

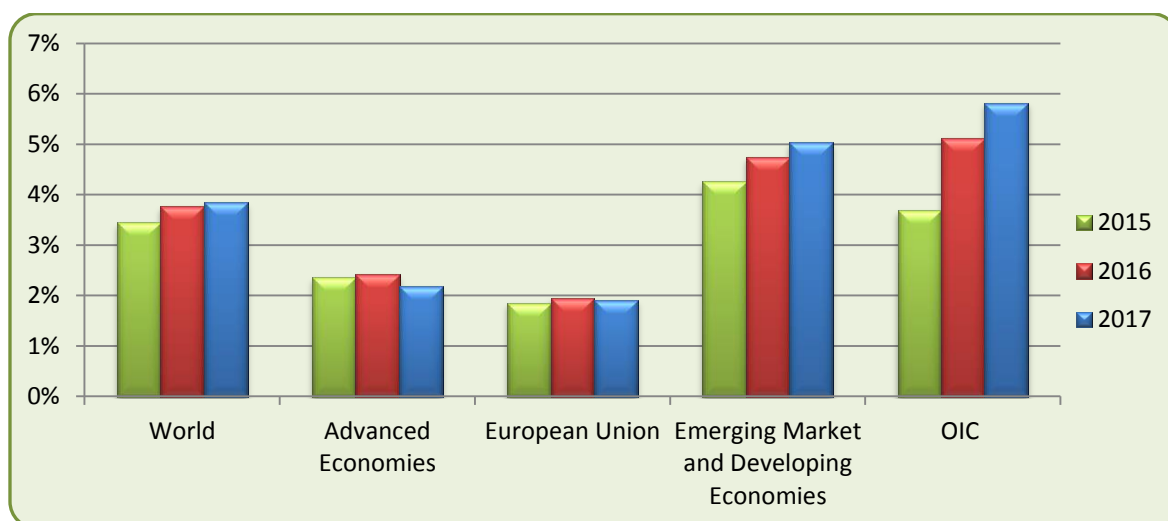
CCO BRIEF ON FINANCIAL COOPERATION

Governments have implemented unprecedented and growth friendly fiscal and monetary policies in order to support growth, job creation, and reach sustainable debt as a share of GDP after the global financial crisis. As a result of these measures, global recovery continues, although at a moderate and uneven pace reflecting a further slowdown in emerging markets and weak recovery in advanced economies. Yet; uncertainties on the path to economic recovery still persist.¹

Global growth is projected at 3.4% in 2015 and 3.8% in 2016 by IMF, advanced economies are expected to pick up gradually while emerging markets and developing economies will experience slowdown in 2015.²

Despite the lowering commodity prices, tightening global financial conditions and possible higher interest rates, OIC Member States will maintain economic growth the next two years. Thus, it is expected that OIC Member States average economic growth rate will accelerate in 2016 and 2017 with 5.1% and 5.8%, respectively.

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



Source: IMF

SELECTED FINANCIAL FIGURES

- **Islamic Finance Assets**

The current value of the Islamic Finance assets, led by the Islamic banking sector and the global sukuk market, is estimated to be more than \$2 trillion (compounded average growth rate, CAGR 2009-2014: 17.3%).³ It is expected that the industry will expand further, with total assets projected at nearly \$ 3.5 trillion by 2018.⁴ As Islamic finance continues to reach

¹ IMF, Global Prospects and Policy Challenges, September 2015

² IMF World Economic Outlook, April 2015

³ MIFC Insights Report, The Sustainable Financial System: An Evaluation Journey, 29 April 2015, <http://www.mifc.com/>

⁴ US: Potential Market for Islamic Finance, <http://www.mifc.com/>

new heights, the expansion is complemented by trends which suggest that the industry is evolving into a deeper and more sustainable ecosystem. Key driving trends in the sphere of Islamic finance include landmark debut sukuk issuances by governments, and the expansion of Islamic finance into more countries in Africa and Europe and a more sustainable ecosystem.⁵

- **Banking Sector in the Member Countries**

According to World Bank database, the total size of the banking sector as a percentage of GDP is 270% in the Euro area, whereas this ratio is 72% in the US. Except Malaysia (114.6%) and Lebanon (142.3%), this ratio is lower than 100% for all OIC member states. Furthermore, 29 member states' ratio is even lower than 50%.

In a similar manner with assets to GDP ratio, domestic credit average provided by the financial sector in OIC member countries is a way below 100%. Domestic credit to private to GDP ratio of OIC-HIGH⁶ countries was 50.7% in 2014 while the ratio of OIC-LIG countries was only 18.3% for the same year. Furthermore, domestic credit to private to GDP ratio of Rest of World was 61.3% while the ratio of OIC average was 33.2% in 2014.

As the largest segment of the global Islamic finance industry, the total asset of the sector is estimated at -approximately- \$1.48 trillion as of the 1st half of 2014, and is estimated to amount approximately \$1.56 trillion by the end of the 2014. The asset size of the industry suggests that there is a huge gap between the potential and existing Islamic Finance market, the 2014 potential of the Islamic banking universe would be \$4.178 trillion in assets within the OIC.⁷ The CAGR between 2008 and 2013 was 16.89%. The industry grew by 16% in 2013 annually while assets of the top 1000 global banks grew by only 4.9% in 2012 and 0.6% in 2013.⁸

Therefore, there is still an important room for banking sector growth in the OIC member countries. Trying to realize these growth potential, member countries should have sound and robust supervisory and regulatory mechanisms to avoid possible financial turbulences and distortions in the system. In this regard, member states should spare every effort to improve their regulatory and supervisory mechanisms in the banking sector.

- **Foreign Direct Investments**

Global foreign direct investment (FDI) inflows fell by 16% to \$1.23 trillion in 2014, mostly because of the fragility of the global economy, policy uncertainty for investors and elevated geopolitical risks.⁹

According to UNCTAD's World Investment Report 2015, due to growth prospects in the United States, the demand-stimulating effects of lower oil prices and accommodating monetary policy, and continued investment liberalization and promotion measures, total FDI flows is estimated to be \$1.4 trillion in 2015, \$1.5 trillion in 2016 and \$1.7 trillion in 2017.

The total FDI flows to OIC was \$ 130 billion in 2013 compared to \$ 145 billion in 2012. The shares of OIC Member Countries in developing countries and global FDI flows were 18.6%

⁵ 2014- A Landmark Year for Global Islamic Finance Industry, December 2014, MIFC

⁶ See Annex 1 for Country Grouping

⁷ Thomson Reuters State of the Global Islamic Economy report 2014-2015

⁸ Islamic Financial Stability report 2015, IFSB, May 2015

⁹ World Investment Report 2015, UNCTAD, June 2015

and 9.4% in 2013, respectively. Concerning the distribution of FDI flows in the OIC Member Countries, as is the case of other major macroeconomic aggregates of the OIC member countries, a few member countries attract the great majority of the FDI flows. The top 5 OIC countries¹⁰ with largest inward FDI flows together accounted for 46.9% of total FDI flows to OIC countries, whereas the top 10 countries accounted for 68.8%.¹¹

- **International Reserves (Including Gold)**

Global international reserves – including gold – increased from \$7.8 trillion in 2008 to \$ 12.6 trillion (\$ 4.5 trillion for developed countries, \$ 8.1 trillion for developing countries) in 2013. Total reserves of OIC countries were \$ 1.9 trillion in 2013. It was \$1.3 trillion in 2008. Despite this increase, the share of OIC countries in total reserves of the developing countries declined from 26% to 23.1% during this period.¹²

COOPERATION EFFORTS UNDER THE COMCEC

Financial Cooperation is one of the significant cooperation areas of the COMCEC. Efforts for enhancing financial cooperation under the COMCEC have been intensified in recent years. These efforts are being carried out under the COMCEC Financial Cooperation Working Group and COMCEC Project Funding Mechanism as well as cooperation among the Stock Exchanges Forum, COMCEC Capital Markets Regulators Forum and Central Banks and Monetary Authorities.

- **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.

- COMCEC Financial Cooperation Working Group

Within the framework of the implementation of the COMCEC Strategy for the realization of the objectives in financial cooperation, COMCEC Financial Cooperation Working Group was established. 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 Fourth Meeting of the COMCEC Financial Cooperation Working Group was held on 19th March, 2015 in Ankara with the theme of “*Improving Banking Supervisory Mechanisms in the OIC Member Countries*”. The analytical study titled “*Improving Banking Supervisory Mechanisms in the OIC Member Countries*” was prepared to enrich discussions during the

¹⁰Indonesia, Turkey, Malaysia, UAE and Kazakhstan

¹¹ OIC Economic Outlook 2014 SESRIC

¹² OIC Economic Outlook 2014 SESRIC

Meeting. “Proceedings of the Fourth Meeting of the COMCEC Financial Cooperation Working Group” was also prepared for reflecting the outcomes of the Meeting.

Regarding improving the supervisory mechanisms for a better banking system in the Member Countries, the participants discussed some crucial policy issues in light of the main findings of the research report of the Meeting and the responses of the Member Countries to the policy questions that had already been sent to the Member States. Accordingly, the working group came up with policy advices as follows:

- *A credit risk data collection strategy for the OIC Member Countries needs to be developed for reducing risks during episodes of economic turbulence and risk assessment capacity of the OIC Member Countries should also be developed in line with the international best practices.*
- *An Effective Deposit Insurance Scheme for the Banking Sector needs to be developed for achieving a higher degree of financial stability and financial inclusion.*
- *A Regulatory and supervisory Framework needs to be developed specifically for Islamic Banking in order to benefit from the significant growth potential of Islamic Banking System.*

The Fifth Meeting of the COMCEC Financial Cooperation Working Group was also held on 15th October 2015 in Ankara with the theme of “Retail Payment Systems in the OIC Member Countries.” With regard to strengthening the retail payment systems in the Member Countries, the participants evaluated some policy issues in light of the main findings of the research report of the Meeting and the responses of the Member Countries to the policy questions which had already been sent to the Member States. Accordingly, the working group came up with the policy advices as follows:

- *Increasing awareness of the benefits of modern retail payment systems through providing education on basic financial controls and prudence as well as increasing transparency in order to help consumer rights.*
- *Exploring ways to further decrease the cost of retail payments and seeking ways for interoperability*
- *Establishing/ maintaining OIC payment systems data collection and reporting framework*

All the documents prepared for the Working Group Meetings are placed on the COMCEC website (www.comceec.org).

The Sixth Financial Cooperation Working Group will be held on March 17th, 2016, in Ankara with theme of the “Developing Islamic Finance Strategies in the OIC Member Countries.” The Seventh Financial Cooperation Working Group will be held on October 20th, 2016, in Ankara with the theme of “National and Global Islamic Financial Architecture: Problems and Possible Solutions for OIC Member Countries”.

- **COMCEC Project Funding Mechanism**

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.

After the successful implementation of the first project term, the second project call within the scope of the COMCEC PCM was made in September 2014. The Final List of the COMCEC-PCM was announced on February 12th, 2015. Regarding Financial Cooperation field, Gambia's and Malaysia's projects titled "*Enhancing Financial Literacy and Capacity Building on Islamic Financial Instruments*" and "*Islamic Capital Market Capacity Building Programmes*" have been final-listed. Both projects are expected to be implemented and finalized in 2015.

CCO has already announced the third project call in September 2015 to be implemented in 2016. Within the third call, projects of Cameroon, The Gambia and SESRIC were short listed. The final list will be communicated in mid-January 2016.

- **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 20th Session of the COMCEC. The Forum has held 9 meetings so far. In its 8th Meeting, The Forum mandated the Task Force on Indices to collaborate with index providers and work on the creation of sub-indices for the S&P OIC COMCEC Shariah 50 Index and also mandated the Task Force on Commodities Market to meet regularly via conference calls to discuss developments in their respective commodity markets and potential cooperation areas such as product development and Islamic derivatives.

- The 9th Meeting of the Forum was held on November 19th, 2015 in İstanbul. The detailed information regarding the activities of the forum can be found on www.oicexchanges.org.

- **COMCEC Capital Market Regulators Forum:** In line with the relevant resolutions of COMCEC, the "COMCEC Capital Market Regulators Forum" was established in 2011. The main focus of the Forum is to support market development and reinforce capabilities of regulatory authorities in the COMCEC Region. The Forum has held 4 meetings so far. In its 3rd Meeting, the Forum proposed organizing regional programs on Islamic capital markets and providing training and knowledge resources at the existing capital market training institutions. The forum also deliberated the survey focused on issues such as disclosure systems in place within OIC member jurisdiction, financial instruments disclosure requirements and enhancing the regulating and monitoring capacity of capital market regulators of the Member Countries.

- The 4th Meeting of the COMCEC Capital Market Regulators Forum was held on November 19th, 2015 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. Three Working Groups have been established in the areas of Payment Systems, Macro-Prudential Regulations, and Liquidity Management in Islamic Finance.

- The 14th meeting of the Central Banks and Monetary Authorities was held on 5-6 November 2014 in Surabaya, Indonesia. The Meeting deliberated the global financial developments and potential shocks, well-functioning macro-prudential policy, Islamic financial industry and comprehensive standards and also the importance of the collection,

collation, processing and dissemination of data on Islamic Banking and Finance. The 15th meeting was planned to be held on 23-24 October 2015, but postponed to a later date. The detailed information regarding Cooperation among the Central Banks and Monetary Authorities can be found at <http://www.sesric.org/activities-cb-meetings.php>.

Annex 1.

Table 1: Categorization of OIC Member States

CATEGORIES	COUNTRIES	NUMBER OF COUNTRIES
OIC-Low income group US\$ 1045 or less	Afghanistan, Benin, Burkina Faso, Chad, Comoros, Guinea, Guinea-Bissau, Mali, Mozambique, Niger, Sierra Leone, Somalia, The Gambia, Togo, Uganda	15
OIC-Lower middle income group US\$ 1,046 to US\$ 4,125	Bangladesh, Cameroon, Cote d'Ivoire, Djibouti Egypt, Arab Rep., Guyana, Indonesia, Kyrgyz Republic, Mauritania, Morocco, Nigeria, Pakistan, State of Palestine, Senegal, Sudan, Syrian Arab Republic, Tajikistan Uzbekistan, Yemen	19
OIC-Upper middle income US\$ 4,126 to US\$12,736	Albania, Algeria, Azerbaijan, Gabon, Islamic Republic of Iran, Iraq, Jordan, Kazakhstan, Lebanon, Libya, Malaysia, Maldives, Suriname, Tunisia, Turkey, Turkmenistan	16
OIC-High income group US\$ 12,736 or more	Bahrain, Brunei Darussalam, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates	7

