



FINANCIAL COOPERATION

OIC/COMCEC FC/ 36-20 D()



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 11.4% in 2019¹. 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.

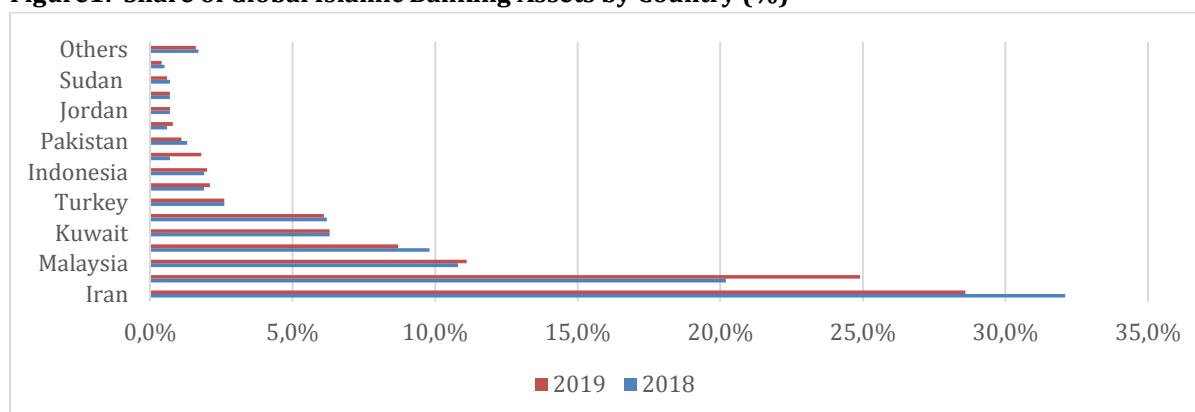
Table 1: Breakdown of IFSI by Sector and by Region, US\$ Billion

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 (%)

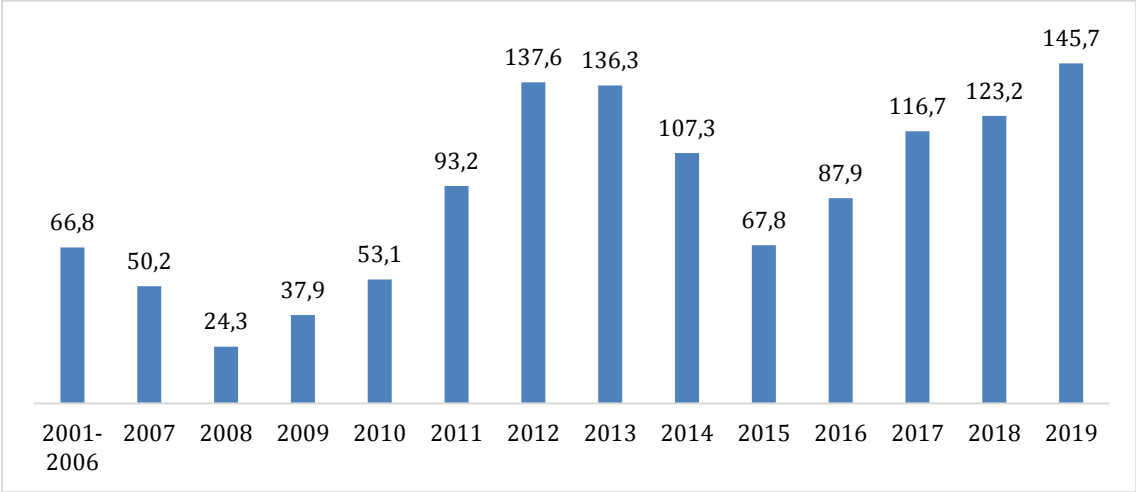


Source: IFSB Islamic Financial Stability Report 2018

¹ IFSB Islamic Financial Stability Report 2020.

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.² Malaysia continued to dominate the sukuk market. The highest sukuk issuance volume was achieved in 2019 since the first issuance in 2001.³ 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

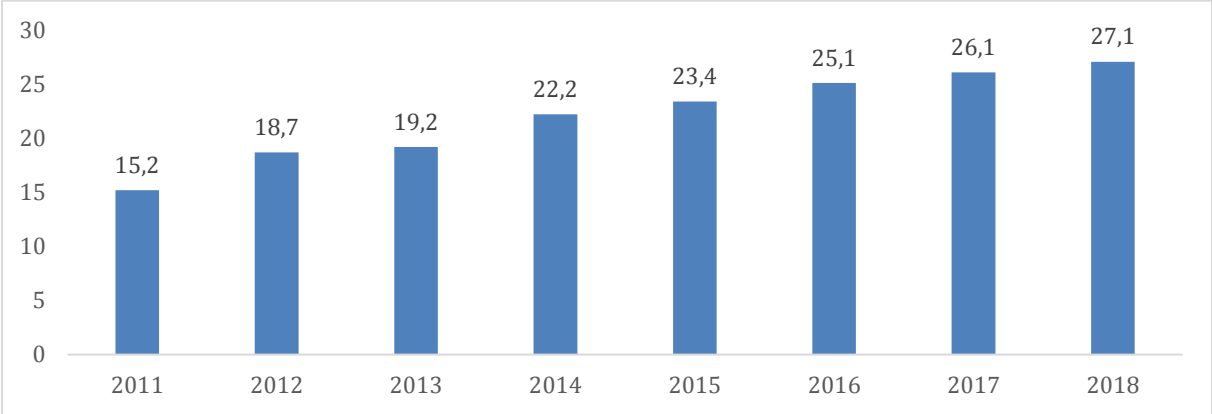
Figure2: Global Sukuk Issuances (2001-2019, USD billion)



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 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%]⁵

² IIFM. (2020). IIFM Sukuk Report 2020.

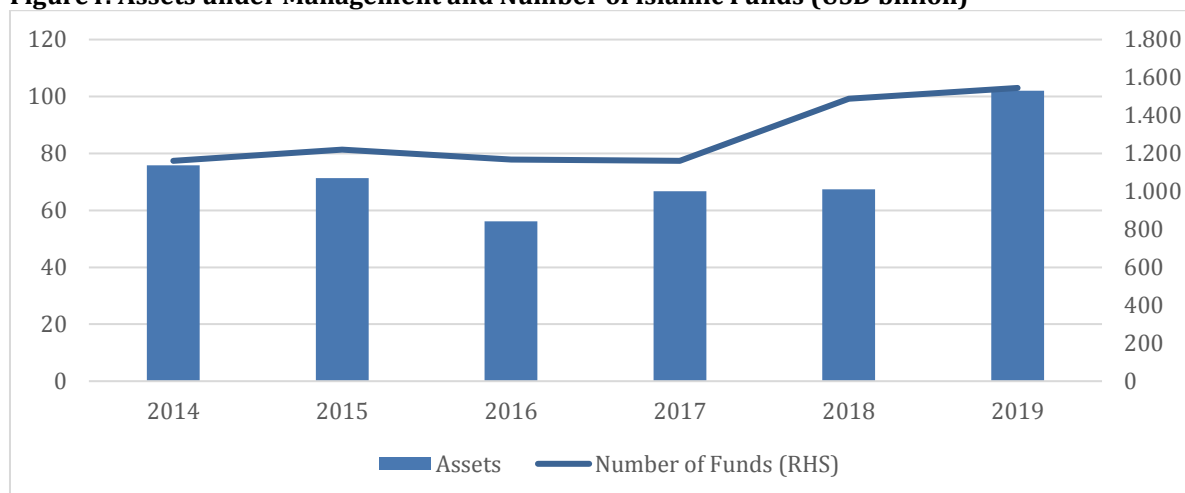
³ IFSB Islamic Financial Stability Report 2018.

⁴ Ibid.

⁵ IFSB. (2019). *Islamic Financial Services Industry Stability Report 2019* and IFSB. (2020). *Islamic Financial Services Industry Stability Report 2020*. Kuala Lumpur, Malaysia.

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).

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



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.

- Improving Shariah Governance Framework in Islamic Finance (Fourteenth Meeting of COMCEC FCWG)

A robust shariah governance regime is of particular importance for ensuring the compliance with shariah principles and the confidence of customers as well as the financial markets on the credibility of Islamic finance operations. However, the OIC Region has not been strongly engaged with the shariah governance framework in Islamic finance.

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 14th Meeting of the Financial Cooperation Working Group (FCWG) was held on September 15th, 2020, in a virtual-only format, with the theme of "Improving Shariah Governance Framework in Islamic Finance."

The research report prepared for this meeting highlighted that the majority of our member countries (thirty-one member countries) can be placed under the category of the unregulated regime in which there is no national Shariah Supervisory Board. Furthermore, in nine (9) member countries, Islamic finance regulations, institutions and practices do not exist. According to the research report, the average score for the effectiveness of the Shariah Governance Framework (SGF) is 3, 74 out of 5, and for the impact of SGF is 3, 57.

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

- Lack of qualified human resources,
- Lack of adequate knowledge-based institutions,
- Differences between supervision of different regulatory bodies on financial institutions' tasks,
- Lack of integration of Shariah governance considerations,
- Lack of awareness in society,

- Inadequate communication between Shariah councils.

In order to address these challenges and improve the shariah governance framework in Islamic Finance, the Working Group has come up with the following policy recommendations:

- Developing a comprehensive legal and regulatory framework for the Shariah Governance processes and arrangements to ensure that all the operations and business activities in Islamic Finance are in accordance with Shariah.
- Encouraging the establishment of national Shariah Supervisory Boards (SSBs) supervising the institutional SSBs.
- Developing guidelines for ensuring/facilitating the active involvement of Investment Account Holders (IAHs) in IFIs' management in accordance with their contribution to the investment pool.
- Encouraging talent development through training and professional certification programs and increasing the awareness of stakeholders about Shariah Governance.
- Promoting the integration of Islamic Finance sector into whole economy with a view to making monetary policy more inclusive.

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 its transport section. Projects also play important roles in realization of the policy recommendations formulated by the member countries during the TCWG meetings.

In 2019, three financial cooperation projects were supported under the COMCEC Project Funding and implemented by Mozambique, Nigeria and Turkey.

Mozambique's "Capacity Building on Islamic Finance in Mozambique, Gambia and Nigeria" project targets 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. The project partners are the Gambia and Nigeria. A training was organized on the essential Islamic finance topics such as Mudarabah, Musharakah and Murabahah. Then a workshop was organized on importance of Islamic finance for economic growth, business opportunities, financial inclusion and poverty reduction in the partner countries.

Nigeria implemented the project titled "Islamic Liquidity Management Instruments for Sustainable Development of Islamic Financial Institutions" with the partnership of the Gambia and Malaysia. The project aims at developing the capacity of Islamic banks and financial regulators towards effective liquidity management and monetary operations frameworks through the development of Sharia Compliant high-quality liquid assets. A study visit was organized to Malaysia to gain knowledge and experience on Sharia Compliant Liquidity Management and then a training was organized on Islamic Liquidity Management Instruments Turkey.

Turkey' project is "Assessment of COMCEC Real Estate Securities Markets and Regulatory Landscapes for Strengthening Capital Markets" aiming 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. The partners are Kuwait, Malaysia, Iran, Palestine, Azerbaijan, Saudi Arabia, Tunisia, Gabon, Djibouti and Senegal. A workshop

was held on for the assessment of market and regulatory aspects of the COMCEC Real Estate Securities Market.

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

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.

8th Call for Project Proposals on the other hand started on September 1st, 2020. Relevant documents are available on the COMCEC website. (project.comcec.org)

- **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 13th Meeting of the Forum was held on September 26th, 2019 in Istanbul/Turkey. 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 35th 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 8th Meeting of the COMCEC Capital Market Regulators Forum was held on September 26th, 2019 in Istanbul. Regarding the real estate exchange project, the 35th 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 36th 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 36th 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 details regarding the Forum activities are available on the Forum website. (www.comceccentralbanks.org)

