Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)

COMCEC FINANCIAL OUTLOOK 2020

COMCEC COORDINATION OFFICE
September 2020

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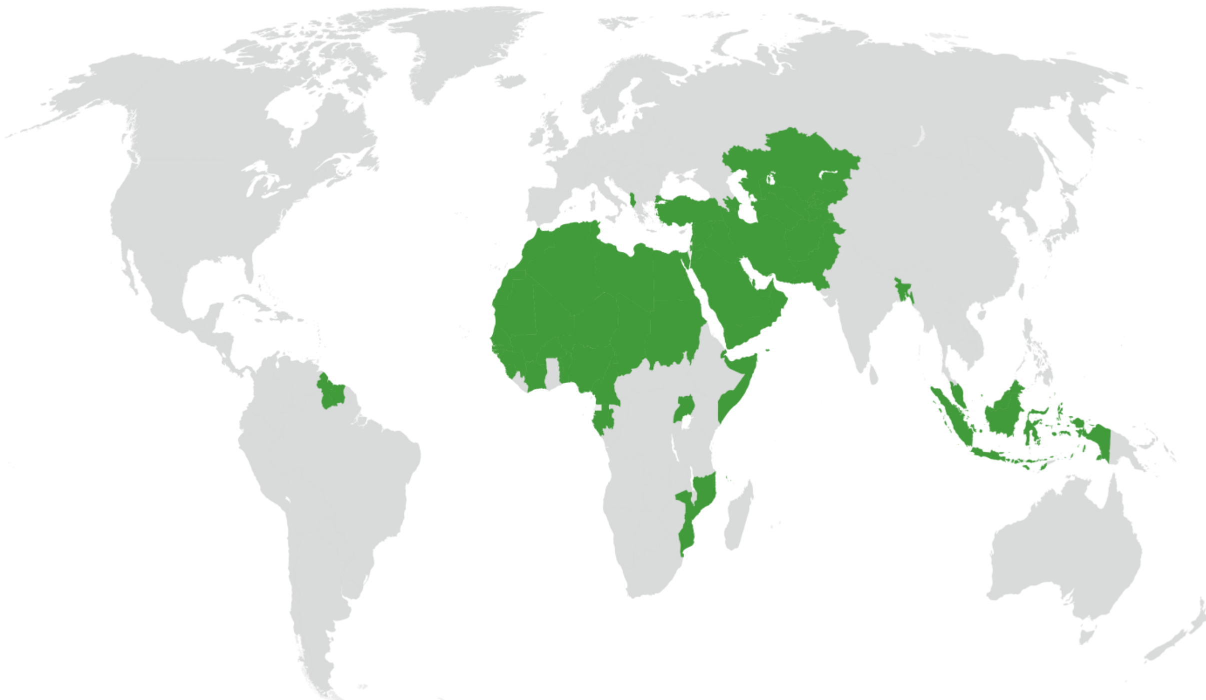

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PREFACE

The COMCEC Outlooks are prepared in each cooperation area to explore the global trends and the current situation in the OIC Member Countries in the respective area and enrich the discussions during the Working Groups Meetings by providing up-to-date data.

The COMCEC Financial Outlook 2020 is prepared by Dr. Mücahit ÖZDEMİR to present a general outlook of the financial system of the OIC Member Countries highlighting the potential areas for cooperation as well as evaluating the recent developments in the global economic and financial system.

Views and opinions expressed in the report are solely those of the author and do not represent the official views of the COMCEC Coordination Office (CCO) or the Member States of the Organization of Islamic Cooperation. The final version of the report is available on the COMCEC website.[1] The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the COMCEC/CCO concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its political regime or frontiers or boundaries. Designations such as “developed,” “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the state reached by a particular country or area in the development process.

[1] E-book: http://ebook.comcec.org

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ABBREVIATIONS

AuM	Assets under management
BIS	Bank for International Settlement
COMCEC	Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GNI	Gross National Income
IFSI	Islamic Financial Services Industry
MESA	The Middle East and South Asia
NPL	Non-Performing Loans to Gross Loans
OIC	Organization of the Islamic Cooperation
OIC-HIGH	OIC-High Income Group
OIC-LIG	OIC-Low Income Group
OIC-LMIG	OIC Lower Middle-Income Group
OIC-UMIG	OIC-Upper Middle-Income Group
ROA	Return on Asset
ROE	Return on Equity

INTRODUCTION

As a large regional international organization, The COMCEC is one of the four standing committees of the OIC that is responsible for enhancing economic and commercial cooperation among the Member States. Since the commencement of its activities in 1984, COMCEC has initiated many programs and projects towards improving financial cooperation among the OIC Member States. Besides, the COMCEC Strategy identified financial cooperation as one of the significant cooperation areas and envisaged the establishment of the Financial Cooperation Working Group as an essential instrument for strengthening financial cooperation among member countries. Furthermore, cooperation among the Stock Exchanges, Capital Market Regulators and Central Banks and Monetary Authorities of the Member States are other crucial ongoing initiatives in the field of financial cooperation under the COMCEC.

Financial Outlook has been prepared in order to provide an overview of the financial system of the OIC member countries by emphasizing the recent global economic and financial developments.

The outlook comprises of three main sections: The first section gives a general overview of the financial system of the OIC member countries. It outlines financial depth, financial access, financial efficiency and financial stability in addition to the weaknesses and strengths according to selected financial indicators. In this Outlook, the OIC member countries classified according to their income levels. The second section briefly addresses the Islamic finance industry. The third section underlines the cooperation efforts under the COMCEC Strategy and the ongoing activities under the COMCEC in this field.

1. FINANCIAL OUTLOOK OF THE OIC MEMBER COUNTRIES

Financial markets have crucial roles for the economies. In the 1950s and 1960s, financial institutions, especially state-owned institutions, were used for promoting economic sectors through subsidized credit programs by governments. However, these state-led development programs became unsuccessful because of the inefficiencies, corruptions, and populist allocation of the sources, and the harmful effects of them were seen in the 1970s. Three main factors led to the government to follow financial liberalization: poor results, high costs, and pressures from globalization (Hanson & Ramachandran, 1990). Hence, financial markets have started to be liberalized in the 1980s and 1990s, and the role of the markets for development process increased.

The liberalization of financial markets during the 1990s and 2000s played an essential role in shaping today's financial structure all over the world. The financial sector provides payment and transaction services as well as channels households' savings to its best investment areas to the different sectors of the economy, such as households, enterprises, and governments. However, it can also cause fragility and crisis, as seen during the recent global financial crises in 2007-2008, alongside numerous banking crises in emerging market and developing economies.

The financial sector accomplishes several functions that enable the efficient functioning of the economy and promote economic growth. Some of the main functions of a financial system are identified as "the trading of risk, allocating capital, monitoring managers, mobilizing savings, and easing the trading of goods, services, and financial contracts"(Levine, 1997, p. 689). For the financial sector to contribute to the growth, the industry itself has to be resilient and be able to reduce its vulnerabilities. Given the complexity and dynamism of modern financial products and markets, appropriate institutions are needed to reduce the risks and vulnerabilities that can potentially lead to severe and costly economic downturns (COMCEC, 2016).

It has been generally accepted that modern financial institutions and financial markets have a powerful influence on economic development, poverty alleviation, and economic stability. For example, when banks screen borrowers and identify firms with the most promising prospects, this is a crucial step that helps allocate resources efficiently, expand economic opportunities, and foster growth. When banks and securities markets mobilize savings from households to invest in promising projects, this is another crucial step in fostering economic development. When financial institutions monitor the use of investments and scrutinize managerial performance, this is an additional ingredient in boosting the efficiency of corporations. Additionally, equity, bond, and derivative markets enable the diversification of risk; this encourages investment in higher-return projects that might otherwise be shunned (Čihák, Demirgüç-Kunt, Feyen, & Levine, 2012).

The financial sector is significantly connected to the overall institutional framework in a country. Given that the intertemporal of financial transactions makes it one of the most institution sensitive sector, a financial system can only thrive in an environment with active institutions that reduce agency conflicts between contract parties. There might also be reverse influences from a thriving financial sector to the institutional strengthening of a country (Beck, 2016).

A financial system consists of institutional units and markets that interact to mobilize funds for investment and provide facilities for the financing of commercial activity. The role of financial institutions within the system is primarily to intermediate between those that provide funds and those that need funds and typically involves transforming and managing risk. In this regard, the financial system has significant effects for whole economic systems, and a healthy financial system contributes to economic growth by easing access to finance, increasing financial literacy, and allocating resources efficiently.

In order to achieve a well-functioning system, financial markets require depth, access, efficiency, and stability. Depth means that financial institutions and financial markets are a sufficient size. Access reflects the degree to which economic agents use financial services. Efficiency means that financial institutions are able to successfully intermediate financial resources and to facilitate transactions. Finally, stability refers to low market volatility plus low institutional fragility. These characteristics of the market have been measured by using particular indicators to compare financial systems across countries and over time (Čihák et al., 2012).

In this regard, the purpose of this outlook is to shed light on recent financial developments by using the characteristics as mentioned above of the financial markets and, to analyze the financial markets of the OIC countries over time.

The outlook utilizes several measures of following four characteristics of financial institutions and markets to measure and benchmark financial systems:

(a) Financial Depth: Measures the size of financial institutions and markets,

(b) Financial Access: Measures the degree to which individuals can and do use financial institutions and markets,

(c) Financial Efficiency: Measures the efficiency of financial institutions and markets in providing financial services,

(d) Financial Stability: Measures the stability of financial institutions and markets in order to measure and benchmark financial systems in the OIC region (Čihák et al., 2012).

Although the above-referred study of the World Bank has developed several measures to compare the characteristics of the financial markets, the following indicators are selected to analyze the four measures of the financial markets in the OIC countries as depicted in Table 1.

Table 1: Selected Financial Data on the OIC Member States

CATEGORY	INDICATOR CODE	NAME OF THE INDICATOR
DEPTH	GFDD.DI.01	Private credit by deposit money banks to GDP (%)
	GFDD.DI.02	Deposit money banks' assets to GDP (%)
	GFDD.DM.01	Stock market capitalization to GDP (%)
ACCESS	GFDD.AI.01	Bank accounts per 1,000 adults
	GFDD.AI.02	Bank branches per 100,000 adults
	GFDD.AM.02	Market capitalization excluding top 10 companies to total market capitalization (%)
EFFICIENCY	GFDD.EI.02	Bank lending-deposit spread
	GFDD.EI.05	Bank return on assets (%, after-tax)

	GFDD.EI.06	Bank return on equity (%, after-tax)
STABILITY	GFDD.SI.02	Bank nonperforming loans to gross loans (%)
	GFDD.SI.03	Bank capital to total assets (%)
	GFDD.SI.05	Bank regulatory capital to risk-weighted assets (%)

Source: World Bank Global Financial Development Database (October 2019 Version)

In this Financial Outlook, OIC Member Countries have been categorized into four major groups based on the World Bank Income Grouping Methodology (according to their GNP per capita levels). According to this categorization which is updated with 2019 figures, 16 countries are in OIC-Low Income Group (OIC-LIG); 17 are in OIC Lower Middle Income Group (OIC-LMIG); 16 are in OIC-Upper Middle Income Group (OIC-UMIG), and seven are in OIC-High Income Group (OIC-HIGH) as shown in Table 2[2].

Table 2: Categorization of OIC Member States

CATEGORY	COUNTRIES	NUMBER OF COUNTRIES
OIC-Low income group (1,035 USD or less)	Afghanistan, Burkina Faso, Chad, Gambia The, Guinea, Guinea-Bissau, Mali, Mozambique, Niger, Sierra Leone, Somalia, Sudan, Tajikistan, Togo, Uganda, Yemen	16
OIC-Lower middle-income group (1,036 USD to 4,045 USD)	Algeria, Bangladesh, Benin, Cameroon, Comoros, Cote d'Ivoire, Djibouti, Arab Rep. of Egypt, Kyrgyz Republic, Mauritania, Morocco, Nigeria, Pakistan, Palestine, Senegal, Tunisia, Uzbekistan	17
OIC-Upper middle income (4,046 USD to 12,535 USD)	Albania, Azerbaijan, Gabon, Guyana, Indonesia, Iran, Iraq, Jordan, Kazakhstan, Lebanon, Libya, Malaysia, Maldives, Suriname, Turkey, Turkmenistan	16
OIC-High income group (12,535 USD or more)	Bahrain, Brunei Darussalam, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates	7

Source: Composed by the author according to the latest available classification of World Bank 2019, https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups, access date: 04 September 2020. *Note:* Upgraded and downgraded countries in 2019 are indicated in different colors.

[2] Full list of the OIC member countries grouped based on income levels from 2013 to 2019 is also provided in the appendix. It should be noted that the analysis of the four characteristics of financial institutions and markets (depth, access, efficiency, and stability) for each OIC income level groups have been conducted according to classifications for 2013-2017 due to the latest available data in World Bank Financial Development Database. The latest classification for the year 2019 is given as a reference to speculate current state by considering the recent changes in the groups of OIC member countries.

Benin and Indonesia succeeded to move higher category in 2019 compared to 2018. Benin was in the OIC-LIG since 1987; however, the country noteworthily achieved to move OIC-LMIG in 2019 with USD 1,250 GNI per capita in 2019. Indonesia upgraded from OIC-LMIG to OIC-UMIG thanks to the increase in GNI per capita from 3,840 in 2018 to 4,050. Indonesia was in the lower middle-income group since 2005.

On the other hand, two OIC member countries moved from a lower category in 2019 compared to 2018. Algeria was in OIC-UMIG with USD 4,060 GNI per capita in 2018. However, the country's GNI per capita decreased to USD 3,970 in 2019 so that it moved to the OIC-LMIG. The county was in OIC-UMIG since 2010. Sudan is the other country which moved to OIC-LIG from OIC-LMIG due to decline in GNI per capita to 590 USD in 2019 (USD 1,560 in 2018). Sudan was in OIC-LMIG since 2007.

While a quite number of indicators are produced to measure the performances of financial institutions and markets, the data limitation, especially for the low-income and lower-middle income group of the OIC countries, have led to employ a few benchmarks to assess the financial markets. These four characteristics of financial institutions and markets (depth, access, efficiency, and stability) with 12 indicators are used to capture the features of financial systems and to provide the empirical shape of the financial development in the OIC countries. The figures have been composed with the data from the latest World Bank Global Financial Development Database, which was updated in October 2019 to analyze the recent developments in the financial markets in OIC countries. Historical coverage of the database is from 1960 to 2017; however, there are several yearly missing data for each indicator for many countries, including OIC member countries. The last five years' figures (2013-2017) have been used to make the analysis more reliable. Also, OIC countries have been examined in terms of income level groups in each year rather than country-based analysis; therefore, the figures indicate average values of available data for the four income categories. Data availability and accuracy is essential to come up with a meaningful analysis in the financial sector. For the OIC countries, lack of accurate and sufficient data for low-income group countries of the OIC is the main challenge while gathering data.

1.1 Financial Depth

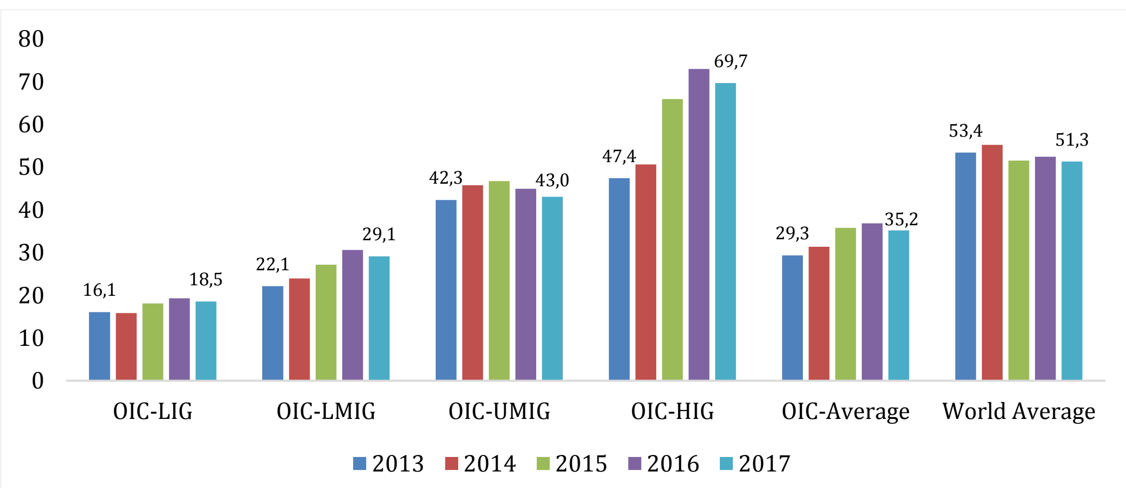
A reasonable level of financial depth is one of the crucial fundamentals for well-functioning financial markets and institutions in order to reach the desired role of finance in an economy to lead economic growth and prosperity and poverty reduction. As the financial institutions and markets are deepened, financial services have been diversified and sophisticated for financial consumers.

Financial depth captures the size of the financial sector relative to the economy. It is the size of banks, other financial institutions, and financial markets in a country compared to a measure of economic output. The most commonly used variable to measure the depth of the markets and institutions in this regard is private credit relative to the GDP. The private credit excludes credit issued to governments, government agencies, and public enterprises. It also excludes credit issued by central banks. An alternative to private credit to GDP is total banking assets to GDP, a variable that is also included in the Global Financial Development Database. It could be accepted as a more comprehensive measure of size, because it includes not only credit to the private sector, but also a credit to government as well as bank assets other than credit. However, it is available for a smaller number of economies and has been used less extensively in the literature on financial development (World Bank, 2020). In order to measure the depth, private credit by deposit money banks to GDP, deposit money banks' assets to GDP, and stock market capitalization to GDP.

Private credit by deposit money banks to GDP refers to the financial resources provided to the private sector by domestic money banks as a share of GDP. Domestic money banks comprise commercial banks and other financial institutions that accept transferable deposits, such as demand deposits. Since the role of the private sector in economic growth has been increasing all over the world, this indicator provides a useful measure on how the financial markets and institutions are used and affect the economy in terms of size. Recent empirical research has shown that economies with better-developed banking and credit system tend to grow faster over long periods (Demirguc-Kunt & Levine, 2008). In this regard, domestic credit to the private sector to GDP ratio is a significant indicator to measure the financial depth of any country.

As shown in Figure 1 below, the OIC average of the private sector credit given by the domestic banks as a share of GDP is significantly 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 indicates the underdeveloped nature of the private sector in the OIC countries. OIC average in 2017 reached 35.2% while the world average for the same period realized as 51.3%. Among the OIC countries, the rates have differed significantly across different income groups. As seen from the graph below and as expected from the level of economic development, OIC-LIG and OIC-LMIG countries have low levels of private credits from the banking sector. OIC countries have performed well improvement over the last five years except for 2017. Especially the rates for the OIC-HIG countries have increased significantly over the years surpassing the world average and reached 69.7% in 2017. As a result, it is found that there is a considerable gap between the world and the OIC Member States average. This is a clear indication of the underdeveloped nature of the private sector and banking in these countries, and this issue can be seen as an important obstacle for investment and economic growth of the OIC member countries.

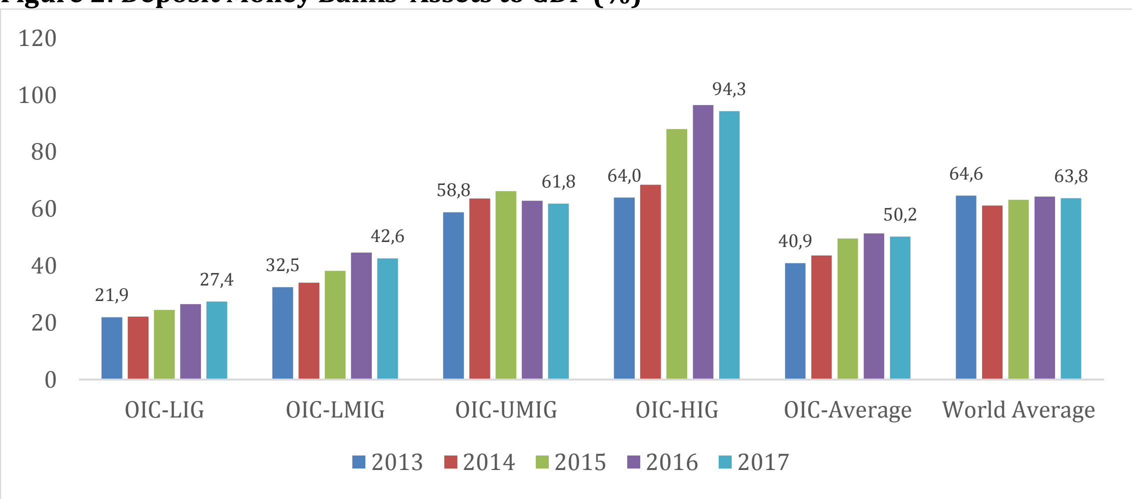
Figure 1: Private Credit by Deposit Money Banks to GDP (%)



Source: Author's calculation from the World Bank Global Financial Development Database (October 2019 Version)

Deposit money banks' assets as a share of GDP is another indicator used to measure the depth of the financial institutions and markets. According to the World Bank (2019), this measure refers to "total assets held by deposit money banks as a share of GDP. Assets include claims on the domestic real nonfinancial sector that includes central, state and local governments, nonfinancial public enterprises and the private sector. Deposit money banks comprise commercial banks and other financial institutions that accept transferable deposits, such as demand deposits". Compared to private credit, this indicator also includes credit to government and bank assets other than credit. The results for OIC average and various income groups are similar to the previous indicator. As can be seen from Figure 2 below, although OIC average regularly increased over the years except for a small decline in 2017, it is still under the world averages. On the other hand, the OIC-HIG group has surpassed, and OIC-UMIG moved closer to the world averages in recent years. Since this indicator includes the claims of the banks on government, the results for these two groups indicates the increasing role of the government to use financial markets more compared to the low-income groups. It is also noted that only OIC-LIG income group has indicated continuous development in the indicator for the relevant five years period.

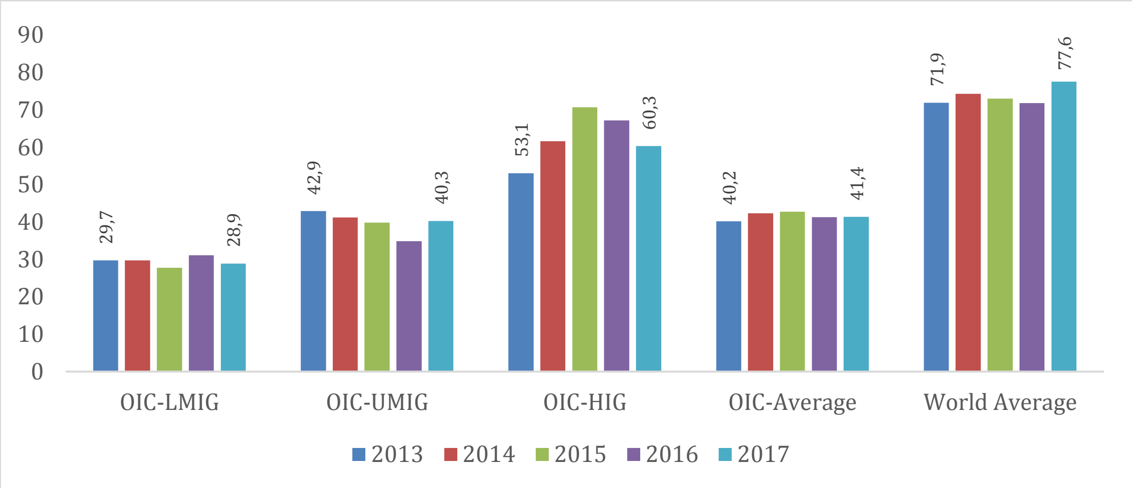
Figure 2: Deposit Money Banks' Assets to GDP (%)



Source: Author's calculation from the World Bank Global Financial Development Database (October 2019 Version)

In order to measure depth in the size of the financial markets of the stock and bond markets could be used as an indicator. To approximate the size of the stock markets, the most common choice in the literature is stock market capitalization to GDP (Čihák et al., 2012). This indicator refers to the total value of all listed shares in a stock market as a percentage of GDP.

Figure 3: Stock Market Capitalization to GDP (%)



Source: Author's calculation from the World Bank Global Financial Development Database (October 2019 Version)

Regarding this indicator, the low-income group of OIC member countries does not have data; therefore, the analysis is conducted on the rest of the country groups. The world average recorded as 77.6% in 2017. The OIC average is significantly below the world average. On the other hand, the rates for the high-income group of OIC countries are close to the world averages, although the performance of this group is underperformed in the last two years. A well-established, stable and functioning stock market will ease accumulation and attraction of long-term capital for sustainable economic growth and development. The stock market has a crucial role in financial markets, and the smooth functioning stock market is accepted as a substantial condition for financial sector evolution. This is also considered a pre-requisite to the sustainable economic growth and development that makes the national economy to enhance more foreign investors. A well-functioning stock market plays a vital role in encouraging liquidity, mobilizing and assembling savings, producing information for prospective investments and capital allocation. Therefore, it is accepted that the existence of an active and stable stock market can stimulate the rate of economic growth (Azam, Haseeb, Samsi, & Raji, 2016).

As a result, as also highlighted in the literature, macroeconomic and institutional factors play an important role in stock market development. The macroeconomic factors such as real income, developments in the banking sector, interest rate, private capital flows, inflation, and exchange rates have effects on stock market development. As for the institutional factors, legal environment, regulations, legal protection of investors, corporate governance, financial liberalization, and trade openness, etc. in an economy can affect the development of the stock market. As the stock markets consist of various financial instruments such as securities, public and corporate bonds, future and option contracts, a stable and well-functioning stock market helps to attract foreign investors. The findings and analysis of these two indicators, stock market capitalization and stock market total value traded, show that stock markets in the OIC Member States have a potential for further expansion to enhance and enlarge the development of the markets to meet the financing need of corporations.

In terms of financial depth, the OIC countries have shown significant fluctuations among various income groups over the selected period. While the high-income group and upper-middle income group countries have performed better than the other groups as well as from the world averages, the averages of the indicator for other groups have been recorded worse than world averages.

1.2 Financial Access

Financial access (inclusion) can briefly be defined as the use of financial services by individuals and firms. Financial access helps peoples and corporations to get the benefit of new business opportunities, invest more in education, save for the future, and insure against various risks, etc. This topic has been of growing interest all over the world and considered as one of the main areas, particularly in emerging market and developing economies for the further development of financial markets. The benefits of the financial intermediation and markets are believed not being used by all sectors and population that resulted in adverse effects on inclusive economic growth, poverty alleviation, income distribution and efficient allocation of resources, etc.

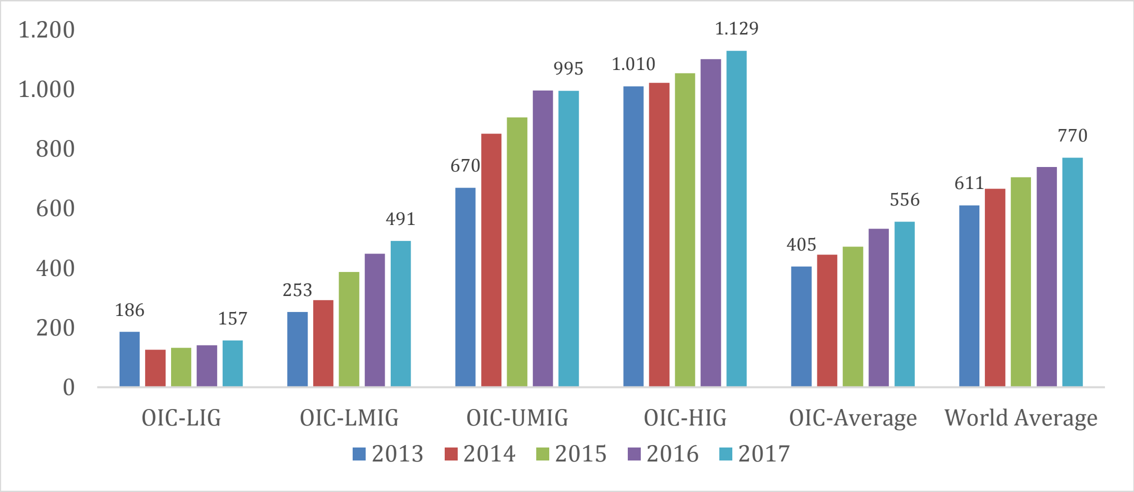
Čihák et al. (2012, p. 12) highlight the importance of financial access of the different groups of economic units as follows: "A well-functioning financial system allocates capital based on the expected quality of the project and entrepreneur, not on the accumulated wealth and social connections of the entrepreneur". A well-functioning financial system that overcomes market frictions will more effectively provide financial services to a wide range of firms and households, not just large companies and rich individuals. Thus, to develop informative proxies of financial development, it is useful to move beyond the financial depth and also include indicators of financial access—the degree to which the public can access financial services.'

A typical proxy variable of access to financial institutions is the number of bank accounts per 1,000 adults. Other variables in this category include the number of bank branches per 100,000 adults (commercial banks), the percentage of firms with a line of credit. When using these proxies, the following points should be kept in mind on their weaknesses: The number of bank branches is becoming increasingly misleading with the move towards branchless banking. The number of bank accounts does not suffer from the same issue, but it has its own limitations (in particular, it focuses on banks only, and does not correct for the fact that some bank clients have numerous accounts) (Čihák et al., 2012).

Bank accounts per 1,000 adults is one of the leading indicators of access to financial services that refers to 'the number of depositors with commercial banks per 1,000 adults'. As a result of the underdeveloped nature of economic and financial markets as well as low level of financial inclusion, this level for low-income group countries has been lagging behind the world averages significantly.

While the world average was recorded as 770.3 in 2017, the OIC-LIG was realized as 156.6 in the same year. The level of bank accounts opened by adults in OIC-HIG and OIC-UMIG countries, which have exceeded the world averages significantly, recorded as 1,128.9 and 994.8, respectively. This indicates that there is a close correlation between economic growth, income level, and banking activities in a particular country. These figures indicate that the low-income group of OIC countries need to develop their markets to increase financial inclusion in order to support their economic growth and poverty reduction.

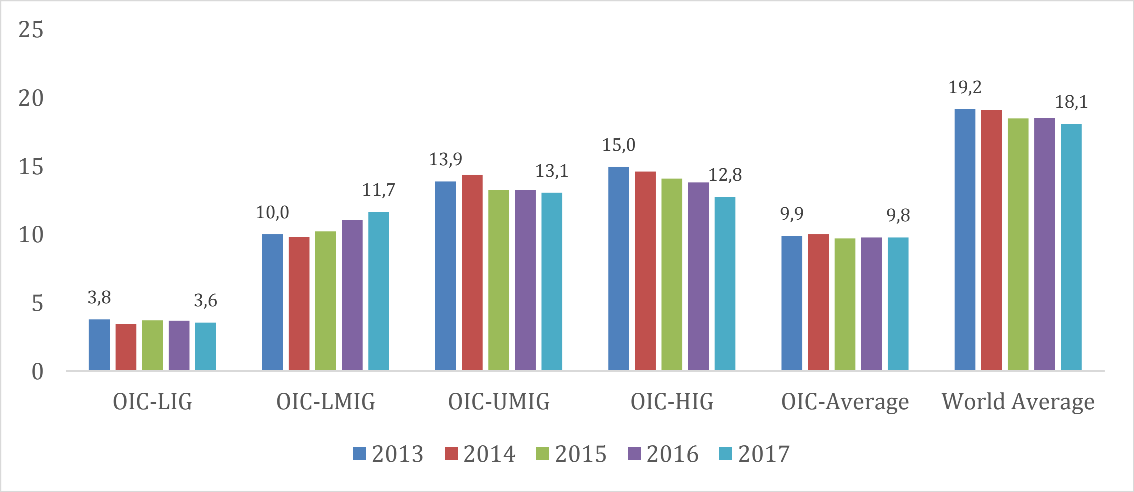
Figure 4: Bank Accounts per 1,000 Adults



Source: Author's calculation from the World Bank Global Financial Development Database (October 2019 Version)

Another indicator used to measure financial access is **the number of bank branches per 100,000 adults** that refers to the number of commercial bank branches per 100,000 adults in an economy.

Figure 5: Bank Branches per 100,000 Adults



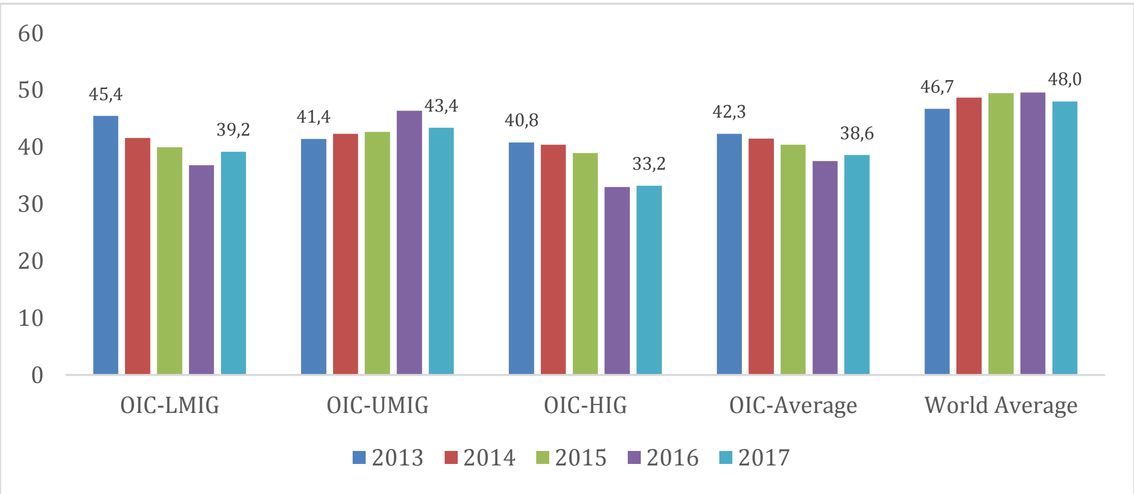
Source: Author's calculation from the World Bank Global Financial Development Database (October 2019 Version)

The above figure on the number of bank branches is consistent with the bank account as both clearly indicates a low level of financial access recorded for the low-income group of OIC countries which reached to 3.6 branches per 100,000 adults in 2017 while the world average realized as 18.1 in the same year. Unlike the previous indicator, the UMIG and HIG groups of the OIC have shown lower performance than the world averages across the selected period. Although the financial markets and instruments have been recorded considerable growth and diversified significantly over the years, the branches have not increased in parallel and even decreased for high-income countries in line with the trend in world average. Among other factors, this fact can be explained by the widespread usage of branchless/internet banking. Also, it shows that high-income countries have already reached the pick in terms of branches and goes to the more online branches.

On the other hand, the policymakers in the low-income group countries should focus on enhancing the banking activities and access to financial markets by investing on branchless banking initiatives that have emerged as a cost-effective option in recent years.

Data on access to financial markets are more limited. Especially for those countries with low-income level and undeveloped stock exchange markets, the data is very scant. Measures of market concentration are utilized to have an idea on the level of access to stock and bond markets. Here we used the **Market capitalization excluding top 10 companies to total market capitalization (%)** to approximate access to financial markets. This ratio is calculated as 'value of listed shares outside of the ten largest companies to the total value of all listed shares'.

Figure 6: Market Capitalization Excluding Top 10 Companies to Total Market Capitalization (%)



Source: Author's calculation from the World Bank Global Financial Development Database (October 2019 Version)

The world average hovers around 50 percent over the years from 2013 to 2017. As for the OIC countries, the ratios for all groups are fluctuating during the same period. As this ratio increases across the countries and country groups, it should be interpreted that the value of outstanding shares of comparatively smaller companies is increasing in the market and meaning access to the market is affected positively. Because the data is available only for those countries that their markets have the maturity as well as the undeveloped nature of stock exchanges in the OIC countries, it is understandable to have smaller shares in OIC states compared to the world averages.

As a result, in terms of financial efficiency, the OIC averages for the selected indicators have been found around the world averages over the selected years. As mentioned earlier, there is a close correlation between economic development, income level, and financial access. Therefore, the findings of the indicators under this characteristic clearly signs that as the economies develop financial access increases in parallel. The high and upper-middle income groups of OIC countries have performed much better than the other groups. In this regard, the policies towards promoting financial access should focus on the low-income group countries as well as on the groups of financially deprived segments of other group countries.

1.3 Financial Efficiency

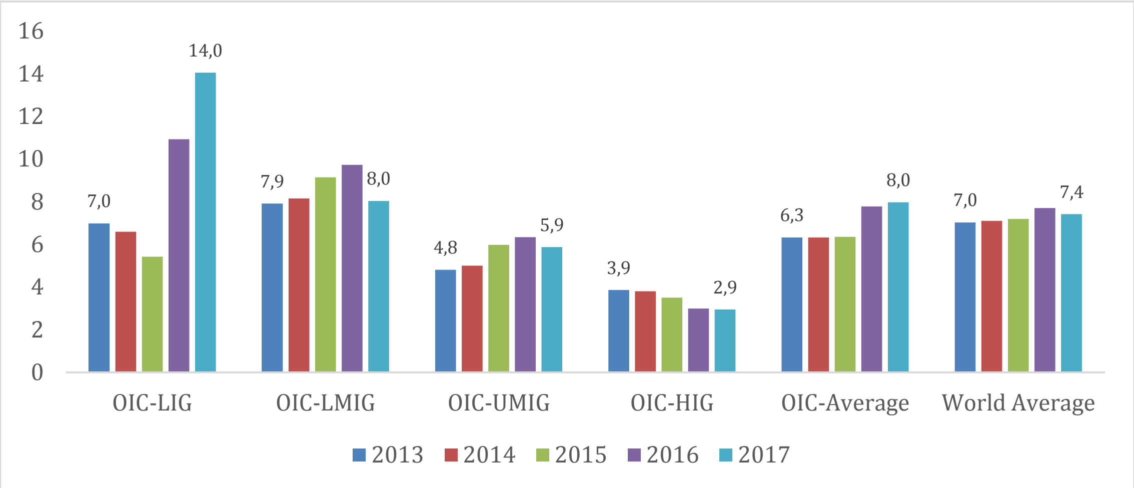
The structure and operation of the financial system have undergone remarkable changes in the past couple of decades due to the significant improvements in technology, product innovation, and integration in the global financial system, competition in financial services, and policy, regulatory and trade reforms. These developments have led to a dynamic and sophisticated global financial markets and fostered economic growth; at the same time, however, specific problems and issues have plagued the financial system (OECD, 2010). In this regard, among other characteristics, the efficiency of the financial intermediaries and markets have emerged as an essential tool to understand the financial system.

As for intermediaries, efficiency is primarily constructed to measure the cost of intermediating credit. Efficiency measures for institutions include indicators such as overhead costs to total assets, net interest margin, lending-deposits spread, non-interest income to total income, and cost to income ratio, return on assets and return on equity, etc. Regarding financial markets, efficiency measures focus less on directly measuring the cost of transactions and more on measuring transactions. A primary measure of efficiency in the stock market is the turnover ratio. The logic of using this variable is that the higher the turnover (the more liquidity), the more efficient the market (Čihák et al., 2012).

In this report, the following measures for institutions and markets are used to understand and compare the efficiency of the financial system among the countries and country groups.

Bank lending deposit spread refers to the difference between the lending rate and the deposit rate. The lending rate is the rate charged by banks on loans to the private sector, and deposit interest rate is the rate offered by commercial banks on three-month deposits.

Figure 7: Bank Lending-Deposit Spread (%)



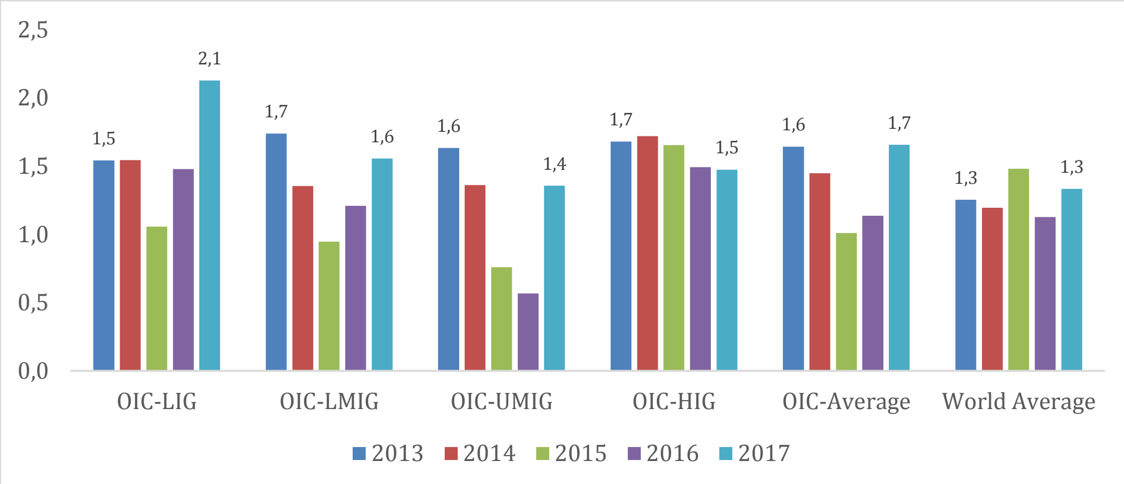
Source: Author's calculation from the World Bank Global Financial Development Database (October 2019 Version)

There is an indirect correlation between the level of economic development, and interest rate spreads, as shown in the above Figure 7 as the advanced and high-income economies tend to have lower spreads than the lower-income groups. As the financial markets become more developed and institutional structure of the financial system is more mature, the competition among the intermediaries goes up, leading interest rate spreads decrease. This paves the way for the better economic environment and conducive atmosphere for investment.

The above Figure shows that OIC-LIG and OIC-LMIG lending deposit spread which was around 14.0 and 8.0 percent, respectively during the selected period were relatively higher than the OIC average rate. On the other hand, the spreads of OIC-UMIG and OIC-HIGH were quite lower than the world average and realized as around 5.9 percent and 2.9 percent respectively during the same period.

Bank Return on Asset (ROA) is another indicator used to measure the efficiency of financial intermediaries. It is calculated as a ratio of commercial banks' after-tax net income to yearly averaged total assets. This indicator measures the profitability of a company relative to its total assets. Therefore, it gives an idea about the efficiency of a financial intermediary on using its assets to generate earnings. The higher ratio indicates better performance for individual corporations and banks as well as for the financial system as a whole.

Figure 8: Bank Return on Assets (ROA) (%, after-tax)



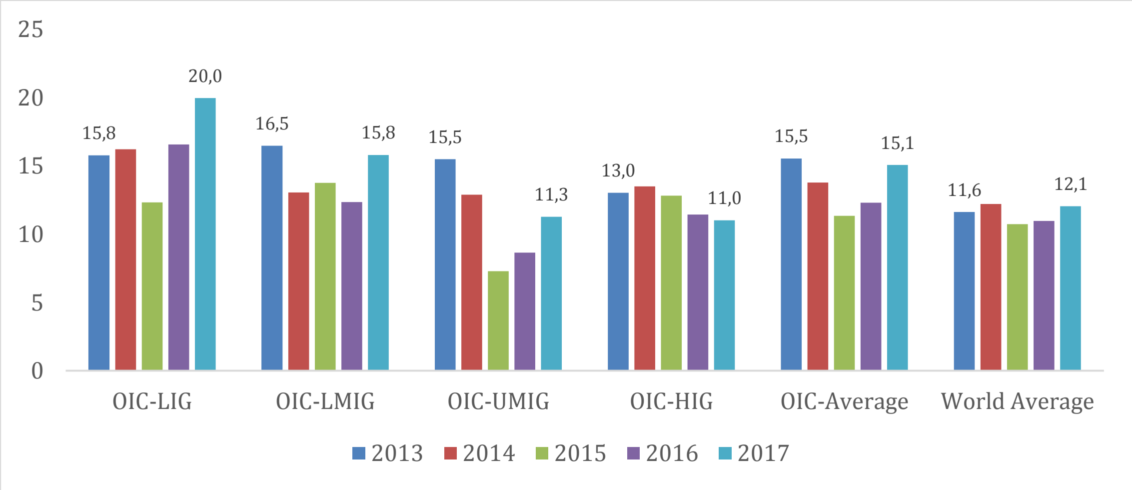
Source: Author's calculation from the World Bank Global Financial Development Database (October 2019 Version)

As shown in the above Figure 8, OIC average ROA data fluctuated 1.0% to 1.7% and above the world average in 2017. Lower ROA data could be interpreted as the efficiency of economies. Also, this situation could be explained by weak asset base of financial intermediaries, lack of competition and shallow structure of the market. The world average, which was realized as 1.3 percent in 2012, wavered over the selected period and again came to the 1.3 percent level in 2017. During the same period, the OIC-LIG is the only category which reached a significantly high level with 2.1 percent in 2017. This can be attributed to the mentioned situation in the previous indicator for low-income countries which is the correlation between high spread and underdeveloped financial sector.

Bank Return on Equity (ROE) is another ratio used to measure the efficiency of financial intermediaries. The ROE measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. It is calculated as a ratio of commercial banks' after-tax net income to yearly averaged equity.

The figure below shows the ROE data for OIC income groups and the world average performance during 2013-2017 when the OIC group recorded a better performance than the world. World average increased to 21.1 percent in 2017. It was 11.0 percent in 2016. OIC-LIG countries had the highest rates across the OIC income groups as in the ROA. ROE for OIC-LIG countries accounted for 20.0 percent in 2017.

Figure 9: Bank Return on Equity (ROE) (%, after-tax)



Source: Author's calculation from the World Bank Global Financial Development Database (October 2019 Version)

As a result, in terms of the efficiency characteristic, the OIC average has performed slightly better than the world average for the selected indicators over the period between 2012 and 2016. It has been noted that the averages of the high and upper-middle-income group countries performed better than the world average, which highlights the level of development of the financial markets and institutions in these countries. As for this characteristic, the low-income segments of the countries should be targeted to increase financial efficiency in order to support further economic development.

1.4 Financial Stability

The importance of financial stability is highlighted by the World Bank (2020) as follows: 'A stable financial system is capable of efficiently allocating resources, assessing and managing financial risks, maintaining employment levels close to the economy's natural rate, and eliminating relative price movements of real or financial assets that will affect monetary stability or employment levels. A financial system is in a range of stability when it dissipates financial imbalances that arise endogenously or as a result of significant adverse and unforeseen events. Instability, the system will absorb the shocks primarily via self-corrective mechanisms, preventing adverse events from having a disruptive effect on the real economy or other financial systems. Financial stability is paramount for economic growth, as most transactions in the real economy are made through the financial system'.

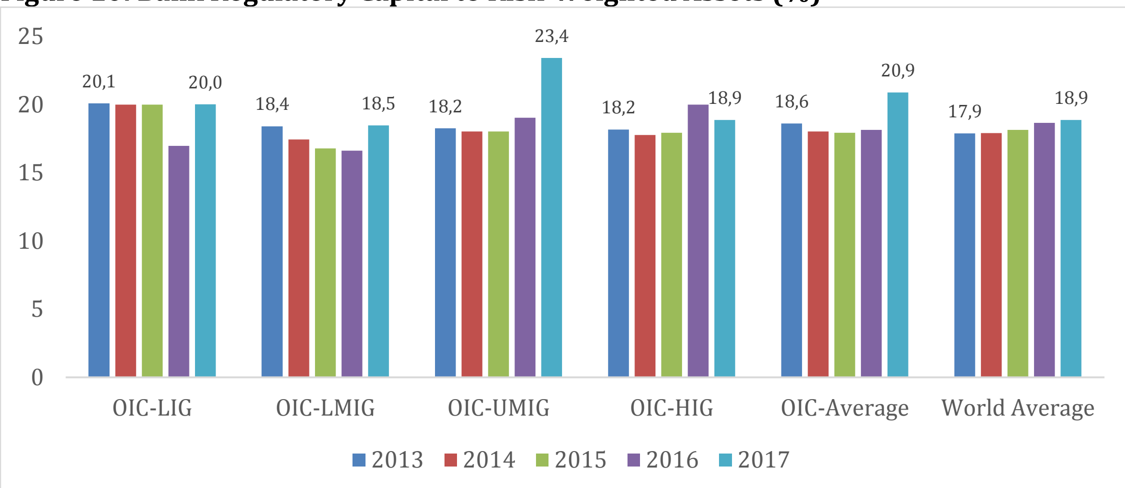
Financial stability is an essential feature of a well-functioning financial sector. The recent rapid growth of the financial sector should be accompanied by proper risk management and regulation in order to refrain from systemic risks that can be a severe threat to global financial stability. In this regard, the system has created various mechanisms to measure systemic risk, stress tests, and other tools for financial stability. As the global financial markets have been integrated over the recent decades, the importance of financial stability has been increased since it is closely connected with macroeconomic stability, economic growth, employment, etc.

In this part of the report, bank regulatory capital to risk-weighted assets, bank capital to total assets ratio and banks non-performing loans to total gross loans variables are used to measure financial stability of financial institutions in the OIC Member States.

Bank regulatory capital to risk-weighted assets refers to the capital adequacy of deposit takers. It is a ratio of total regulatory capital to its assets held, weighted according to the risk of those assets. This ratio is used as an essential indicator to measure the robustness of the financial institutions during financial shocks. Global financial regulatory institutions, for example, the Bank for International Settlement (BIS), recommend financial institutions banks to hold an adequate amount of capital to protect from systemic risks.

As shown in the following figure, OIC-UMIG has the highest scores over the selected period compared to the other income groups and the world average. This can be explained by the robustness and strong asset structure of the banking system for this group.

Figure 10: Bank Regulatory Capital to Risk-Weighted Assets (%)

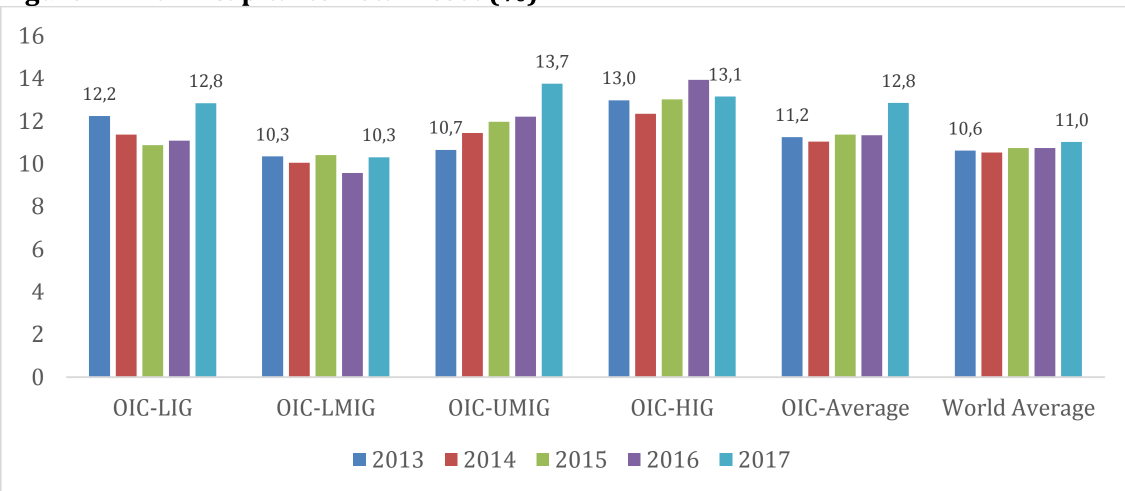


Source: Author's calculation from the World Bank Global Financial Development Database (October 2019 Version)

Among the OIC income groups, OIC-LMIG has the lowest scores in regulatory capital to risk-weighted assets which realized as 18.5 percent in 2017. On the other hand, even though the lowest score belongs to this group, it almost reached the world average. These results prove that the financial sector in all OIC member country groups except OIC-LMIG have less vulnerable to financial stress compared to the world average.

Another indicator used to measure the stability of the financial intermediaries is the ratio of **bank capital and reserves to total assets**. Capital and reserves include funds contributed by owners, retained earnings, general and special reserves, provisions, and valuation adjustments. Capital includes tier 1 capital (paid-up shares and common stock), which is a common feature in all countries' banking systems, and total regulatory capital, which includes several specified types of subordinated debt instruments that need not be repaid if the funds are required to maintain minimum capital levels (these comprise tier 2 and tier 3 capital). Total assets include all nonfinancial and financial assets. Average of the OIC-HIG countries shows better performance than any other OIC groups and the world average for 2013-2017. On the other hand, OIC-UMIG countries showed better performance in 2017 and overtook OIC-HIG countries with 13.7 percent bank capital to total asset ratio.

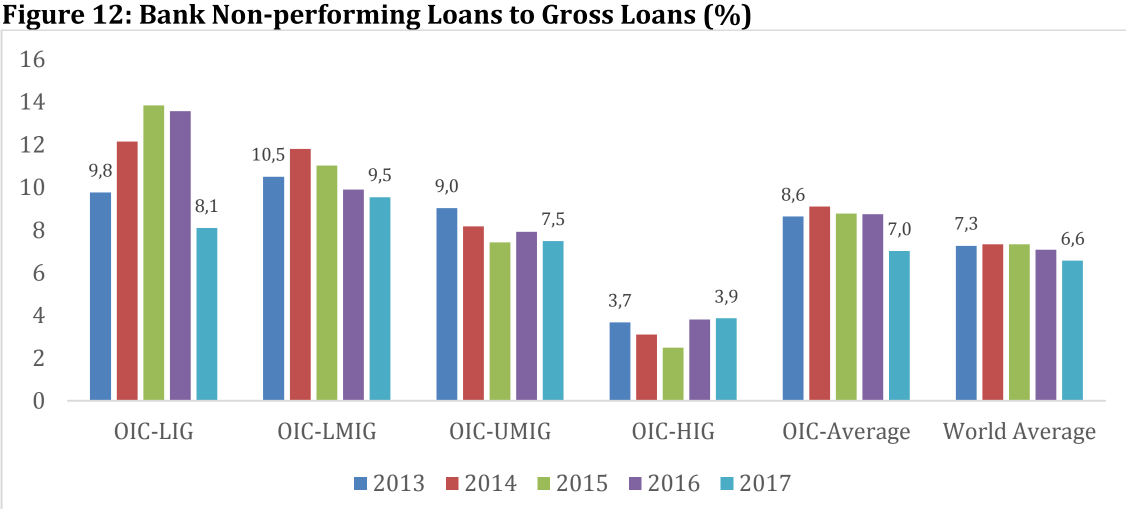
Figure 11: Bank Capital to Total Asset (%)



Source: Author's calculation from the World Bank Global Financial Development Database (October 2019 Version)

The nonperforming bank loans to gross loans (NPL) ratio is calculated as defaulting loans (payments of interest and principal past due by 90 days or more) to total gross loans (total value of loan portfolio). The loan amount recorded as nonperforming includes the gross value of the loan as recorded on the balance sheet, not just the overdue amount. As this ratio increases, the possibility of insolvency in the banking sector also increases.

Figure 12: Bank Non-performing Loans to Gross Loans (%)



Source: Author's calculation from the World Bank Global Financial Development Database (October 2019 Version)

The Figure shows that NPL ratios of OIC-LIG, OIC-LMIG, and OIC-UMIC were higher than the OIC HIGH. On the other hand, OIC-LIG score decreased significantly in 2017 and as accounted for 8.1 percent but it was still higher than the OIC country groups and world average. The OIC-LMIG and OIC-UMIG countries performances improved compared to 2012 and dropped to 9.5 percent and 7.5 percent in 2017, respectively. The NPL ratio for OIC-HIG was much better than the world average.

Financial stability is a very crucial characteristic to measure the robustness of financial institutions and markets. This characteristic has an overarching impact on all other financial measures and indicators as well as reflecting the health of all economy as its impact systemically affect the overall economic structure. The selected indicators reveal that the OIC averages are hovering around the world average. On the other hand, some country groups have performed better than the world average.

2. ISLAMIC FINANCE

Islam covers all aspect of human life and brings rules and injunctions, which are derived from the ontological sources of Islam, namely Quran, and Sunnah. As based on the Islamic view, Islamic economy is a part of the Islamic order which consists of *aqidah* (faith and belief), *shariah* (practices and activities) and *akhlaq* (moralities and ethics). *Shariah* determines principles of daily activities of human for the sake of God (*ibadat*) as well as the transactions among people (*muamalat*). Islamic economy is related to the economic sides of *muamalat,* which has to be in line with the principles of *Shariah*. So, Islamic economics has its own vision and covers all economic aspects of life through its principles and value system in both micro and macro levels.

Islam emphasizes justice in all parts of society and aims to realize and to promote human-wellbeing (Chapra, 2000) through individuals, organizations, or institutions. In other words, the main target of the Islamic economy is to achieve human welfare and articulate knowledge through operational institutions. Islamic financial institutions are one of the main components and operational part of the Islamic economic system through which foundational principles of the system can be realized in society.

Islamic finance is becoming one of the most significant aspects of the modern global financial system. Although the Islamic finance industry has grown substantially, it has mostly grown in a limited number of regions. There is a considerable amount of opportunity for the industry to grow further by increasing public awareness.

Based on the Vision and with the guiding Core Principles of the COMCEC Strategy, finance especially Islamic finance has been a relevant field of study for the Financial Cooperation Working Group that brings together the relevant experts from the Member Countries regularly to produce knowledge, share experiences and best practices and develop a shared understanding. In this context, the Financial Cooperation Working Group prepares analytical reports on the Islamic finance industry in various topics, such as Islamic finance architecture, Islamic insurance (takaful), Islamic pension funds, which are written by leading academics and practitioners. These reports generate knowledge for not only academics but also policymakers by introducing country case studies and providing recommendations.

Furthermore, during the period 2020-2021, the Financial Cooperation Working group will elaborate on different aspects of Islamic Finance with particular focus on the COVID-19.

2.1 Concept and the Brief Modern History of Islamic Finance

Islamic finance is based on, basically, two injunctions which are a prohibition of *riba* and *gharar*. The former one is broader than the current interest, and it is an expropriation of the wealth of either borrower or lender (Ebrahim, Jaafar, Omar, & Osman Salleh, 2016). Prohibition *gharar* is another principle of Islamic finance which "arises in a contract when the consequences of a transaction are not clear, and there is uncertainty about whether a transaction will take place." Operations of Islamic financial institutions must be free from these two, *riba* and *gharar*. Also, they must avoid non-halal trade businesses in terms of both intermediations and invest, such as alcohol.

The history of the modern Islamic banking can be traced back to Mit Ghamr Saving Bank founded in Egypt in 1963. There are also several other local Islamic financial institutions operated in Muslim countries, such as Muslim Pilgrims Savings Corporation (Tabung Hajj) in Malaysia in the

1960s and interest-free credit institution in Pakistan in the late 1950s (Warde, 2000). Many commercial Islamic banks were established in Middle Eastern countries which were benefitted from petrodollars after the 1970s. Since then, it has gained ground in global markets and emerged as an alternative and ethical form of finance against the conventional one. Over the years, the market, and the development trend of the industry have been shaped by certain phenomena including deregulation, increased openness of the markets, technological change, global and regional socio-economic developments.

Islamic banks realized Islamic finance at first, then new institutional models and instruments have been emerged, such as takaful companies and sukuk. The Industry has gained new momentum with the onset of the new millennia. The efforts have been coordinated by the global and regional communities to increase the awareness of the world towards this new ethical form of finance. The efforts have been shaped around to provide the recognition and acceptance of Islamic finance by the mainstream drivers of the industry. In order for this, the standardization efforts paved the way for establishing international standard-setting bodies at the global scale and regulation and legal environment created by local authorities. Another historic juncture for the development of the industry has been the global financial crisis of 2008. Since the core pillars of Islamic finance require a ban on speculation, asset-backing principle and risk-sharing. The industry has proved its soundness and maturity against the financial crises. Therefore, Islamic finance has been recognized as part of global finance with its growing customer base, asset size, diversified instruments, and geographical spread. Also, the importance of Islamic finance in the global financial system has been recognized by institutions ranging from international organizations to global financial institutions.

Islamic finance has emerged as a useful tool for financing development worldwide, including in non-Muslim countries. Major financial markets are discovering substantial evidence that Islamic finance has already been mainstreamed within the global financial system. The Islamic finance industry has expanded rapidly over the past decade, growing at 10-12% annually and total assets are estimated at over USD2 trillion, covering bank and non-bank financial institutions, capital markets, money markets and insurance. In many majority Muslim countries, Islamic banking assets have been growing faster than conventional banking assets. There has also been a surge of interest in Islamic finance from non-Muslim countries such as the UK, Luxembourg, Germany, South Africa, and Hong Kong. Islamic finance is equity-based, asset-backed, ethical, sustainable, environmentally- and socially-responsible finance. It promotes risk sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare (World Bank, 2015).

The growing market shares and rising domestic systemic importance of Islamic finance underscore the importance of developing robust regulatory frameworks for prudential regulation and supervision in Islamic finance jurisdictions.

2.2 Islamic Finance Outlook

Islamic financial sector continued its growth performance in 2019 amid uncertainties and volatility in the global economy. According to latest data by IFSB (2020), the total asset size of the Islamic finance sector has slightly increased from USD 2.19 trillion in 2018 to USD 2,44 trillion in 2019 with 11.4 percent YoY growth rate [2018: 9.6%]. Depreciation in the local currencies of some emerging economies against the dollar, which induces to decline in the dollar values of the industry assets, continued in 2019 and negatively affected the growth performance of the sector. Uncertainties about the effects of the global COVID-19 pandemic on the global and local economies and geopolitical risk which determine the trend in the petroleum prices will be the main determinants for the performance of the Islamic finance in 2020.

Table 3: Breakdown of IFSI by Sector and by Region (USD 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

The concentration of Islamic finance in terms of the region was not changed in 2019. As indicated in Table 3, the GCC region still had the biggest share (45.4%) USD 1,106.6 billion in 2019. GCC is followed by the Middle East and South Asia (MESA) in terms of market share that is 25.9 percent. South-East Asia which is one of the most potential regions to grow in Islamic financial market with the regional countries such as Malaysia and Indonesia recorded USD 573 billion total assets and 23.5 percent share in the global Islamic finance sector in 2019. Total Islamic finance assets of Africa reached USD 37.9 million and has a share of 1.6 percent of the global sector.

Table 4: YoY Performance of IFSI by Sector (2018-2019)

	2018		2019		
Sector	**Billion USD**	**Share (%)**	**Billion USD**	**Share (%)**	**YoY Growth (%)**
Islamic Banking	1,571.3	71.7	1,765.8	72.4	12.4
Outstanding Sukuk	530.4	24.2	543.4	22.3	2.5
Islamic Funds' Assets	61.5	2.8	102.3	4.2	66.3
Takaful Contributions	27.7	1.3	27.1	1.1	-2.3
Total	2,190.9	100.0	2,438.6	100.0	11.3

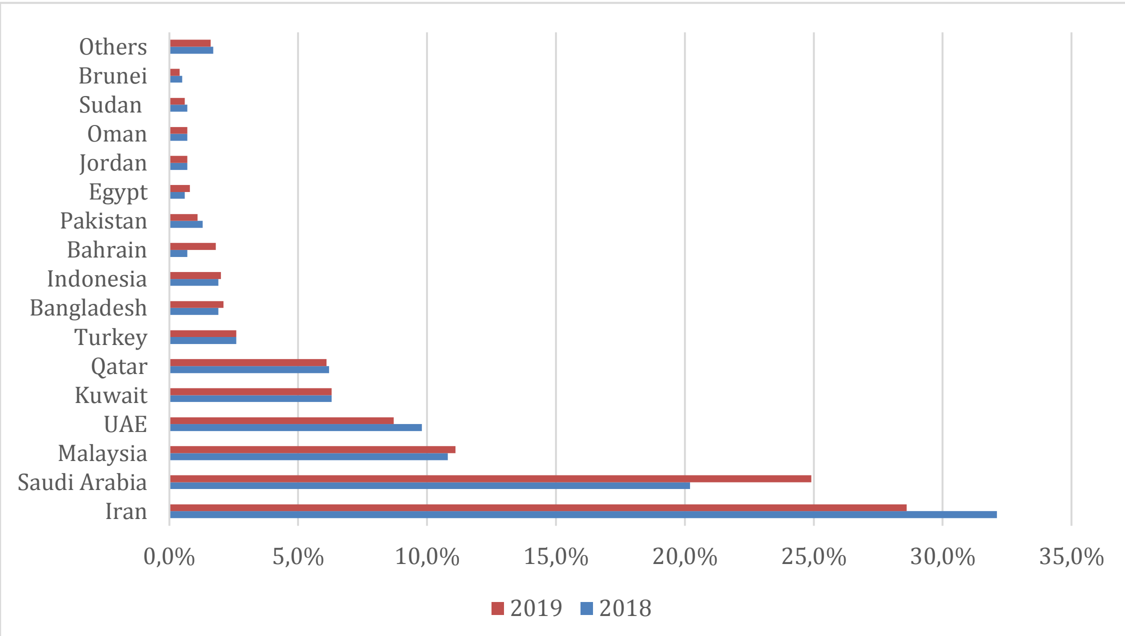
Source: Compiled from 2019 and 2020 Islamic Financial Services Industry Stability Reports

Islamic financial sector compromises three main sectors: Islamic banking, Islamic capital markets, and Islamic insurance (takaful). Islamic banking was still the dominant segment, with 72.4 percent [2018: 71.7%] in 2019. The Islamic banking sector grew 12.4 percent and reached USD 1,765.8 billion [2018: USD 1,571.3 billion] in the relevant year. Sukuk market and Islamic funds constitute Islamic capital markets and represented 22.3 percent [2018: 24.2%] and 4.2 percent [2018: 2.8%], respectively in 2019. Islamic funds showed significant growth, with 66.3 percent YoY increase in 2019. The share of the takaful segment decreased to 1.1 percent in 2019, from 1.3 percent in 2018. Takaful is the only sector among Islamic finance sectors contracted in 2019.

2.3 Islamic Banking

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.

Figure 13: Share of Global Islamic Banking Assets by Country (%)



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

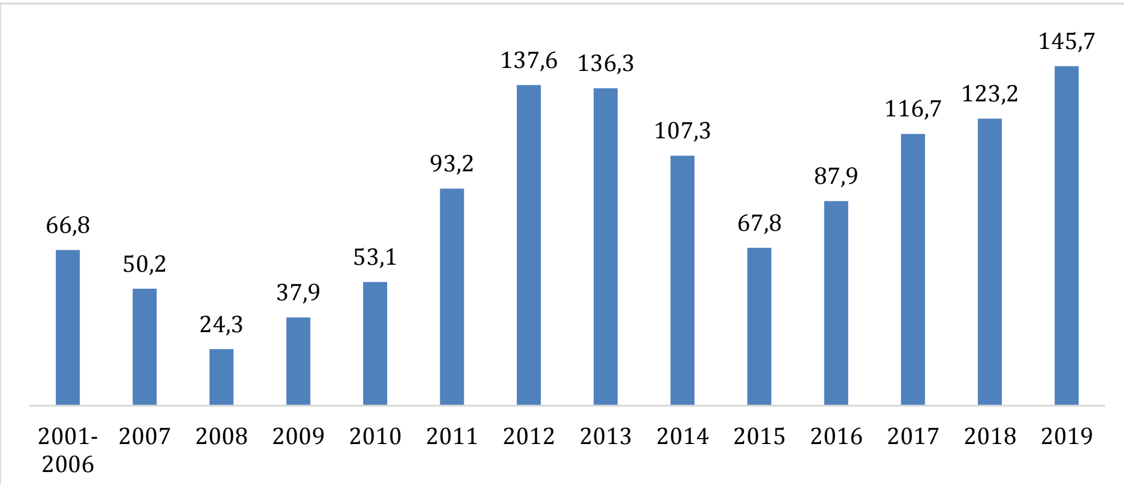
In terms of the countries' shares in the global Islamic finance, top five countries did not change in 2019. Iran continued to have a leading position with 28.6 percent in 2019; however, the county's share was 32 percent in 2018. Saudi Arabia's share significantly increased in 2019 and reached 24.9 percent [2018: 20.2%]. Malaysia 11.1 percent [2018: 10.8%]; UAE 8.7 percent [2018: 9.8%]; and Kuwait 6.3 percent [2018: 6.3%] are the other countries in the top five. Turkey, Bangladesh, Indonesia, Bahrain, Egypt are the other countries which achieved to increase their shares in the global Islamic finance sector (see Figure 13).

Afghanistan was a new entrant country in the Islamic finance sector by introducing the country's first full-fledged Islamic bank in the second quarter of 2018. Tajikistan became a new country from Asia after Afghanistan to open the first full-fledged Islamic bank. National Bank of Tajikistan issued a license for the first Islamic bank in September 2019.

2.4 Islamic Capital Markets

Islamic capital markets mainly compromise by sukuk and Islamic funds. Islamic capital markets continued to a positive trend in 2019. Sukuk remained attractive to issuers, although severe conditions occurred in the financial markets in 2019. As happened in 2017, the sukuk market observed again double-digit growth rates thanks to the large issuances in 2019. 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 (IIFM, 2020). Malaysia continued to dominate the sukuk market. The highest sukuk issuance volume was achieved in 2019 since the first issuance in 2001.

Figure 14: Global Sukuk Issuances (2001-2019, USD billion)

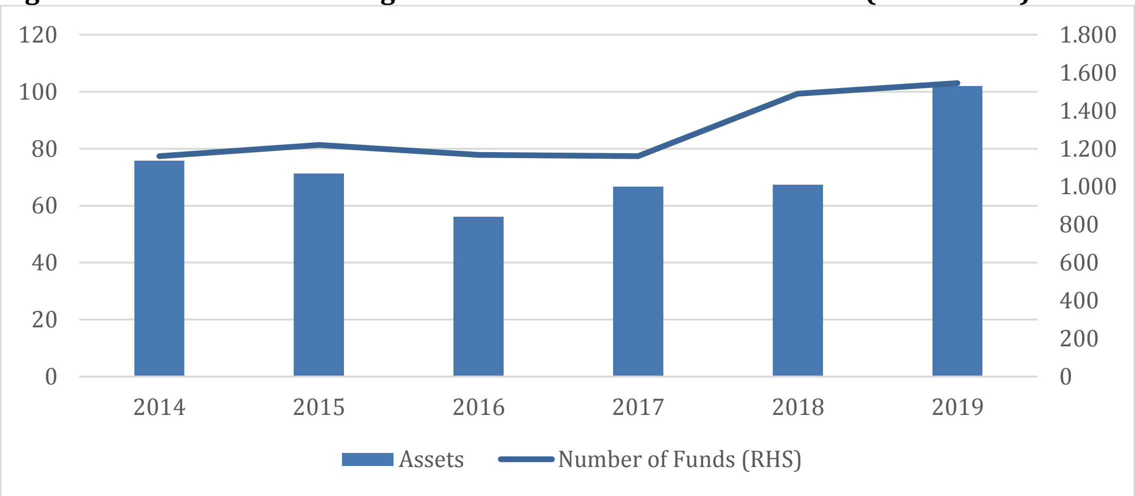


Source: IIFM Sukuk Report 2020

Green sukuk is a new innovative product of the Islamic capital markets and aims to accumulate fund to finance environmentally friendly projects. The proceedings from the green sukuk have to be used in climate change friendly projects (World Bank, 2017). The first green sukuk issued in Malaysia in 2017 and it was followed by several OIC member countries, such as Indonesia issued its first green sukuk in February 2018. The green sukuk issuance continued in 2019. Apart from sovereign issuance, Islamic Development Bank which is a multilateral institution, issued first green sukuk in 2019 (EUR 1 billion), so that total volume of the global green sukuk exceeded USD 3 billion (IFSB, 2020). There are several member countries such as Indonesia, Malaysia, and UAE, have been giving attention to green sukuk, and the sukuk issuance is expected to increase in the near future significantly.

Islamic funds is another main component of Islamic capital market segment. They are investment vehicles that take the form of equal participating shares/units, representing the shareholders'/unitholders' share of the assets and entitlement to profits or losses. There are many types of Islamic funds such as Islamic index funds, Islamic hedge funds, Shariah private equity funds, sukuk funds, Islamic equity funds, etc.

Figure 15: Assets under Management and Number of Islamic Funds (USD billion)



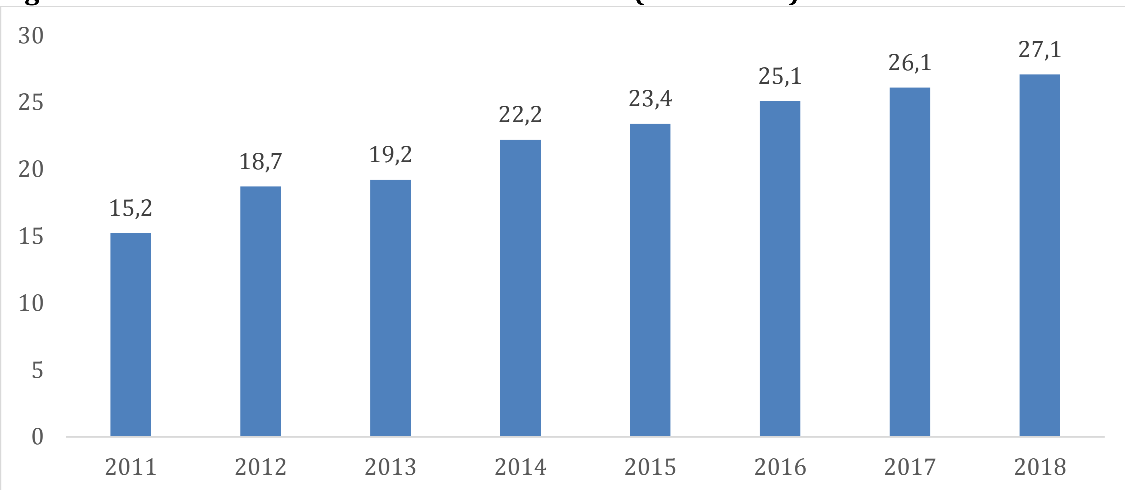
Source: Islamic Financial Services Industry Stability Report 2020

As shown in Figure 15, assets under management (AuM) grew 51 percent [2018: 1%] and reached USD 102 billion in 2019. 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%] (IFSB, 2019, 2020). 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).

2.5 Takaful

Considering the relatively small share of the takaful industry, takaful sector is still a niche market in the global Islamic finance industry. Despite its share, the takaful industry continued its upward trend in most countries. Population growth and robust regulatory environment present opportunities for takaful sector to expand. The global takaful contributions reached USD 27.1 billion in 2018 from 26.1 in 2017 (Figure 16) 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].

Figure 16: Trend of Global Takaful Contributions (USD billion)



Source: Islamic Financial Services Industry Stability Report 2020

The top five countries of the total takaful contributions in 2018 was changed: Iran [USD 10.9 billion], Saudi Arabia [USD 9.5 billion], Malaysia [USD 1.9 billion], UAE [USD 1.2 billion] and Indonesia [USD 1.1 billion] (IFSB, 2020).

3. FINANCIAL COOPERATION UNDER THE COMCEC

The financial cooperation area has great potential for the socio-economic development of the OIC member countries. However, this potential has not been fully utilized due to several reasons. First of all, the majority of the OIC Member States' financial markets are not working efficiently to support a sustainable economic growth and development, and this issue especially affects the low and lower-middle income OIC member countries adversely. In addition, various economic and financial difficulties such as the small size of their financial markets, lack of diversified financial products and inefficiency of their financial institutions have adverse effects on the economic development. In this regard, financial cooperation has emerged an important area for the COMCEC to help the Member States to overcome the issues in this area.

The ideas for enhancing financial cooperation under the COMCEC date back to its initial meetings. The Cooperation efforts in this area have been intensified and deepened in recent years. The COMCEC Strategy, adopted by the 4th Extraordinary Islamic Summit in 2012, defined finance as one of the cooperation areas of COMCEC. Furthermore, there are also several on-going efforts in this field such as cooperation among the Stock Exchanges Forum, COMCEC Capital Markets Regulators Forum and the Meetings of Central Banks and Monetary Authorities.

3.1 COMCEC Strategy: Financial Cooperation

COMCEC Strategy defines "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.

3.1.1 Regulatory and Supervisory Cooperation

COMCEC aims to help improve the quality of regulation, supervision and cooperation among regulatory and supervisory bodies in the OIC Member States. The expected outcomes defined by the Strategy are as follows:

- Developed legal, regulatory and institutional framework,
- More standardized contracts and more harmonized regulations,
- Converged listing requirements, trading rules and technical infrastructure,
- Strengthened arbitration procedures, credit information and credit registry system, risk measurement and risk management systems.

3.1.2 Capital Flows

Attracting capital flows at competitive rates is one of the major common challenges faced in the many OIC Member States. In this regard, COMCEC will support to ease the capital flows within the member countries through contributing to the removal of institutional and regulatory barriers and developing relevant platforms. The Strategy envisages the following expected outcomes:

- Enhanced access to capital at competitive rates,
- Diversified portfolios,
- Increased investment opportunities.

3.1.3 Visibility of Financial Markets

Financial visibility is an important criteria for attracting more FDI and capital flows as well as the deepening of the markets. In this regard, COMCEC will help to enhance the visibility of financial markets in the member countries. As for the Visibility of Financial Markets, the expected outcomes introduced by the Strategy are as follows:

- Enhanced awareness on Islamic financial markets,
- Increased issuance and listing of securities,
- Attracted foreign investment.

3.1.4 Training, R&D Activities and Statistics

The lack of sound statistical capacity as well as the lack of diversified products mainly because of the limited R&D activities are the main challenges for the OIC Member States. In this framework, COMCEC attaches great importance to training and R&D activities to improve human capital in its member countries for a sustainable economic growth. COMCEC also assists the OIC Member States in monitoring their financial markets and financial institutions to ensure their efficiency and stability. The expected outcomes of the Strategy concerning this Output Area are:

- Enhanced diversification and variety of financial products,
- Developed platforms for payment and settlement systems and post trade services,
- Developed human resources and increased financial literacy,
- Reliable and consistent financial system database and creation of indicators of financially sound systems,
- Enhanced monitoring of financial institutions and markets.

3.2 Implementation of the Strategy

In line with its objectives and expected outcomes, the COMCEC Strategy brings well-identified operational instruments, i.e. the Working Groups and the COMCEC Project Funding Mechanism.

3.2.1 COMCEC Financial Cooperation Working Group

The COMCEC Financial Cooperation Working Group aims to bring the relevant finance experts from the OIC Member States regularly together and to serve as a regular platform for the Member Country experts to discuss their common issues in finance sector and share their knowledge, experiences and best practices, for disseminating knowledge, developing common understanding and approximating policies among Member Countries. The Working Group has held 11 meetings so far. The proceedings of the above-mentioned Meetings and the presentations made during these Meetings are available on the COMCEC web page (www.comcec.org). In its recent meetings, the Financial Cooperation Working Group has been focusing on different aspects of Islamic Finance, namely financial architecture, diversification of instruments, Sukuk, Islamic fund management, infrastructure financing through Islamic Finance and Takaful. Furthermore, it will also elaborate on Shariah governance and SMEs financing its future Meetings.

3.2.2 COMCEC Project Funding Mechanism

The other important instrument for the implementation of the COMCEC Strategy is the COMCEC Project Funding (CPF) Mechanism. Through the CPF, 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 2018, three financial cooperation projects were supported under the 6th implementation year of the CPF. The first project titled as "Capacity Building on Islamic Finance in Mozambique, Gambia and Nigeria" was implemented by Mozambique with the participation of The Gambia and Nigeria. The project aimed at increasing the institutional capacity of the member countries and raising awareness on Islamic financial literacy and Islamic financial services. Within the scope of the project, a training program was conducted on Islamic banking, products and services. A workshop was also organized to address business opportunities, financial inclusion and poverty reduction aspects of Islamic finance.

The second project titled "Islamic Liquidity Management Instruments for Sustainable Development of Islamic Financial Institutions" was implemented by Nigeria with the participation of Gambia, Togo and Malaysia. The project aimed at developing the capacity of Islamic Banks and Financial regulators in the OIC member countries to develop Sharia Compliant HQLA (high-quality liquid assets) for effective liquidity management and monetary operation frameworks. In this regard, a study visit was conducted to Malaysia with the purpose of learning how the country manages the short term liquidity needs of Islamic finance institutions. Furthermore, officials and experts from Nigeria, Togo and Gambia were trained on effective liquidity management through the development of HQLAs.

The third project titled "Assessment of COMCEC Real Estate Securities Markets and Regulatory Landscapes for Strengthening Capital Markets" was implemented by Turkey with the partnership of Albania, Brunei, Gambia, Iran, Kuwait, Lebanon, Malaysia, Maldives, Pakistan and Palestine. The project aimed at analyzing the possibility of establishing a real estate securities trading platform among OIC countries by identifying types, market structures and regulatory features of real estate securities market in the member countries. For this purpose, inclusion of the real estates to the economy through alternative securities such as real estate investment trusts, real estate investment trust shares, lease certificates and real estate certificates was discussed within the margin of an international workshop held in Turkey.

Moreover, under the 7th Call for Project Proposals 4 financial cooperation 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 COVID 19 pandemic. Hence, some of the projects are expected to be finalized in 2021. The selected finance projects to be completed under the 7th implementation period of the CPF are as follows:

- "Capacity Building Program on Sukuk, ESG Sukuk and Islamic Fintech" to be implemented by Brunei Darussalam in partnership with Indonesia and Malaysia,
- "Advancing Islamic Capital Market through Financial Technology" to be implemented by Malaysia in partnership with Turkey and Brunei Darussalam
- "Improving Takaful in the OIC Member States" to be implemented by Nigeria in partnership with Sudan and Mozambique

- “Facilitating Women Entrepreneurs’ Access to Islamic Finance” to be implemented by Sierra Leone in partnership with Malaysia and Nigeria.

On the other hand, the CCO has made the 8th Call on September 1st, 2020. Relevant documents are available on the COMCEC website. (project.comcec.org)

3.3 On-Going Activities under the COMCEC

3.3.1 OIC Member States Stock Exchanges Forum

COMCEC initiated the cooperation among Stock Exchanges of the Member States in 2005 and "OIC Member States Stock Exchanges Forum" was established in this regard. The Forum focuses on the harmonization of the rules and regulations governing market operations, as well as opening communication channels for the stock exchanges of the OIC Member Countries and relevant institutions.

The Forum provides a regular cooperation platform for the Stock Exchanges of the member countries to share their experiences and knowledge on harmonizing the rules and regulations governing market operations, as well as for increasing the amount of international portfolio investments flowing to the OIC Member States.

The Forum has convened twelve times till now and has achieved remarkable progress in deepening cooperation among the Stock Exchanges of the Member States. It has completed its work regarding the S&P OIC/COMCEC Index. The Index, launched on 22 June, 2012, in Istanbul, was designed to measure the performance of 50 leading companies from the 19 member states of OIC. The official launching ceremony of the Index was held during the 28th Session of the COMCEC.

In line with the relevant resolutions of the COMCEC Sessions, the Forum has also been working on COMCEC Gold Exchange project”. The detailed information regarding the activities of the Forum is available on www.oicexchanges.org.

3.3.2 COMCEC Capital Markets Regulators Forum

In line with the relevant resolutions of the 25th and the 26th Sessions of the COMCEC calling for developing a cooperation mechanism for capital markets regulatory bodies of the Member States, the COMCEC Capital Markets Regulators Forum was established in 2011.

The Forum aims at increasing coordination and cooperation in regulatory and legal infrastructure with a view to achieving more harmonized policies and regulations among the OIC Member States, supporting market development and reinforcing capabilities of regulatory authorities. The Forum has held 7 meetings so far.

In line with the relevant resolutions of the COMCEC Sessions, the Forum has been working on COMCEC Real Estate Exchange project.

3.3.3 Cooperation among the Central Banks and Monetary Authorities

The 16th Meeting of the Central Banks and Monetary Authorities of the OIC Member States was held on September 23-25, 2018 in Antalya, Turkey. In line with the relevant resolution of the 15th Meeting, two technical background papers in the following areas: Financial Inclusion and the OIC Economic Outlook were reported to the Meeting. At the 16th Meeting of the OIC Central

Banks and Monetary Authorities, held on 23-25 September 2018 in Antalya, Turkey, Governors and Heads of Delegations agreed to reorganize the Meetings as "OIC-COMCEC Central Banks Forum". The 1st Meeting of the OIC-COMCEC Central Banks Forum was held on 22-24 September 2019 in Bodrum, Turkey.

APPENDIX

OIC MEMBER COUNTRIES ACCORDING TO INCOME LEVELS GROUPING (2013-2017)							
Country	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Afghanistan	L	L	L	L	L	L	L
Albania	UM	UM	UM	UM	UM	UM	UM
Algeria	UM	UM	UM	UM	UM	UM	LM
Azerbaijan	UM	UM	UM	UM	UM	UM	UM
Bahrain	H	H	H	H	H	H	H
Bangladesh	L	LM	LM	LM	LM	LM	LM
Benin	L	L	L	L	L	L	LM
Brunei Darussalam	H	H	H	H	H	H	H
Burkina Faso	L	L	L	L	L	L	L
Cameroon	LM	LM	LM	LM	LM	LM	LM
Chad	L	L	L	L	L	L	L
Comoros	L	L	L	L	L	LM	LM
Côte d'Ivoire	LM	LM	LM	LM	LM	LM	LM
Djibouti	LM	LM	LM	LM	LM	LM	LM
Egypt, Arab Rep.	LM	LM	LM	LM	LM	LM	LM
Gabon	UM	UM	UM	UM	UM	UM	UM
Gambia, The	L	L	L	L	L	L	L
Guinea	L	L	L	L	L	L	L
Guinea-Bissau	L	L	L	L	L	L	L
Guyana	LM	LM	UM	UM	UM	UM	UM
Indonesia	LM	LM	LM	LM	LM	LM	UM
Iran, Islamic Rep.	UM	UM	UM	UM	UM	UM	UM
Iraq	UM	UM	UM	UM	UM	UM	UM
Jordan	UM	UM	UM	LM	UM	UM	UM
Kazakhstan	UM	UM	UM	UM	UM	UM	UM
Kuwait	H	H	H	H	H	H	H
Kyrgyz Republic	LM	LM	LM	LM	LM	LM	LM
Lebanon	UM	UM	UM	UM	UM	UM	UM
Libya	UM	UM	UM	UM	UM	UM	UM
Malaysia	UM	UM	UM	UM	UM	UM	UM
Maldives	UM	UM	UM	UM	UM	UM	UM
Mali	L	L	L	L	L	L	L
Mauritania	LM	LM	LM	LM	LM	LM	LM

Morocco	LM	LM	LM	LM	LM	LM	LM
Mozambique	L	L	L	L	L	L	L
Niger	L	L	L	L	L	L	L
Nigeria	LM	LM	LM	LM	LM	LM	LM
Oman	H	H	H	H	H	H	H
Pakistan	LM	LM	LM	LM	LM	LM	LM
Palestine	LM	LM	LM	LM	LM	LM	LM
Qatar	H	H	H	H	H	H	H
Saudi Arabia	H	H	H	H	H	H	H
Senegal	LM	LM	L	L	L	LM	LM
Sierra Leone	L	L	L	L	L	L	L
Somalia	L	L	L	L	L	L	L
Sudan	LM	LM	LM	LM	LM	LM	L
Suriname	UM	UM	UM	UM	UM	UM	UM
Tajikistan	L	LM	LM	LM	L	L	L
Togo	L	L	L	L	L	L	L
Tunisia	UM	UM	LM	LM	LM	LM	LM
Turkey	UM	UM	UM	UM	UM	UM	UM
Turkmenistan	UM	UM	UM	UM	UM	UM	UM
Uganda	L	L	L	L	L	L	L
United Arab Emirates	H	H	H	H	H	H	H
Uzbekistan	LM	LM	LM	LM	LM	LM	LM
Yemen, Rep.	LM	LM	LM	LM	L	L	L
Thresholds (GNI/Per Capita/USD)							
Low income (L)	<= 1,045	<= 1,045	<= 1,025	<= 1,005	<= 995	<= 1,025	<= 1,035
Lower middle income (LM)	1,046-4,125	1,046-4,125	1,026-4,035	1,006-3,955	996-3,895	1,026-3,995	1,036 - 4,045
Upper middle income (UM)	4,126-12,745	4,126-12,735	4,036-12,475	3,956-12,235	3,896-12,055	3,996-12,375	4,046 - 12,535
High income (H)	> 12,745	> 12,735	> 12,475	> 12,235	> 12,055	> 12,375	> 12,535

Source: Compiled from "New World Bank country classifications by income level: 2020-2021", https://blogs.worldbank.org/opendata/new-world-bank-country-classifications-income-level-2020-2021, access date: 01.09.2020

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