



FINANCIAL COOPERATION

OIC/COMCEC FC/ 37-21 D()



COMCEC

CCO BRIEF ON FINANCIAL COOPERATION

COMCEC COORDINATION OFFICE

June 2021

BRIEF ON FINANCIAL COOPERATION

I. Introduction

Financial cooperation plays a pivotal role for facilitating capital mobility, increasing financial literacy, managing financial risks, supervising financial institutions, increasing product diversity and broadening and deepening financial markets. Hence, regional or global financial cooperation is essential to ensure international financial system stability and thereby should contribute to improving the economic and social situation on a global scale.

Almost all countries have been going through a difficult phase with a high level of uncertainties due to the COVID-19 pandemic, which has adverse effects on social and economic areas of all countries. While governments have been taking measures to control the spread of the pandemic and prevent the rise in the number of deaths by supporting the health system and promoting vaccination of their societies, they have been occupied with moderating the adverse consequence of the COVID-19 outbreak on their economies.

Demand and supply-sides problems have been arising since the first quarter of 2020 because of the lockdowns and other measures taken to limit the spread of the virus. While the early forecasts¹ were around 5% shrinking, the recent estimates indicate that the global economy contracted around 3.3% in 2020. On the other hand, the global economy is expected to grow in 2021 with 6% and 4.4% in 2022 according to the International Monetary Fund's (IMF) forecasts in April 2021 amid uncertainty and concerns about the new variants of the coronavirus (IMF, 2021).

The latest and updated forecast of the Organisation for Economic Co-operation and Development (OECD) for GDP growth rate is likely to reflect these concerns with 4.2% in 2021 and 3.7% in 2022 (OECD, 2021), which are more conservative forecasts compared to the IMF. According to Moody's Investors Service's latest report, although a relatively strong recovery is expected for 2021, many countries will not be able to reach pre-COVID-19 levels until 2022 (Moody's Investors Service, 2021).

II. Islamic Finance

The asset size of the Islamic finance sector has grown 11.4% in 2019². The industry's total assets size is estimated at \$2.44 trillion in 2019 (Table 1), which was \$2.19 trillion in 2018. 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 72.4% of the industry's total assets while Sukuk market, Islamic funds and Takaful market represent 22.3%, 4.2% and 1.1% of the Islamic finance industry respectively in 2019.

¹ While the IMF expected -4.9% contraction in GDP, World Bank's baseline forecast was -5.2% for 2020. Please see the reports, IMF World Economic Outlook Update-April 2021 <https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021> and World Bank Global Economic Prospects-June 2020 (<https://www.worldbank.org/en/publication/global-economic-prospects>).

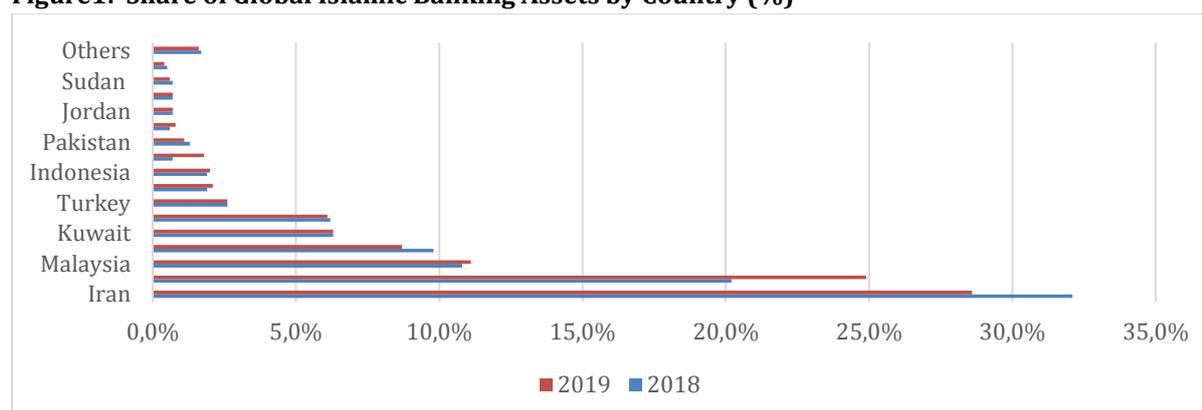
² IFSB Islamic Financial Stability Report 2020. Data for the year 2020 and first six-month in 2021 is not published for Islamic Finance sector.

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

Region	Islamic Banking	Outstanding Sukuk	Islamic Funds' Assets	Takaful Contributions	Total	Share
GCC	854.0	204.5	36.4	11.7	1,106.6	45.4%
South-East Asia	240.5	303.3	26.7	3.0	573.5	23.5%
Middle East and South Asia	584.3	19.1	16.5	11.4	631.3	25.9%
Africa	33.9	1.8	1.6	0.6	37.9	1.6%
Others	53.1	14.7	21.1	0.4	89.3	3.7%
Total	1,765.8	543.4	102.3	27.1	2,438.6	100.0%
Share	72.4%	22.3%	4.2%	1.1%	100.0%	

Source: Compiled from 2019 and 2020 Islamic Financial Services Industry Stability Reports

Total assets of Islamic banking recorded a double-digit growth rate and increased from USD 1,571.3 billion to USD 1,765.8 billion in 2019. In terms of regions, GCC is the main contributor to the global Islamic banking assets with USD 854.0 billion in 2019. It is followed by MESA, South-East Asia, Africa, and other countries with USD 584.3 billion, USD 240.5 billion, USD 33.9 billion and USD 53.1 billion, respectively.

Figure1: Share of Global Islamic Banking Assets by Country (%)

Source: IFSB Islamic Financial Stability Report 2018

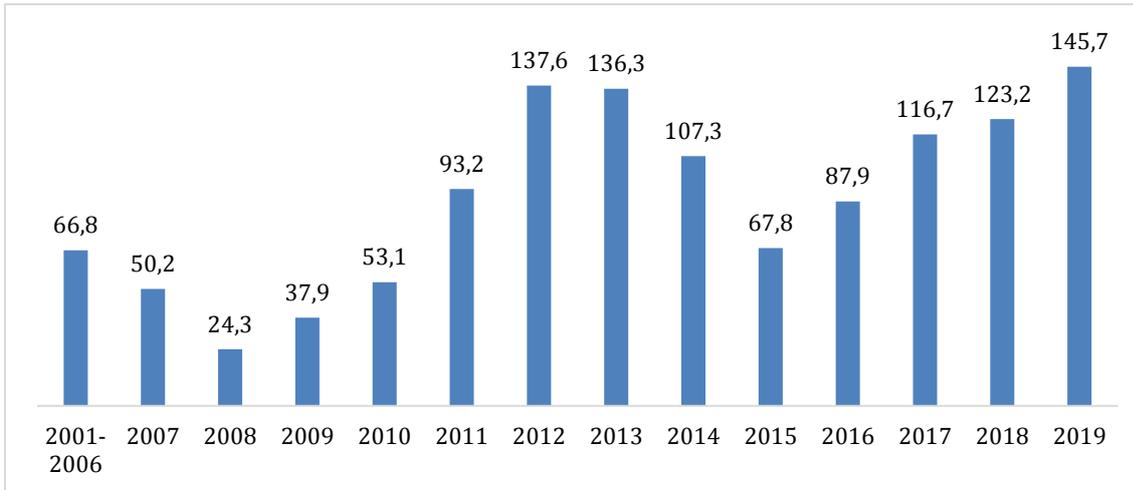
Total global issuance increased 18 percent in volume from USD 123.2 billion in 2018 to USD 145.7 billion in 2019 [YoY growth was 6% in 2018]. In 2019, the increase in sukuk issuance was mainly driven by regular issuances in Asia, GCC, Africa and certain other jurisdictions.³ Malaysia continued to dominate the sukuk market. The highest sukuk issuance volume was achieved in 2019 since the first issuance in 2001.⁴ 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 2017.⁵

³ IIFM. (2020). IIFM Sukuk Report 2020.

⁴ IFSB Islamic Financial Stability Report 2018.

⁵ Ibid.

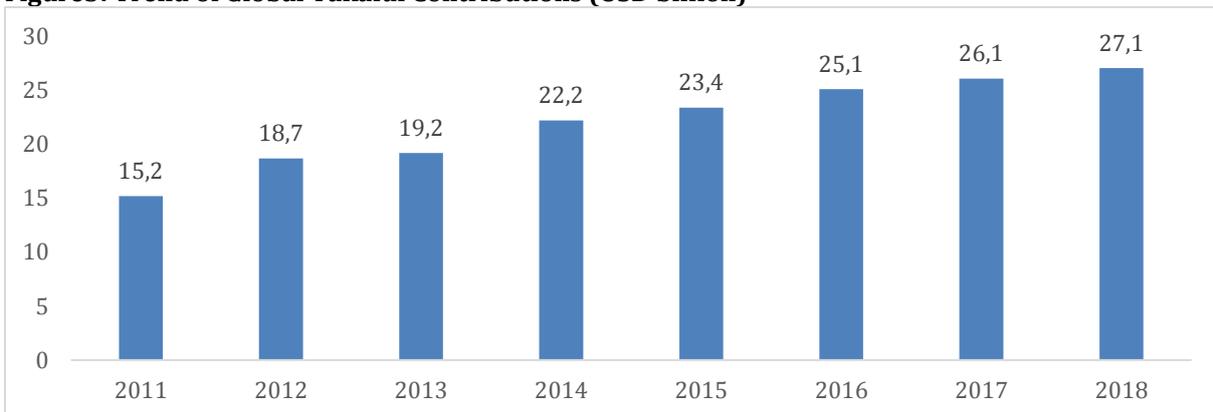
Figure2: Global Sukuk Issuances (2001-2019, USD billion)



Source: IIFM Sukuk Report 2020

The global takaful contributions reached USD 27.1 billion in 2018 from 26.1 in 2017 and were mainly driven by the GCC and MESA regions, USD 11,7 [2017: USD 11.8 billion] and 11.4 [2017: USD 9.9 billion], respectively. They were followed by South East Asia USD 3.0 billion [2017: USD 2.8 billion] and Africa USD 0.55 billion [2017: USD 0.9 billion].

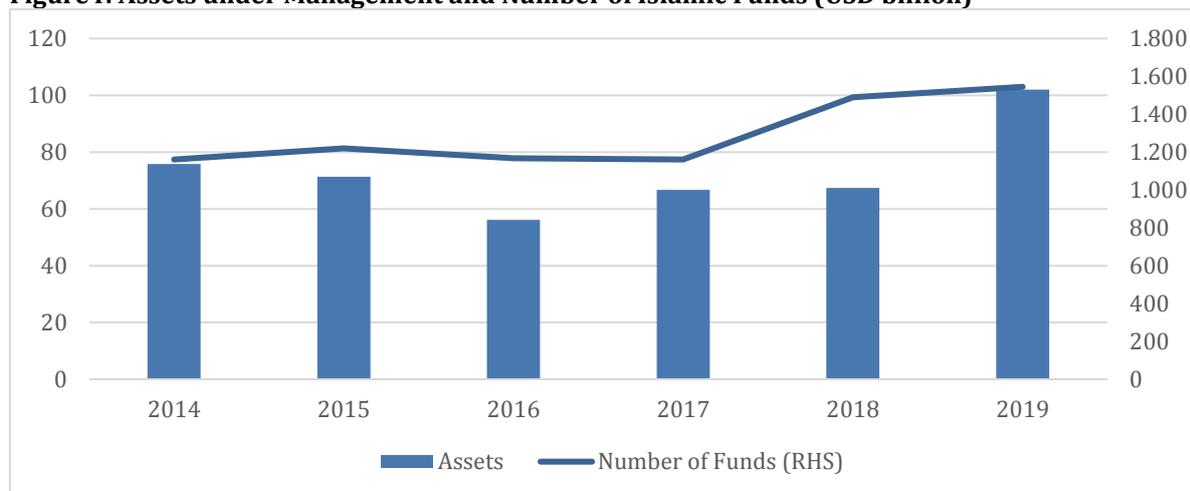
Figure3: Trend of Global Takaful Contributions (USD billion)



Source: Islamic Financial Services Industry Stability Report 2020

The number of Islamic funds almost kept steady at 1,545 [2018: 1,489]. The top five jurisdictions did not change in 2019. Saudi Arabia 38.5 percent [2018: 34%], Malaysia 28.1 percent [2018: 32%], Iran 14.9 percent [2018: N/A], Luxembourg 4.2 percent [2018: 5%], and the US 3.9 percent [2018: 5%]⁶ Two of them are non-OIC countries in the top 5, and 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).

⁶ IFSB. (2019). *Islamic Financial Services Industry Stability Report 2019* and IFSB. (2020). *Islamic Financial Services Industry Stability Report 2020*. Kuala Lumpur, Malaysia.

Figure4: Assets under Management and Number of Islamic Funds (USD billion)

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

The idea of enhancing financial cooperation under the COMCEC dates back to its initial meetings. Cooperation efforts in this area have been intensified and deepened in recent years. The COMCEC Strategy has defined finance as one of the cooperation areas of COMCEC. Financial cooperation deepening has been defined as a strategic objective of the Strategy. Within this framework, since the 36th COMCEC Session, the COMCEC FCWG elaborated on the role of Islamic Finance in supporting Microenterprises and SMEs against COVID-19 in its 15th Meeting.

A. The Role of Islamic Finance in Supporting Microenterprises and SMEs against COVID-19

(15th Meeting of the Financial Cooperation Working Group)

The 15th Meeting of the COMCEC Financial Cooperation Working Group was held on April 6th, 2021, in a virtual-only format with the theme of “The Role of Islamic Finance in Supporting Microenterprises and SMEs against COVID-19”.

Since the last COMCEC Ministerial Meeting, there have been slight modifications in the preparation process of COMCEC Sectoral Analytical Studies and the conduct of Working Group Meetings taking into consideration the requests and valuable feedbacks from National Focal Points and relevant senior-experts of the Member Countries. One research report will be prepared for two consecutive WG meetings. While the first draft of the report will be submitted to the first meeting, the completed report will be submitted to the second meeting.

In this new modality, as there will be a long preparation period and sufficient time for perfection of the final study, the active contributions of member country focal points and representatives in the process are more crucial. This new modality will strengthen the CCO’s policy oriented approach to develop more concrete policy recommendations for the benefit of the member countries.

Within this framework, a research report with the same theme is being prepared for two consecutive COMCEC FCWG meetings (15th and 16th). While the first draft version of the report will be submitted

to the 16th TCWG meeting, the final version of the report will be submitted to the 16th FCWG meeting, to be held on the September 2021.

The main objective of this study is to examine the role of Islamic finance in supporting the MSMEs throughout and after the COVID-19 pandemic in various aspects such as Islamic banking, Islamic capital markets, takaful, and Islamic social finance institutions, with particular focus on the developments at national and global levels in OIC Member Countries. The consultant should elaborate and analyse the recent initiatives taken by governments, international bodies, national Islamic financial institutions towards MSMEs, and constraints and challenges in different jurisdictions. Furthermore, the analytical report is expected to suggest policy recommendations to OIC Member Countries to promote the role of Islamic finance in supporting the MSMEs during the COVID-19 and accelerate the development of Islamic finance.

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

COMCEC Project Funding (CPF) is the other important instrument of the Strategy. Projects financed under the CPF need to serve multilateral cooperation and must be designed in accordance with the objectives and the expected outcomes defined by the Strategy in the finance section. Projects also play important roles in realization of the policy recommendations formulated by the member countries during the TCWG meetings.

4 projects were selected to be financed by the CCO in 2020 under the 7th Call for Project Proposals. These projects, however, are yet to be completed due to delays arising from international travel restrictions imposed by the COVID 19 pandemic. Hence, these projects are expected to be finalized in 2021.

Brunei Darussalam's "Capacity Building Program on Sukuk, ESG Sukuk and Islamic Fintech" project will serve the purpose of realizing the above-mentioned policy recommendation through training of stakeholders of the capital market ecosystem including regulatory bodies, securities exchanges, and financial institutions tertiary level institutions. The partners are Indonesia and Malaysia. The project activities are training on legal framework on sukuk and a workshop for experience sharing on responsible and sustainable financing through the issuance of sukuk. This project is expected to be implemented in 2021.

Malaysia will implement the project called "Advancing Islamic Capital Market through Financial Technology" with the partnership of Turkey and Brunei Darussalam in 2021. The project aims to enhance human and institutional capacity on the development of contemporary Islamic capital market using financial technology through workshop and policy recommendation report. A workshop is planned to be organized on advancing Islamic capital market through financial technology.

Nigeria is implementing the project titled "Improving Takaful in the OIC Member States" with an aim of building the capacity of regulators and Takaful operators in order to develop the sector and create public awareness on Takaful to increase financial inclusion. The project partners are Sudan and Mozambique. A training is planned for reviewing the principles, sub-sectors and regulations of Islamic finance along with the structures of takaful models for practitioners and regulators and then a conference is foreseen for creating awareness on the role of takaful in Islamic financial risk management services in Nigeria and partner countries.

Sierra Leone's "Facilitating Women Entrepreneurs' Access to Islamic Finance" project aims at empowering women and SME's through a training program on entrepreneurship and Islamic finance.

Project partners are Malaysia and Nigeria. Project activities are a study visit to Malaysia for learning best practices, their achievements, and adopted strategies on SMEs and Islamic finance and a training on entrepreneurship and SME development on the basis of Islamic finance.

Also, one project was selected to be financed by the CCO in 2021 under the 8th Call for Project Proposals.

This project will be implemented by the Afghanistan with the partnership of Malaysia and Turkey in 2021. The project titled “Development of Takaful Market” aims at developing the regulatory framework, relevant policies and governance for Takaful market. A workshop will be organized to enable participants to share knowledge, lessons, and experiences.

- **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 13 meetings so far. The 14th Meeting of the Forum was virtually held on October 8th, 2020. 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 36th COMCEC Session, the Forum Secretariat is expected to advance the technical preparations for the establishment of the OIC Gold Exchange and report to the 36th 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 eight meetings so far. The 9th Meeting of the COMCEC Capital Market Regulators Forum was virtually held on October 13-14th, 2020. Regarding the real estate exchange project, the 36th 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 37th 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 37th 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 was held on 22-24 September 2019 in Bodrum/Turkey. The 2nd Meeting of the Forum was virtually held on October 7th, 2020.

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

