the OIC Member Countries 2017” were considered by the participants.

The research report submitted to the Working Group divides the Islamic finance industry into three main components; the Islamic banking segment, the Islamic capital markets segment and Islamic insurance or Takaful segment. The research report highlighted that different products, based on the structures of Mudarabah, Musharakah, Ijarah, Wakala, Salam, Istisna, Qard-e-Hassan, etc., together with hybrid structures such as Diminishing Musharakah, Wakala-Waqf etc., are used across all three segments.

The above-mentioned report reveals that the current model of Islamic finance is focused on the replication of the conventional financing structure. The report underlined that some common major challenges that the policymakers need to address, primarily arise as a result of structural issues. These structural issues result from the prevalence of debt-based instruments and the aspirations of financing predominantly through equity and risk sharing, to the need for increased social capital and the challenges of creating an enabling regulatory framework. The report also emphasizes that, as Shariah compliance is the unique differentiating factor of Islamic finance, there is an immediate need for having a global Shariah governance framework.

Considering these challenges, the Ninth Meeting of the Financial Cooperation Working Group came up with the following policy recommendations:

- Improving the Islamic Finance Infrastructure through Developing Necessary Legal/Regulatory Frameworks for its each Component namely, Islamic Banking, Islamic Capital Markets and Takaful towards Creating an Enabling Environment for Islamic Finance

- Developing a Sound and Effective Governance Framework for National and Strengthening Coordination of Shariah Governance Standards and Policies across Different Jurisdiction.
- Establishing/Developing Islamic Finance Rating Standards
- Strengthening Human Capital in Islamic Finance in the OIC Member Countries through Enhanced Financial Literacy and Awareness Programs/Projects by Governments, Universities and Private Sector
- Facilitating Experience Sharing among the OIC Member Countries in sub-sectors of the Islamic Finance Industry for a Sustainable and Harmonized Growth of the Industry

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

### **COMCEC Project Funding Mechanism**

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

In 2016, The Gambia implemented the project, “Towards an Improved Institutional Framework for Islamic Finance.” In the project, the regulatory guidelines for Islamic Banking, Islamic Microfinance, Takaful and Islamic Capital Market operations that can be implemented by the Central Bank of The Gambia and the Bank of Sierra Leone, were prepared by the project expert. An international workshop with the participation of 50 participants from the Central Banks of The Gambia, Nigeria and Sierra Leone, as well as other financial institutions, academia and religious bodies, were conducted. The main objective of the workshop was the developing of Islamic finance in the partner countries using the knowledge and experiences of local experts. The report entitled “Towards an Improved Institutional Framework for Islamic Finance in The Gambia, Nigeria and Sierra Leone” was the main output of the workshop. The report includes implementable recommendations for improving the institutional framework for Islamic finance and promotes use of Islamic Financial Instruments. In addition, a joint study tour to Nigeria was made with six participants from the Central Banks of The Gambia and Sierra Leone. The objectives of the study tour were to give the participants an opportunity to comprehend Nigeria’s Non Interest Banking (NIB)/ Islamic Finance industry.

#### **- 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 20<sup>th</sup> Session of the COMCEC. The Forum has held ten meetings so far. The 11<sup>th</sup> Meeting of the Forum was held on October 31st, 2017 in Istanbul.

In line with the proposal put forward by H.E. Recep Tayyip Erdoğan, President of the Republic of Turkey and Chairman of COMCEC in his statement at the opening speech of the 30<sup>th</sup> Session of the COMCEC, the Forum secretariat started to work on the “Gold Exchange Initiative for OIC Member Countries.” The 32<sup>nd</sup> Session welcomed the Forum’s proposal to establish a highly adaptable web-based gold trading and clearing platform with the ultimate aim of a gold exchange/platform among the volunteering member countries and also requested the Forum/Forum’s Secretariat to carry out the necessary studies for the suggested platform/exchange. Furthermore, interested member states were invited to actively participate in the Forum’s Task Force, to support the suggested platform/exchange through the acceleration of the process of integration of exchanges and harmonization of the regulatory frameworks, by

the 32<sup>nd</sup> Session. Moreover, recalling the above-mentioned resolution of the 32<sup>nd</sup> Session of the COMCEC, the 33<sup>rd</sup> Meeting of the Follow-up Committee took note of the efforts made towards establishing a highly adaptable web-based gold trading and clearing platform with the ultimate aim of a gold exchange/platform among the volunteering Member Countries and requested the Forum/Forum's Secretariat to finalize the necessary studies for the suggested platform/exchange and submit a comprehensive report to the 33<sup>rd</sup> Session of the COMCEC.

The detailed information regarding the activities of the forum is available on [www.oicexchanges.org](http://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 the 27<sup>th</sup> Session of the COMCEC. The Forum has held six meetings so far. The 6<sup>th</sup> Meeting of the COMCEC Capital Market Regulators Forum was held on October 31<sup>st</sup>, 2017 in Istanbul.

H.E. Recep Tayyip ERDOĞAN, Chairman of the COMCEC, made a proposal in his opening speech on establishing a Real Estate Exchange among the OIC Member Countries. Accordingly, the Forum secretariat started to work on a "Real Estate Securities Exchange Initiative." The 32<sup>nd</sup> Session took note of the Forum's proposal to establish the COMCEC Real Estate electronic platform among the interested OIC Member States participating in the Forum and also requested the Forum/ the Forum's Secretariat to conduct comprehensive studies, in order to identify the necessary stages for establishing the suggested platform, with the support of the relevant national authorities and securities exchanges from the volunteering member countries. The interested member states were invited to actively participate in the studies to support the suggested platform, by identifying their authorized bodies to expedite further technical work for establishing the platform by the 32<sup>nd</sup> Session. Moreover, recalling the abovementioned resolution of the 32<sup>nd</sup> Session of the COMCEC, the 33<sup>rd</sup> Meeting of the Follow-up Committee took note of the efforts made regarding the Forum's proposal to establish the COMCEC Real Estate electronic platform among the interested OIC Member States participating in the Forum and requested the Forum/the Forum's Secretariat to complete the comprehensive study for identifying the necessary stages towards establishing the suggested platform, with the support of the relevant national authorities and securities exchanges from volunteering Member States and submit a report to the 33<sup>rd</sup> COMCEC Ministerial Session.

The details regarding the Forum activities are available on the Forum website. ([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.

The 15<sup>th</sup> Meeting of the Central Banks and Monetary Authorities of the OIC Member States was held on September 21-22, 2017 in Muğla. Two Working Groups was established to prepare technical background papers in the following areas: Financial Inclusion, and OIC Economic Outlook. The said papers will be reported to the Next Meeting of the Central Banks and Monetary Authorities.