



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

## **Proceedings of the 6<sup>th</sup> Meeting of the COMCEC Financial Cooperation Working Group**

### **“Developing Islamic Finance Strategies In The OIC Member Countries”**



**COMCEC COORDINATION OFFICE**

**April 2016**





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**PROCEEDINGS OF THE 6<sup>TH</sup> MEETING OF THE  
COMCEC FINANCIAL COOPERATION WORKING GROUP  
ON**

**“DEVELOPING ISLAMIC FINANCE STRATEGIES  
IN THE OIC MEMBER COUNTRIES”**

(17-18 March, 2016, Ankara, Turkey)

**COMCEC COORDINATION OFFICE  
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## Introduction

The 6th Meeting of the COMCEC Financial Cooperation Working Group was held on 17-18 March 2016 in Ankara, Turkey with the theme of "Developing Islamic Finance Strategies in the OIC Member Countries". The Meeting was attended by the representatives of 28 Member States namely, Afghanistan, Algeria, Azerbaijan, Brunei Darussalam, Burkina Faso, Cameroon, Chad, Cote D'Ivoire, Gabon, Gambia, Indonesia, Iran, Iraq, Jordan, Kuwait, Maldives, Mauritania, Morocco, Mozambique, Niger, Pakistan, Palestine, Senegal, Somalia, Sudan, Turkey, Uganda and Uzbekistan. Representatives of COMCEC Coordination Office, SESRIC, Islamic Development Bank, Secretariat of the OIC Member States' Stock Exchanges Forum, Secretariat of the COMCEC Capital Markets Regulators Forum, World Bank Global Islamic Finance Development Center, Participation Banks Association of Turkey have also attended the Meeting.<sup>1</sup>

At the outset, the representative of the COMCEC Coordination Office informed the participants about the financial outlook of the Member Countries. It was followed by the presentation made by Prof. Kabir HASSAN, New Orleans University, on developing Islamic Finance Strategies in the OIC Member Countries.

The participants considered developing Islamic Finance Strategies through focusing on the Analytical Study titled "Developing Islamic Finance Strategies in the OIC Member Countries" commissioned by the COMCEC Coordination Office specifically for the Meeting with a view to enriching the discussions.

The Representatives of the Member States shared their experiences, achievements and challenges regarding developing Islamic Finance Strategies in their respective countries. The efforts exerted by international institutions and private sector on Islamic Finance were also reflected to the discussions.

During the second day, the participants deliberated on the preparations regarding the Exchange of Views Session of the 32<sup>nd</sup> COMCEC Ministerial Meeting and came up with some policy recommendations to be submitted to the 32<sup>nd</sup> COMCEC Session.

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<sup>1</sup> The list of participants is attached as Annex 4.



## **1. Opening Session**

In line with the tradition of the Organization of the Islamic Cooperation (OIC), the Meeting started with the recitation from the Holy Quran. At the outset, Mr. M. Metin EKER, Director General of the COMCEC Coordination Office introduced the COMCEC activities briefly.

Mr. Saeed AHMAD, Deputy Governor, State Bank of Pakistan was elected as the Chairperson of the Meeting. Mr. AHMAD introduced himself and thanked all the participants for electing him as the Chairperson of the Meeting and made a short opening speech.



## 2. The Financial Outlook of the OIC Member Countries

Mr. Utku ŞEN, expert at the COMCEC Coordination Office presented some of the key findings of the Financial Outlook of the OIC Member Countries. In his presentation, Mr. ŞEN focused on the recent financial developments in the global financial system and financial outlook of the OIC Member Countries.

Mr. ŞEN stated that the recent global financial developments could be summarized as i) the gradual slowdown and rebalancing of economic activity in China, ii) gradual tightening monetary policies in US as other major central banks continue to ease monetary policies and iii) lowering energy and commodity prices in the global markets.

Mr. ŞEN expressed that recovery in the US is stronger than expected. According to IMF forecast US GDP growth rate will be 2.8 percent in 2016 and 2017. Additionally, Unemployment rate is back below 5% for the first time since 2008 financial crisis and this is an important indicator for US economy. Since, FED is observing the development in the labor market and changing in the overall prices for raising interest rates. Moreover, in light of the recent developments in the US economy, FED lifted the interest rate from the zero lower bound first time since 2006.

After summarizing recent development in US economy, Mr. ŞEN gave some information on Chinese economy. He stated that the gradual slowdown and rebalancing of economic activity in China is going from investment and manufacturing to consumption and services. Overall growth in China will gradually decrease in the following years and will be 6 percent in 2017. He also touched up on international trade performance of China. There is a faster-than-expected slowdown in imports and exports. He stated that in February 2016 China's export decreased by around 25 percent and import decreased by around 11 percent. He pointed out that this is reflecting weaker investment and manufacturing activity in Chinese economy.

Having emphasized the recent developments in China, Mr. ŞEN briefly informed the participants about the developments in Euro Area. He said that ECB monetary expansion policy would last until March 2017 with the amount of sixty billion euros every month. He emphasized that in March 2016, ECB has cut the Eurozone interest rate to zero for supporting economic recovery in Euro Area. Additionally, despite the monetary easing, inflation in Euro Area is still in an irregular path. Inflation rate was minus 0.2 percent in February 2016. On the other hand, credit conditions are improving and credit demand is picking up but government debt, unemployment and low nominal growth remain downside risks for Euro Area.

Regarding emerging markets, Mr. ŞEN specified that emerging market vulnerabilities and market liquidity risks are high. On the other hand, lower commodity prices and capital outflows negatively affected these economies.. He also pointed out that decrease in global trade, low commodity prices, currency depreciation and volatility in the global markets made emerging markets more sensitive to tightening of global financial conditions.

In the second part of the presentation, Mr. ŞEN stated that in the COMEC Financial Outlook, the Member States are classified and analyzed regarding their income levels. Accordingly, 15 member countries are in OIC-Low Income Group (OIC-LIG); 19 countries are in OIC-Lower Middle Income Group (OIC-LMIG); 16 are in OIC-Upper Middle Income Group (OIC-UMIG), and 7 are in OIC-High Income Group (OIC-HIGH). He also mentioned that the Member Countries are evaluated under four headings; namely financial depth, financial access, financial efficiency and financial stability.

With respect to financial depth, Mr. ŞEN demonstrated three indicators: domestic credit to private sector by banks (% of GDP), market capitalization to GDP ratio and stocks traded, total

value (% of GDP). In domestic credit to private sector by banks ratio, OIC low income country group suffered from insufficient access to credit but high income group countries recorded some progress between 2012 and 2014. On the other hand, there is still a huge gap between World average and the OIC average.

Furthermore, Mr. ŞEN stated that regarding market capitalization, despite gradual increasing in the OIC average, it is still lower than the Rest of World average that was around 86 percent in 2014. Additionally, OIC high income countries have the highest ratio in 2014 with the performance of Qatar and Saudi Arabia that were 88 percent and 65 percent, respectively. Concerning financial access, Mr. ŞEN presented two indicators: Bank account per 1,000 adults and bank branches per 100,000 adults. Mr. ŞEN expressed that enhanced access to finance allows individuals and firms to take advantage of business opportunities, invest in education, save for retirement, and insure against risks. Regarding OIC income groups performance in financial access, both low income and lower income groups showed poor performance during 2012-2014 periods. On the other hand, upper middle income and high income groups have similar ratios in terms of bank account and bank branch ratios.

Regarding financial efficiency, Mr. ŞEN expressed that efficient financial systems increase economic activity and welfare. Also high efficiency in financial markets increases profitability of financial institutions. In the financial efficiency, he presented two indicators: Bank return on asset (ROA) and bank return on equity (ROE). He stated that in contrast to financial depth and financial access, OIC low income group showed better performance than other income groups. The OIC Average is also higher than Rest of World average during 2012-2014 period in terms of bank return on asset ratio.

In financial stability, he expressed that financial stability is a vital condition of a well-functioning financial system. With regard to financial stability, Mr. ŞEN presented two indicators: Bank nonperforming loans to total loans and regulatory capital to risk-weighted assets. He emphasized that in all OIC income groups non-performing loan ratio was relatively higher in 2013 and 2014 except OIC high income group. Moreover, in all groups' nonperforming loan ratio decreased in 2015 and OIC average was lower than Rest of World average in the same year. Regarding regulatory capital to risk-weighted assets ratio. OIC low income group has the highest ratio and the OIC average is higher than Rest of World average. Mr. ŞEN concluded his presentation by highlighting the following points: i) Inclusive growth policies can be implemented with comprehensive financial sector strategies including Islamic Finance strategies, ii) Effective financial markets can help channeling global funds to the real sector in the OIC Member States, iii) There is a significant potential for financial inclusion in the OIC Region. As a pillar of this, easing access to finance is critical for further development.

### **Question(s) and Comment(s)**

#### **Comment(s):**

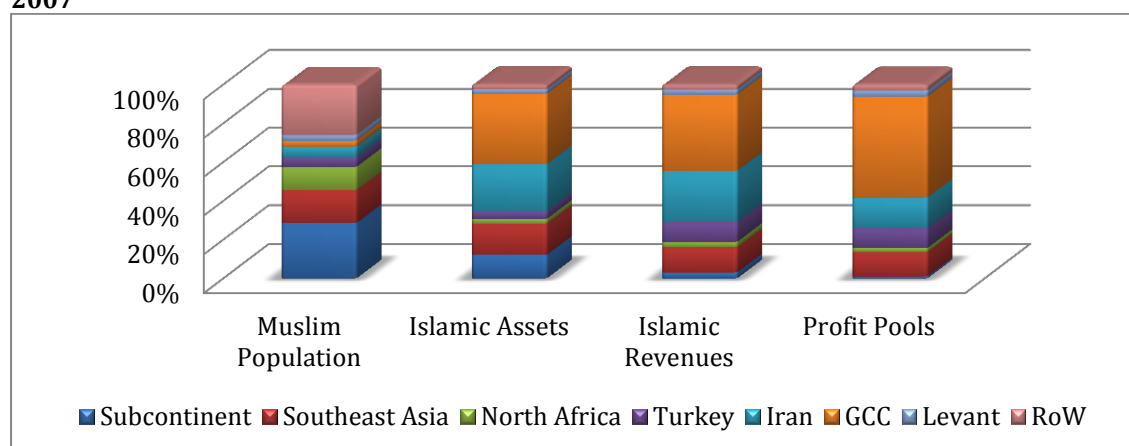
- Mr. Chairman underlined that the improvements in China, USA or rest of the world have impacts on the OIC member countries. Member countries cannot be totally isolated from the world. Member countries need to follow the developments in the world and conduct risk assessments about these impacts.

### 3. Road Map for Developing Islamic Finance Strategies

Prof. M. Kabir HASSAN, University of New Orleans, made two presentations on developing Islamic Finance Strategies. The first presentation focused on outlining the main issues related to a recommended road map for developing Islamic Finance strategies.

Prof. HASSAN indicated that Islamic Finance has become a global industry, providing services throughout the world in both emerging and established markets. The industry has progressed in terms of development through an increase in market share as well as increases in the amount of institutions and initiatives on the industry-level. Continuous expansion and profitability through the global financial crises reflects the resiliency of the industry. Due to the business practices of the Islamic Finance industry, its market share has grown substantially in a short amount of time. Despite this, it has mostly grown in a limited number of regions. He underlined that there is an opportunity for the Islamic Finance industry to grow further by increasing public awareness as well as building a stronger financial infrastructure and means of enforcement of transparency and adherence to Shariah law.

**Figure 1. Muslim population, Islamic Assets, revenues, and profit pool breakdown by region, 2007**



Prof. HASSAN mentioned that the research report conducted for the 6<sup>th</sup> Meeting of the COMCEC Financial Cooperation WG summarizes the recent trends, with respect to products and services, present in the Islamic Finance industry. He underlined that the study provides recommendations for further growth of the Islamic Finance industry. During his presentation, Prof. HASSAN briefly informed the participants on the key Islamic financial products:

- Islamic Banking
- Sukuk
- Zakah
- Awqaf
- Takaful
- ReTakaful
- Mudarabah
- Musharakah
- Istisna
- Islamic Equities
- Islamic funds
- Islamic Microfinance

Prof. HASSAN highlighted that the majority of member countries do not have a national Islamic Finance Strategies. He argued that the recommended framework for a national Islamic Finance Strategy contains 6 components, which are:

- Regulatory
- Shariah
- Infrastructure
- Product and Services
- Initiatives
- Talent Development

He stressed a time scope for recommended Islamic Finance Strategy in the Study. This time scope includes the objectives and stakeholders for short-term, mid-term and long-term.

Prof. HASSAN addressed the main challenges and obstacles in initial steps and implementation of Islamic Finance Strategies under the following headings:

- Limited clarity and transparency of Islamic microfinance
- Need for expanding into non-Muslim markets
- Strengthen support for regulatory systems
- Limited consistent data on Islamic financial markets
- Lack of specialized Islamic finance training
- Lack of Shariah and Islamic Financial rating agencies

He argued that the majority of the OIC member countries do not have an Islamic Finance strategy set forth, so the road map provided in the study is very useful to give stakeholders an idea of an existing entity to take on a given Islamic finance strategy objective or to create a new entity to take on an Islamic finance strategy objective specifically.

While concluding his presentation, Prof. HASSAN reminded the audience that in order for the Islamic Finance industry to grow and thrive, there are certain conditions that need to be developed. Each country should create and implement a national Islamic Finance Strategy to build and grow the Islamic finance industry. This will be beneficial by providing Islamic financial products and services to both their Muslim and non-Muslim population, will provide jobs to citizens that are interested in pursuing Islamic finance as a career, will build the economy by enabling the funding of small businesses, and providing needed financial assistance to the poor.

### **Question(s) and Comment(s)**

#### **Comment(s):**

- Mr. Chairman underlined the importance of data for investigating and called upon member states to cooperate with the researchers who are working for development of the Islamic finance sector. It was also stressed that the member countries should learn from good practices. He also expressed that Islamic Banking and conventional banking are not same and the common issue for the two is to meet demand of their clients.
- The participant from Senegal expressed that there is a lack of awareness in the WAEMU Region on Islamic finance.
- The delegate of the Gambian expressed that there is a need to move from conventional finance to Islamic finance. He underlined that the major question is how it could be done. The capacity, awareness and talent development are the major issues. Awareness on Islamic finance has to be improved. It was also highlighted that providing an enabling environment for Islamic finance is of particular importance.

**Question:** A question regarding the usage of data in the research report with related to Islamic finance in West African countries.

**Answer:** Prof. HASSAN underlined that only some member countries in Africa which have some experience in Islamic finance are covered in the Study. He also added that many African Member Countries do not have data on Islamic finance.

**Question:** The participant from the COMCEC Secretariat expressed that there are many obstacles with related to Islamic finance and the development level of finance in the OIC member countries. In this sense, it was asked that what would be suggestions for the member countries which have no experience in Islamic Finance to develop it.

**Answer:** Prof. HASSAN underlined that at the outset, demand has to come from people who want to lead their commercial life according to Islamic finance. He also highlighted the importance of raising awareness about Islamic finance. He mentioned that some of the countries developed their national strategies, regulatory and institutional systems. He added that benefiting from these countries' experience could be a good starting point for the beginner ones.

## 4. Developing Islamic Finance Strategies in the OIC Member Countries in the OIC Member Countries: Selected Case Studies and Policy Recommendations

In his second presentation, Prof. HASSAN presented the findings of the report on selected case studies and policy recommendations. At the outset, he put forth the comparison and contrast of existing financial plans. After that, Prof. HASSAN introduced the suggested recommendations and responsible stakeholders for each component of the Islamic Finance Strategies, namely regulatory, Shariah, infrastructure, products and services, initiatives and talent development.

**Table 1. Some Examples of Policy Recommendations\***

<b>Islamic Finance Strategy Comp.</b>	<b>Recommendation</b>	<b>Responsible Stakeholders</b>
<b>Regulatory</b>	Review existing regulations and guidelines to ensure compatibility with Shariah guidelines	<ul style="list-style-type: none"> <li>• Governments</li> </ul>
<b>Shariah</b>	Create an independent National Shariah Board to provide oversight and governance to internal and independent Shariah boards.	<ul style="list-style-type: none"> <li>• Governments</li> <li>• Islamic Financial Institutions</li> </ul>
<b>Infrastructure</b>	Develop secondary markets for Islamic financial products	<ul style="list-style-type: none"> <li>• Islamic Financial Institutions</li> </ul>
<b>Products and Services</b>	Increase range of Islamic products and services to satisfy the needs and demands of the Islamic finance and Islamic social finance client	<ul style="list-style-type: none"> <li>• Islamic Financial Institutions</li> <li>• Finance Industry Organizations</li> </ul>
<b>Initiatives</b>	Develop national campaigns to increase brand awareness of Islamic finance and social finance	<ul style="list-style-type: none"> <li>• Islamic Finance Industry Organizations</li> </ul>
<b>Talent Development</b>	Develop and host conferences for Islamic finance industry members, researchers, and regulators to share ideas and collaborate on ways of growing and improving the industry	<ul style="list-style-type: none"> <li>• Research Institutions</li> <li>• Islamic Finance Industry Organizations</li> </ul>

\*Please see the relevant section of the study for whole recommendations

He continued his presentation with the examination of existing National Strategies. He stressed that, only 4 of the countries observed in this report have existing national plans (Pakistan, Qatar, Indonesia, and Turkey). This study examines, on a country level, the presence, or absence, of an existing national plan. Countries that currently have a national plan can still benefit from the roadmap included in this study. This study highlights some aspects of the IFS roadmap that can be applied for the benefit of the subject country.

According to the presentation, Pakistan's current Islamic finance strategy focuses on Enabling Policy Environment, Shariah Governance & Compliance, Awareness and Capacity Building, and Market Development. Prof. HASSAN stated that these goals are very similar to a six component plan discussed in the study. He mentioned that the implementation of this plan should yield positive results for the Islamic finance industry in Pakistan. However, proceeding plans should continue to push the envelope and further strengthen Pakistan's weaknesses. More initiatives, a stronger regulatory environment, and more human capital development will allow the country to continue the recent success in developing Islamic finance.

Prof. HASSAN underlined that Turkey is poised to have strong growth in the Islamic financial industry. Turkey's strategic plan is a good starting point to ensure continued growth in the country.

The existing plan has 4 key components given below and is a positive step for Islamic finance domestically and internationally.

1. Improving the current perception towards interest-free finance system
2. Improving human resources in the interest-free finance sector and enriching the literature
3. Developing the corporate structure and the legal infrastructure of the interest-free finance system
4. Increasing the diversity of interest-free financial products and services.

He pointed out that Qatar has a national strategic plan for the growth of Islamic finance, which has several components. Human capital, growing market infrastructure, and enhancing a legal and regulatory infrastructure are some of the highlights of the strategic plan for future growth. Prof. HASSAN mentioned that Indonesia has the world's largest Muslim population and is very active in Islamic banking. However, Indonesia lacks a coherent strategic plan. By creating a strategic plan and following the guidelines recommended by this report, Indonesia can position itself to be one of the fastest growing Islamic banking countries in the world. He stressed that since there already exists much of the infrastructure for Islamic banking growth a strategic plan in Indonesia which focuses on talent development and new and innovative product and services. By strategically addressing these areas, Indonesia's Islamic banking sector is poised for strong growth.

Prof. HASSAN expressed that additional regulations are needed to govern Islamic banking, as well as Islamic social finance in Kuwait. There also needs to be external Shariah boards that assess Islamic finance products, services, and Islamic financial and non-financial institutions business practices. He argued that this can be done through a main external Shariah board that determines standardized Shariah rules in order to build transparency and standardization of Islamic Finance business practices.

Prof. HASSAN argued that Malaysia is a leader in Islamic Finance services, planning, and implementation. Because of Malaysia's dedication to Islamic finance Malaysia has been able to foster growth. Malaysia has a solid regulatory and legal framework for Islamic finance.. He underlined that a strategic plan that focuses on new product development, sustained growth through initiatives, and the human capital development in the Islamic financial services industry could ensure sustained growth for the future.

Prof. HASSAN concluded his presentation with recalling the fact that in order for the Islamic Finance industry to grow and thrive, there are certain conditions that need to be developed. Each country should create and implement a national Islamic Finance Strategy to build and

grow the Islamic finance industry. He underlined that Islamic finance will be further strengthened by Shariah compliance, corporate governance and transparency effectiveness. Innovative business models that include new technologies and means of delivery will provide Islamic financial services more efficiently and cost effectively. This will enable greater financial inclusion from providing client in remote areas access to Islamic financial services. The main objective of Islamic finance is to show the true spirit of contributing to the economy and society and to prove its viability in building partnerships that further development, not creating financial instruments used as a means of exploitation.

### **Question(s) and Comment(s)**

#### **Comment(s):**

- Mr. Chairman underlined the taxation problem in Islamic finance. He stated that in most of the countries Islamic finance products are taxed twice and this procedure discourages the investors. He also added that comprehensive financial education is needed from top to bottom.



## 5. Member States' Presentations

### 5.1. Cote D'Ivoire

Mr. Wotoumo FANNY, Financial Specialist at the Office of the Minister delegated to the Prime Minister responsible for the Economy and Finance, made a presentation on the legal and institutional framework to implement Islamic Finance in Côte d'Ivoire and in the West African Economic and Monetary Union (WAEMU).

The presentation focused on three main points which are:

- Constraints related to the implementation of Islamic finance
- Provisions related to the integration of Islamic finance
- The monitoring system for the implementation of Islamic finance

Mr. FANNY mentioned about the main constraints related to the implementation of Islamic finance under three headings: regulatory constraints, fiscal constraints and accounting constraints. He underlined that it is necessary to set up a High Council of Sharia Conformity (HCCS) for the delivery of certificates of conformity for Islamic banking products. He also mentioned about a possible monitoring system for the implementation of Islamic finance (actors and their responsibilities)

He expressed that , Côte d'Ivoire issued a sukuk 150 billion Francs CFA in order to finance its National Development Plan.

He underlined that Islamic Finance is one of the most appropriate responses to the needs of SMEs in Côte d'Ivoire. He informed the participants that the most appropriate Islamic financial instrument to the needs of the country is "Ijara" or the equivalent of the lease. He mentioned that there are some efforts undertaken to develop a law on leasing in Ivory Coast. These efforts aim to popularize the instrument among banks and financial institutions. This instrument will also grow considerably in the next 5 years..

### 5.2. Islamic Republic of The Gambia

Mr. Essa A.K DRAMMEH, Director of Financial Supervision in the Central Bank of The Gambia, made a presentation on the developments in the current status of Islamic Finance in The Gambia.

At the first part of his presentation, Mr. DRAMMEH summarized current developments in the domestic economy. He mentioned that The Gambia Bureau of Statistics has revised upwards real GDP growth for 2014 from the earlier estimate of 0.5 percent to 0.9 percent, citing less-than-expected contraction in agricultural output than previously estimated. Growth in 2015 is expected to be supported by strong recovery in tourism and agriculture as well as increased infrastructure spending. He also shared some information regarding money and banking sector developments, government fiscal operations, external sector developments and inflation outlook of The Gambia.

Mr. DRAMMEH stated that the key underlining principle of the Central Bank of The GAMBIA's strategy for Islamic Finance is to get the private sector to buy into the concept so that they can drive its development in the country while building capacity at the regulatory level and increasing awareness of IFIs among key stakeholders. He underlined that the introduction of Islamic finance started with Islamic Banking, whose development was facilitated by the amendment of the Financial Institutions Act, 1992 (the hitherto main regulation governing the

banking sector) to provide the legal basis for Islamic Banking and gave some details on legal and regulatory framework.

Mr. DRAMMEH informed the participants that The Gambia has one full-fledged Islamic Bank, the Arab Gambian Islamic Bank (AGIB), which began operations in the country in 1997. There is only one Islamic insurance company operational in The Gambia, Takaful Insurance (G) Ltd which started operations in 2008. There are currently no Islamic Microfinance institutions licensed and operating in the country. He briefed the participants on the key initiatives which have been taken by Central Bank of The Gambia. He also briefed the participants regarding the financial infrastructure and regulatory framework.

Furthermore, Mr. DRAMMEH gave information about the Gambia's project funded under the COMCEC Project Funding. The project aimed to enhance financial literacy and the understanding of Islamic Financial Instruments (IFIs) with a view to increasing their availability in The Gambia, Nigeria and Sierra Leone and to create awareness of IFIs, especially within the key target groups that are critical for any successful IF business model.

He mentioned that the project has operationalized these objectives by executing 3 main deliverables:

- The preparation of a baseline survey to gauge the current level of literacy, availability and awareness of IFIs and the general state of the respective Islamic Finance (IF) sectors of the Project Countries.
- A joint study tour to Malaysia for a team of Banking Supervisors drawn from the CBG, the Central Bank of Nigeria (CBN) and the Bank of Sierra Leone (BSL) to learn more about Malaysia's IF ecosystem.
- A regional workshop titled "Building Islamic Finance in The Gambia, Nigeria and Sierra Leone" that was hosted by the CBG on September 14-15 2015. Mr. DRAMMEH pointed out that the main objective of the workshop which is to deliberate on how to build Islamic Finance in the Project Countries through utilizing the experiences of Malaysia. He highlighted that a report entitled "Islamic Finance Institutionalization Strategy for The Gambia, Nigeria and Sierra Leone" was the main output of the workshop.

Lastly, Mr. DRAMMEH presented the conclusions and recommendations of the workshop.

### **5.3. Indonesia**

Mr. Haryadi, Deputy Director for Islamic Finance Industry Development Policy in Ministry of Finance of Republic of Indonesia made a presentation on Indonesia's strategies in developing Islamic finance.

Mr. Haryadi started his presentation by addressing the potential development of Islamic finance industry in Indonesia. He expressed that the biggest opportunity for Islamic finance development in Indonesia are its large Muslim population and massive infrastructure projects for economic development. However, statistics show that the Islamic finance only accounts for less than 5% of total finance industry in Indonesia. As of November 2015, the assets of Islamic banking sector were only 4.83% of the total banking assets. Moreover, the market share of sharia mutual fund accounted for 8.29% of total mutual funds while the Net Asset Value of sharia mutual fund was only 4.11% of total Net Asset Value. He also added that the market share of corporate sukuk only accounts for 2.99% of total corporate bonds while government sukuk is only 12% of total sovereign bonds. These data confirm the huge opportunity for Islamic finance development in Indonesia.

He also stated that establishment of the first Islamic bank has supported the development of Islamic capital market in Indonesia. In 1997, the first Islamic mutual fund was launched and three years later the Jakarta Islamic Index (JII), an index of 30 sharia-compliant stocks, was introduced. In 2002, the first Islamic corporate bonds were issued by a state-owned telecommunication company.

Mr. Haryadi also expressed that Islamic finance in Indonesia is well regulated. There are about seven Acts related to banking and financial market, to support the Islamic finance industry in Indonesia.

In his presentation, Mr. Haryadi also mentioned that, at strategic level, Indonesia has developed the Masterplan for Indonesian Islamic Financial Architecture in 2014, a project conducted by the National Development Planning Agency and the Islamic Development Bank. As one of its recommendation, in January 2016, the President of the Republic of Indonesia initiated the establishment of the National Islamic Finance Committee. This high-profile committee will be chaired by the president and monitor the implementation of the Masterplan and its effectiveness because Islamic finance industry in the country is highly regulated but scattered between many regulators.

Additionally, at the operational level, , to broaden investor base and as part of financial inclusion strategy, government has issued retail-based sukuk since 2009, which was the first retail sukuk issuance in the world. The government also continues issuing sharia bonds instruments (sukuk) to add options to investment portfolio in Islamic finance and to maximize the utilization of idle but huge assets such as project-based sukuk and Sukuk for Hajj Funds.

Lastly, Mr. Haryadi announced that Indonesia will host the 41st Annual Meeting of the Islamic Development Bank on 15-19 May 2016. In addition to Governors meeting, during the event, there will be exhibitions, seminars and social programs.

#### **5.4. Pakistan**

Mr. Saeed Ahmad, Deputy Governor, State Bank of Pakistan (SBP), presented Pakistan's Islamic banking landscape covering the following aspects: Current Islamic Finance Scenario; Strategic Framework for Islamic Banking 2014-18; Enabling Policy Environment and Other Initiatives under Strategic Framework; Risk Based Supervisory Framework; SBP Vision 2020 and Financial Inclusion Targets; Regulatory and Supervisory Challenges; and Way Forward.

Mr. Ahmad apprised the audience about Pakistan's financial landscape which consists of diversified financial institutions with a dominant share of commercial banks, Development Finance Institutions (DFIs) and exchange companies regulated by the State Bank of Pakistan. Besides, there are non-bank financial institutions (NBFIs) including investment banks, mutual funds, leasing, housing finance, Modarabas, insurance companies, postal banks, Central Directorate of National Savings (CDNS), national and provincial rural support programs, etc. regulated by different bodies. In addition, there are un-regulated microfinance institutions and NGOs working at the grass root level for financial inclusion.

He highlighted the efforts and commitment of the Government and State Bank of Pakistan in the promotion of Islamic banking and finance. He shared that Islamic banking industry since its re-launch in 2001, continues to grow at an unprecedented rate.

Mr. Ahmad stated that Government of Pakistan (GOP) has demonstrated strong ownership and commitment for development of Islamic banking industry by constituting a high level Steering Committee (SC) for Promotion of Islamic Banking. He emphasized that the SC has played an

instrumental role in synergizing efforts of all stakeholders and addressing challenges faced by Islamic banking and finance in the country.

Mr. Ahmad discussed the key points of the five years Strategic Plan (2014-18) for Islamic Banking, developed by SBP in consultation with key stakeholders. He stated that Strategic Plan builds upon the major strengths of industry, identifies the key issues and weaknesses in the policy environment and prescribes strategies and action plans to address/resolve the issues and challenges. The four key reform areas of the plan include; enabling policy environment, Shariah governance & compliance, awareness & capacity building and market development.

Mr. Ahmad touched upon the developments / initiatives in enabling policy environment which include efforts for creating level playing field for IBIs in taxation and legal framework by removing anomalies and proposing amendments to address issues faced by the industry. Furthermore, he stated that Shariah compliance framework has been strengthened through issuance of Shariah Governance Framework, revision of inspection manual for Shariah compliance and periodic thematic inspections of key areas of IBIs. He added that SBP has also been working on development of comprehensive liquidity management framework for Islamic banking industry.

Mr. Ahmad mentioned that SBP in collaboration with UK Department for International Development (DFID), industry and other stakeholders has established three centers of excellence in Islamic finance education in top-tier universities of Pakistan (i.e. IBA Karachi, LUMS Lahore and IM Sciences Peshawar). These centers are expected to contribute effectively in supplying skilled human resource to Islamic financial industry.

With regard to adoption of international prudential, accounting and Shariah standards, Mr. Ahmad apprised that State Bank of Pakistan has successfully adopted/adapted six AAOIFI Shariah standards and four IFSB standards and work is in process for adoption of more international standards. Furthermore, he shared that SBP is working on AAOIFI Accounting & Auditing Standards in coordination with Institute of Chartered Accountants of Pakistan (ICAP) Committee to develop separate accounting and reporting standards for IBIs to enhance their transparency and disclosure practices.

Moreover, he briefed the participants on SBP's other major contributions towards development of Islamic finance such as country-wide awareness campaign on Islamic finance, Knowledge Attitude and Practices (KAP) Survey, ongoing technical assistance programs to other countries in affiliation with IRTI and World Bank, facilitative role in development of capital market instruments, development of All Shares Islamic Index, promotion of Takaful and Mudaraba sector etc.

With respect to the central bank's supervisory framework, he touched upon the risk-based macro & micro prudential approaches covering: prudential regulations, guidelines and instructions; off-site surveillance and on-site supervision/inspection; financial soundness indicators; and stress testing framework.

Mr. Ahmad also shared that central bank is cognizant of the potential of Islamic Banking in financial inclusion. The SBP Vision 2020 has a Strategic Goal to "Enable and promote Islamic Banking", through capacity building, coordination and collaboration among various internal & external stakeholders, separate targets to IBIs for financing facilities to SMEs, focused research and pilot projects. Moreover, he mentioned that SBP has established a new 'Financial Inclusion Department' and has launched a comprehensive National Financial Inclusion Strategy wherein Islamic banking has exclusive targets for financial inclusion.

In the final part of his presentation Mr. Ahmad outlined supervisory and regulatory challenges that demand more attention and collaboration among stakeholders. The challenges include harmonization among different schools of thought, enabling legal and regulatory framework, standardization in accounting & auditing practices, capacity building and awareness, consolidated supervision, Shariah Audit/review expertise, development of financial safety nets etc.

Mr. Ahmad concluded his country presentation with broad recommendations such as; strengthening of Islamic financial regulatory infrastructure; role of multilateral institutions-IMF, World Bank, IFC, ADB and IDB; regular implementation/adoption of Islamic international prudential, accounting and Shariah standards; efforts to bring more standardization/harmonization in Shariah interpretations; promotion of profit & loss sharing modes and real trade transactions; liquidity management issues, research and development in the fields of fiscal and monetary policies in Islamic framework; continued coordination and cooperation of relevant stakeholders for public awareness, capacity building and talent development; and most importantly focus on socially responsible financial intermediation by engaging micro finance banks and micro finance institutions (MFBs/MFIs) , SMEs and agriculture sectors.

## **5.5. Turkey**

Mr. M. Alper BATUR, Head of Department at the General Directorate of Financial Sector Relations and Exchange in the Undersecretariat of Treasury, made a presentation on participatory finance in Turkey.

At the first part of his presentation, Mr. BATUR summarized current financial system in Turkey. He emphasized that banking sector dominates Turkish financial system. According to different definitions, banking sector represents about 85 percent of the total financial sector assets in Turkey. He also gave detailed information on performance and distribution of the banking sector, capital markets and non-bank financial institutions in the financial sector.

Mr. BATUR gave information on global Islamic finance markets by systemic significance and its assets projection that are expected to reach USD 3.2 trillion in 2020. He demonstrated some countries' rankings in terms of Islamic financial development. He also touched upon Turkey's position in the global Islamic financial system regarding Islamic finance assets. He said that Turkey was the 8th largest country in the global Islamic finance system in 2014 with around USD 54 billion asset value and based on projections, Islamic finance would be systemically important in the country in the medium term. He also emphasized that according to the State of the Global Islamic Economy Report prepared by Thomson Reuters in 2013, Turkey's potential Islamic finance assets value were around USD 775 billion which was almost twenty times of the actual asset size in 2012.

At the second part of the presentation, Mr. BATUR introduced the interest-free finance in Turkey. In this sense, he informed the participants about the participation banks performance and shares in the banking sector regarding assets, total credit and deposits during the 2010-2015 period. He stated that with the entrance of new participation banks, number of the participation banks reached at 6 but the market share is still around 5 percent that is far from desired level.

Mr. BATUR presented information on takaful sector in Turkey. He stated that Takaful is a newly emerging niche market for Turkey's insurance sector and there are currently two companies which operate with participatory finance principles. In addition, there are also several insurance companies which offer products and services in line with participatory

finance principles and current regulations cover takaful operations and offer level playing field for new players in the market from both domestic and international markets.

Mr. BATUR gave information about sukuk market known as lease certificate in Turkey. He stated that after the first regulation for sukuk which was introduced in 2010, several regulations were made between 2011 and 2013 for leveling the playing field and allowing new sukuk types and around 65 corporate sukuk were issued with the amount of approximately USD 5 billion as of February 2016.

He also informed the participants about the sovereign sukuk issuance in Turkey. After the first sovereign sukuk issuance in the international markets with the amount of 1,5 billion US Dollar, several sovereign sukuk issuance were made by the Turkish Treasury and total amount of the issuances exceeded 20 billion Turkish Lira as of February 2016. Mr. BATUR emphasized that Turkish Treasury is planning to continue sukuk issuance on a regular basis in the following years. He also gave brief information on Participation 50 Index offered by Borsa Istanbul with other indices such as Participation 30 Index and Participation Model Portfolio Index and business angel system that is very compatible with mudarabah structure and offers new mechanism to ease access to finance.

At the third part of the presentation, Mr. BATUR mentioned about Istanbul International Financial Center Program Action Plan that covers 2015-2018 period. He briefly informed the participants about the seven components of the Plan". Then, he elaborated the component 7 that consists of four policies. These are;

- Improving the current perception towards interest-free finance system
- Improving human resources in the interest-free finance sector and enriching the literature
- Developing the corporate structure and the legal infrastructure of the interest-free finance system
- Increasing the diversity of interest-free financial products and services.

He touched also up on Turkish Participation Banking Strategy Document published by Participation Bank Association of Turkey. According to the Document, participation banking system's total assets is expected to reach 15% of total banking sector by 2025 with the new players in the system.

Lastly, Mr. BATUR presented Interest-Free Finance Coordination Board as an initiative to be highlighted. He said that the Board was established by The Prime Ministry Circular in December 2015. He summarized the goal of the Board as i) to advance sound participation banking and participation insurance as well as interest-free finance system in general and ii) to contribute to Turkey's vision of becoming an international finance center. The Board is chaired by Minister responsible for Undersecretariat of Treasury and composed of relevant public and private financial institutions.



## **6. Perspectives of International Institutions/Private Sector**

### **6.1. IDB's 10-year Strategy for Development of the Islamic Financial Services Industry**

Mr. Ahmed Fayed AL-GEBALI, Director of Islamic Financial Services Department of IDB, made a presentation about the 10-year strategy of IDB for developing the Islamic financial sector. He mentioned about the IDB's Vision and mission statements, and stated that the 10-year Islamic financial services industry's strategy for the Bank is based on these statements as well as the needs of the Industry. He also explained the process of selection of the major themes for the strategy.

The next section of the presentation dealt with the five core areas of IDB's strategy, which include Islamic finance and the cross cutting area of capacity building. He also described the players in the Islamic financial services industry, which fulfill various roles of enablement, performance and reach.

Mr. AL-GEBALI also presented the list of countries, which are at various stages in the development of the Islamic financial services industry. He also presented the three major stages of the development of the Industry i.e. enablement, performance and reach. The presentation also showed the major reasons for lack of development of the Industry.

Subsequently t Mr. AL-GEBALI showed achievements of the Bank, including the number of TAs, microfinance development projects and the strategic internal and external partners with whom the Bank works in order to leverage its resources.

### **6.2. Participation Banks in Turkey: Turkish Participation Banking Strategy Document 2015-2025**

Mr. Aydın YABANLI, Deputy Manager at Participation Bank Association of Turkey made a presentation on Participation Bank Sector in Turkey and the Turkish Participation Banking Strategy Document. Mr. YABANLI mentioned that Participation Banks (PBs) in Turkey have a great potential to embrace a big deal of unbanked people with solid and ethical Islamic Banking arguments. PBs have been providing alternative financial opportunities to manufacturers, businessmen and investors with lower and competitive costs and high yields.

Mr. YABANLI stated that asset based model banking, real income, real production, real support, consequently real GDP combination, safe from derivatives risks, no interest risk, risk sharing are the main strengths of the sector while lack of trained staff, uncompleted standardization, scarcity of an independent regulation are some of the weaknesses.

Mr. YABANLI informed the participants that Turkish government has has planned to make Istanbul an international financial hub in the near future. He stated that the main body of the strategic plan is to make Istanbul as a Regional Finance Center in the short run, then Global Finance Center in the long run (2023 Target). Therefore, Islamic finance and participation banking were identified as a potential sector to support this main goal.

He continued his presentation with giving information on the Istanbul Financial Center Action Plan. He touched upon that the action plan for developing Islamic finance and banking have been conducted and the main topics have been classified as follows:

- a. Improving the existing perception of Islamic finance system,

- b. Development of the human resources and enrichment of the literature in the field of Islamic finance,
- c. Development of institutional structure and legal system of Islamic finance infrastructure,
- d. Increasing the diversity of Islamic finance products and services,
- e. Foundation of institutional and legal infrastructure Islamic insurance (takaful) system.

Mr. YABANLI said that establishment of Scholar High Council, establishment of the regulations of Islamic Banking Advisory Boards, implementing new products compatible with Turkish socio-economic structure, certificating the PBs related vocations, and developing participation banking expressions, etc. were all strategic goals and actions in this mentioned path.

### **Question(s) and Comment(s)**

- Mr. Chairman stated that there is a big scope among member countries to learn from each other. He also expressed that as Pakistan they are ready to help member countries to develop Islamic finance there.
- Turkish delegate stated that COMCEC Financial Cooperation Working Group can facilitate the exchange of experiences among the member countries.
- Gabonese delegate mentioned that Gabon has a problem to access finance in Islamic Banking.
- Mr. FAYED from IDB stated that they will share the pre-requirement guidelines of the IDB for technical assistance with the participants and expressed their readiness to help Member countries.
- Mr. IQBAL gave brief information about the efforts of the World Bank Global Islamic Finance Development Centre. He stated that the World Bank provides technical assistance to its member countries and informed the participants about the technical assistance process. He underlined that the World Bank sees the Islamic finance as an important tool for economic development. He underlined the importance of better coordination among the international institutions to help the countries and to prevent duplications.



## 7. Utilizing the COMCEC Project Funding

Mr. Ali ORUÇ, Expert at the COMCEC Coordination Office made a presentation on the COMCEC Project Funding introduced by the COMCEC Strategy.

First, Mr. ORUÇ presented the basic qualifications of the COMCEC Project Funding as “simple and clearly defined procedures and financial framework”, and mentioned that CCO provided continuous support to the member countries during the all stages of the COMCEC Project Funding Mechanism.

After briefly mentioning about the Project Cycle Management (PCM) concept, Mr. ORUÇ underlined the potential project owners. It was emphasized that relevant ministries and other public institutions of the Member Countries and the OIC Institutions operating in the field of economic and commercial cooperation could submit projects. He also underlined that member countries have register to the respective working group in order to submit their project proposals.

Mr. ORUÇ continued his presentation by explaining the “Project Selection Criteria” namely, compliance with Strategy’s Principles, and targeting strategic objectives of the Strategy, focusing on output areas and pursuing multilateral cooperation among the OIC Member Countries. Furthermore, he underscored that project proposals submitted by the member countries should be compliant with the sectorial themes for the third call stated in the Program Implementation Guideline.

He mentioned the importance of the multilateralism for project appraisal, and expressed that project proposals should focus on common problems of at least three member countries and should offer joint solutions for these problems.

During the presentation, three key actors and their responsibilities under the COMCEC Project Funding were identified; Project Owner (Project Submission and Implementation); the CCO (Program Management) and the Intermediary Bank (Project Monitoring and Financing). Moreover, steps and roles of these key actors throughout the project application process were explained.

In the presentation, regarding the Monitoring of projects, Mr. ORUÇ informed the participants that the Bank would be mainly responsible for financial and technical monitoring of projects while the CCO would oversee the overall implementation of the PCM.

Regarding the financial framework, He emphasized that the funds are grant in nature and would be provided by the CCO.

He also expressed that 3 finance projects were implemented under the COMCEC Project Funding in 2014 and 2015.

These projects are:

- The Workshop On The Challenges of Electronic Payment Systems in West and Central African States (Cameroon)
- Enhancing Financial Literacy and Capacity Building on Islamic Financial Instruments. (The Gambia)
- Islamic Capital Market Capacity Building Programs (Malaysia)

Afterwards, Mr. ORUÇ briefly mentioned about the online project submission system and stated that member countries could submit their project proposals easily by using this user-friendly system.

Lastly, He reminded participants that fourth call for project proposals would start as of early September 2016.

**Question:** Who are the potential beneficiaries of projects financed by the COMCEC Project Funding?

**Answer:** OIC Member Countries which are registered to the COMCEC Working Groups and the relevant OIC Institutions are potential beneficiaries of projects financed by the COMCEC Project Funding.

**Question:** Could you inform us about time period between announcement of final list and receiving financial support?

**Answer:** The final-listed projects are announced by the CCO on its web site in mid-January. The implementation period of the projects starts as of April and payments for project activities are made by Development Bank of Turkey based on three-month progress reports. Also, The Bank makes payments for project personnel in each month based on timesheet.

## 8. Legal and Regulatory Frameworks for Development of Islamic Finance

### 8.1. Importance of the Legal and Regulatory Framework for Development of Islamic Finance

Mr. MADZLAN HUSSAIN, Partner of Zaid Ibrahim Co, made a presentation on importance of the legal and regulatory framework for development of Islamic finance.

At the outset, Mr. HUSSAIN mentioned that there are many ways/approaches to develop Islamic Finance. He underlined that when the developments of Islamic finance, especially in countries where Muslims are minorities such as UK, are observed the development is not ensured by changing the laws first. He added that in many countries the development of law has not taken an advantage for these countries. He also reminded that Prof. KABIR mentioned that how Islamic Bank in Bangladesh has become one of the biggest Islamic financial Institution without changing law. In this context he argued that it is not all the time necessary to start with changing law first while introducing the Islamic finance in the country. He highlighted that the first step is to understand that how things work before changing the legal and regulatory framework. He added that if a country has a sound idea, such as having a strategy to develop Islamic Finance sector, it could change the law.

Mr. HUSSAIN mentioned about the following risks:

- Breach of law and regulations
- Breach of Shariah principles
- Financial loss due to poor investment and/or financing decisions
- Damage to reputation/ image of Islamic financial institutions and the industry
- Systemic pressure on the rest of the market

Mr. HUSSAIN underlined that the global financial crisis in 2007/08 has proven that strong legal and regulatory intervention remains a key to sound governance.

Mr. HUSSAIN expressed that risk in failure of the courtroom functions, among others, as following:

- Injustice to disputing parties
- Breach of Shariah principles, which defeats the key purpose of Islamic financial contracts
- Unfair infliction of financial loss due to poorly conceived court decisions
- Damage to reputation/ image of Islamic financial institutions and the industry
- Systemic pressure on the rest of the market

Mr. HUSSAIN expressed the characteristics of an effective legal and regulatory framework for Islamic finance and common hurdles for Islamic finance

Lastly, Mr. HUSSAIN presented the Malaysia's experiences as a case example.

#### Question(s) and Comment(s)

**Question:** Prof. HASSAN asked Mr. HUSSAIN to give information on the alternative dispute resolution mechanisms.

**Answer:** Mr. HUSSAIN expressed that commercially the best dispute resolution forum is still courts due to their sanction power and underlined that other alternatives do not have an equal sanction power.

## 8.2. IDB's Cross Country Experiences

Mr. Wasim A. ABDULWAHAB, Senior Islamic Finance Specialist at IDB, made a presentation on IDB's Cross Country Experiences in Development of Islamic Finance. At the outset, Mr. ABDULWAHAB shared some information about technical assistance provided by IDB to Islamic finance industry. He mentioned about 47 technical support programs that have been implemented and gave some examples of these programs.

He expressed that the objective of technical support programs is to develop Islamic finance enabling environment (legal, regulatory and supervisory framework) and institutional capacity building in Islamic finance. He stated that central banks, capital market authorities, supervision agencies, public sector banks, ministries of finance, as well as Islamic Infrastructure Institutions are the beneficiaries of these programs. He pointed out that the Program has successfully targeted key emerging Islamic finance markets (21 countries targeted).

Mr. ABDULWAHAB underlined that as Mr. HUSSAIN mentioned and elaborated in the discussions, different countries needs different approaches to develop Islamic finance. He mentioned that countries take into consideration, among others, followings to provide Islamic finance enabling environment:

- To what extent is the legal and regulatory systems are developed (Basic, Intermediate or Advanced)?
- To what extent is the demand from the population for various Islamic finance products from the population?
- How much political is present?
- How well developed is the country?
- What are the Government's objectives and how much is it willing to pursue them?
- How well is the financial market developed?

Mr. ABDULWAHAB argued that the definition of an enabling environment for Islamic Finance is developing an ecosystem for Islamic finance by incorporating or permitting, Islamic financial activity within a country or a group of countries' financial system. He presented a basic process management for enabling environment

Mr. ABDULWAHAB presented the components of an Islamic finance enabling environment. He highlighted that ensuring robust Islamic financial transactions, products and services require three major elements to be working in harmony:

- Sharia'a compliancy
- Legal enforceability
- Commercial viability

At the last part of his presentation, Mr. ABDULWAHAB gave some examples of IDB's Technical assistance programs.

## Question(s) and Comment(s)

### Comment(s):

- Mr. Chairman mentioned that the presentation was interesting especially for the member countries which have not started to Islamic finance yet.
- Algerian delegate stated that the regulatory and legal framework for Islamic finance has not been established yet. The Islamic Banks are operating under the framework of conventional finance law.
- Delegate of Morocco mentioned that Morocco adopted a new banking law last year and added that participating banking would be started within this year.
- Indonesian delegate stated that National Plan Developing Agency had an initiative to develop a Master Plan. In early 2013, The Agency invited IDB for technical assistance. He expressed that various institutions had their own strategies/road maps for developing Islamic finance. He stated that with this master plan Indonesia tried to combine all these strategies.
- Mr. ABDULWAHAB underlined that IDB developed the Master Plan on the basis of the request of National Plan Developing Agency of Indonesia. The Master Plan was developed through the involvement of all the relevant stakeholders. He added that within the framework of the implementation of the Master Plan a national level council was established under the chairmanship of the President of the Republic of Indonesia to follow overall development of Islamic finance sector.

## 9. Policy Debate: Challenges in Developing Islamic Finance Strategies

The session was moderated by Mr. Zamir IQBAL, Head of World Bank Global Islamic Finance Development Center during the second day of the 6th Meeting of the COMCEC Financial Cooperation Working Group. The participants elaborated the challenges in Developing Islamic Finance Strategies in their respective countries. During the discussions took place in the 6th Meeting of the COMCEC Financial Cooperation Working Group, the following possible challenges and problems were highlighted

- Weak regulatory systems
- Lack of Shariah governance infrastructure
- Lack of necessary institutional infrastructure
- Lack of Islamic financial instruments and services
- Lack of specialized Islamic finance academic and training programs
- Lack of initiatives, i.e. campaigns on increasing public awareness, to promote Islamic finance
- Lack of diversified Islamic Finance Strategies/Policies targeting the various needs of investors
- Lack of SMEs access to finance
- Low level of integration of Islamic Finance to the global financial system
- Lack of liquidity framework for Islamic Banks
- Lack of high quality research and intellectual discussions

## 10. Policy Recommendations for the Exchange of Views Session of the 32nd COMCEC Ministerial Meeting

The 31st COMCEC Session decided on “Developing Islamic Finance Strategies in the OIC Member Countries” as the theme of the Exchange of Views of 32nd Session of the COMCEC and requested the COMCEC Financial Cooperation Working Group to come up with policy recommendations on the aforementioned topic and report it to the 32nd COMCEC Session.

In this framework, a moderation session was held under the moderation of Mr. Ali ARSLAN, Director General in the Undersecretariat of Treasury of Turkey, during the second day of the 6th Meeting of the COMCEC Financial Cooperation Working Group.

At the beginning of the session, Mr. Okan POLAT, expert from the COMCEC Coordination Office, made a brief presentation on the responses of the Member Countries to the policy questions on developing Islamic Finance Strategies sent to the Financial Cooperation Working Group focal points by the CCO..

The participants, in light of the discussions took place and the main findings of the research report prepared specifically for this Meeting, have come up with a set of policy recommendations to be submitted to the 32<sup>nd</sup> Session of the COMCEC. These policy recommendations are given in Annex 3.

## 11. Closing Remarks

The Meeting ended with closing remarks of Mr. Ali ARSLAN, Director General in Undersecretariat of Treasury of Turkey and the Chairman of the Meeting and Mr. M. Metin EKER, Director General of the COMCEC Coordination Office.

In his closing remarks, Mr. EKER informed the participants that the 7th of the COMCEC 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”. He stated that a research report will also be shared with the focal points and other participants at least one month before the meeting.

## Annex 1: Agenda of the Meeting



### AGENDA

#### 6<sup>th</sup> MEETING OF THE COMCEC FINANCIAL COOPERATION

#### WORKING GROUP

17-18 March, 2016 Ankara, Turkey

*“Developing Islamic Finance Strategies in the OIC Member Countries”*

#### **March 17<sup>th</sup>, 2016**

##### Opening Remarks

1. Financial Outlook of the OIC Member Countries
2. Road Map for Developing Islamic Finance Strategies
3. Developing Islamic Finance Strategies in the OIC Member Countries: Selected Case Studies and Policy Recommendations
4. Member States' Presentations
5. Perspective of International Institutions / Private Sector
6. Utilizing the COMCEC Project Funding

#### **March 18<sup>th</sup>, 2016**

7. Legal and Regulatory Frameworks for Development of Islamic Finance
8. Challenges in Developing Islamic Finance Strategies
9. Policy Recommendations for the Exchange of Views Session of the 32<sup>nd</sup> COMCEC Ministerial Meeting

##### Closing Remarks

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## Annex 2: Program of the Meeting



**PROGRAMME**  
**6<sup>th</sup> MEETING OF THE COMCEC FINANCIAL COOPERATION**  
**WORKING GROUP**

17-18 March, 2016 Ankara, Turkey

*“Developing Islamic Finance Strategies in the OIC Member Countries”*

**March 17<sup>th</sup>, 2016**

08.30-09.00 **Registration**

09.00-09.05 **Recitation from Holy Qur'an**

09.05-09.15 **Opening Remarks**

09.15- 09.35 **Financial Outlook of the OIC Member Countries 2015**

*Presentation: Mr. Utku ŞEN*

*Expert, COMCEC Coordination Office*

09.35- 09.45 **Discussion**

09.45-10.25 **Road Map for Developing Islamic Finance Strategies**

*Presentation: Prof.Kabir HASSAN*

*University of New Orleans*

10.25- 11.00 **Discussion**

11.00-11.15 **Coffee Break**

11.15-11.55 **Developing Islamic Finance Strategies in the OIC Member Countries:  
Selected Case Studies and Policy Recommendations**

*Presentation: Prof.Kabir HASSAN*

*University of New Orleans*

11.55- 12.25 **Discussion**

12.25-14.00 **Lunch**

14.00- 15.30 **Member States' Presentations**

*Presentation(s)*

15.30- 16.00 **Discussion**

16.00-16.15 Coffee Break

16.15- 16.55 **Perspective of International Institutions / Private Sector**

*Presentation: "IDB's 10-year Strategy for Development of the Islamic  
Financial Services Industry"*

*Mr. Ahmed Fayed GEBAILI  
Director, Islamic Financial Services Department  
IDB*

*Presentation: "Participation Banks in Turkey: Turkish Participation  
Banking Strategy Document 2015-2025"*

*Mr. Aydın YABANLI  
Deputy Manager, Corporate Communications and R&D,  
Participation Bank Association of Turkey (TKBB)*

16.55- 17.15 **Discussion**

17.15- 17.30 **Utilizing the COMCEC Project Funding**

*Presentation: Mr. Ali ORUÇ*

*Expert, COMCEC Coordination Office*

17.30- 17.45 **Discussion**

**March 18<sup>th</sup>, 2016**

**09.00-09.40    Legal and Regulatory Frameworks for Development of Islamic Finance**

*Presentation: "Importance of the Legal and Regulatory Framework for Development of Islamic Finance"*

*Mr. Madzlan HUSSAIN  
Partner  
Zaid Ibrahim & Co.*

*Presentation: "IDB's Cross Country Experiences"*

*Mr. Wasim ABDULWAHAB  
Senior Specialist, Islamic Financial Services Department  
IDB*

**09.40- 10.10    Discussion**

**10.10- 11.20    Policy Debate: Challenges in Developing Islamic Finance Strategies**

*There will be a moderation session under this agenda item. In this session, the participants will elaborate the current situation of Islamic Finance in their countries and hold discussions on the challenges in developing Islamic Finance Strategies.*

*Moderated by Mr. Zamir IQBAL  
Head of World Bank Global Islamic Finance Development  
Center*

***Discussion***

**11.20-14.30    Lunch and Friday Prayer**

**14.30-16.30 Policy Recommendations for the Exchange of Views Session of the 32nd COMCEC Ministerial Meeting**

*During the 32nd COMCEC Ministerial Session there will be a Ministerial exchange of views session with the theme of "Developing Islamic Finance Strategies in the OIC Member Countries". Under this moderated session, the participants will hold discussions on the theme and are expected to come up with concrete policy recommendations to be submitted to the 32nd COMCEC Session.*

*Moderated by Mr. Ali ARSLAN  
Director General, Undersecretariat of Treasury of Turkey*

*Presentation: "Responses of the Member Countries to the Policy Questions on Developing Islamic Finance Strategies"*

*Mr. Okan POLAT*

*Expert, COMCEC Coordination Office*

***Discussion***

**16.30-17.00 Closing Remarks**

## **Annex 3: Draft Policy Recommendations to be submitted to the Exchange of Views Session of 32nd COMCEC Session**

The 31<sup>st</sup> COMCEC Session decided on “Developing Islamic Finance Strategies in the OIC Member Countries” as the theme of the Exchange of Views of 32<sup>nd</sup> Session of the COMCEC and requested the COMCEC Financial Cooperation Working Group to come up with policy recommendations on the aforementioned topic and report it to the 32<sup>nd</sup> COMCEC Session. In this framework, the participants, in light of the discussions taken place during the 6th Meeting of the COMCEC Financial Cooperation Working Group and research report prepared specifically for this Meeting, have come up with the following challenges and problems as well as the possible policy options with regard to developing Islamic Finance Strategies in the member countries.

### **Challenges and Problems:**

The participants, in line with the discussion took place during the 6<sup>th</sup> Meeting of the COMCEC Financial Cooperation Working Group, highlighted the following possible challenges and problems:

- Weak regulatory systems
- Lack of Shariah governance infrastructure
- Lack of necessary institutional infrastructure
- Lack of Islamic financial instruments and services
- Lack of specialized Islamic finance academic and training programs
- Lack of initiatives, i.e. campaigns on increasing public awareness, to promote Islamic finance
- Lack of diversified Islamic Finance Strategies/Policies targeting the various needs of investors
- Lack of SMEs access to finance
- Low level of integration of Islamic Finance to the global financial system
- Lack of liquidity framework for Islamic Banks
- Lack of high quality research and intellectual discussions

### **Policy Recommendations:**

Considering the above-mentioned challenges and problems, the policy recommendations highlighted during the Meeting are as follows:

#### **1. Legal, Regulatory, Accounting and Taxation Frameworks**

- Reviewing existing Islamic financial regulations and guidelines to ensure compatibility with Shariah guidelines
- Developing an independent agency to monitor the products in secondary markets and exchanges
- Developing a legal infrastructure to foster growth of the Islamic financial system
- Developing a specific disclosure guidelines for Islamic Financial Institutions (IFIs) that increases transparency
- Ensuring tax-neutrality for Islamic financial transactions in order to provide them a level playing field

## **2. Shariah Governance and Supervision:**

- Establishing a National Shariah Board/necessary institutional set up to provide oversight and governance to internal and independent Shariah boards of financial institutions
- Developing seminars and training programs for Shariah scholars about Islamic financial operations and product development
- Increasing collaboration between Shariah scholars and Islamic finance management

## **3. Infrastructure:**

- Developing secondary markets for Islamic financial products
- Developing exchanges for Islamic financial products
- Adoption/adaptation of international standards issued by IFIs (i.e. IFSB, IIFM, AAOIFI, etc.)
- Developing liquidity management frameworks for IFIs
- Improving the IT capacity of Islamic financial institutions

## **4. Products and Services:**

- Increasing range of Islamic products and services to meet the needs and demands of the Islamic finance
- Encouraging standardization of products and services of IFIs
- Encouraging innovation and adoption of new technologies, and alternate delivery channels for enhancing financial inclusion

## **5. Initiatives:**

- Developing national and international campaigns to increase brand awareness of Islamic finance
- Creating a new campaign to focus on the positives of Islamic finance for investors
- Encouraging expansion of Islamic social finance in order to promote financial inclusion for the poor and empowerment of woman.
- Promoting collaboration among various international institutions working on development of Islamic finance
- Bringing Islamic Finance to the agenda of multilateral economic and financial platforms/institutions
- Encouraging experience sharing in Islamic Finance among the member countries through bilateral cooperation and technical assistance

## **6. Talent Development:**

- Promoting academic researches on Islamic finance and social finance
- Promoting/Developing training and academic programs specific to Islamic finance
- Developing industry certifications for Islamic finance
- Developing certification requirements for Islamic finance Industry professionals

- Creating scholarship and grant programs that sponsor individuals who are interested in working in the Islamic finance industry
- Creating Islamic finance industry trade associations and encouraging their collaboration at international level
- Developing and hosting conferences for Islamic finance industry members, researchers, and regulators to share ideas and collaborate on ways of growing and improving the industry
- Promoting regular tour of duty/rotation for the members of sharia advisory boards in Islamic financial institutions
- Encouraging internship programs on Islamic Finance

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## **Annex 4: List of Participants**

**LIST OF PARTICIPANTS OF  
6<sup>th</sup> MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP  
(MARCH 17<sup>th</sup>-18<sup>th</sup>, 2016, ANKARA)**

### **A. INVITED STATES**

#### **THE ISLAMIC REPUBLIC OF AFGHANISTAN**

- Mr. M.AHMAD FOUGH KAIFER  
Aid Management Sr. Specialist, Ministry of Finance

#### **PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA**

- Mr. TAREK ALLOUNE  
Chief of Bureau, Foreign Trade, Ministry of Trade
- Mr. DJAMEL ADOUANE  
Assistant Director, Ministry of Finance

#### **THE REPUBLIC OF AZERBAIJAN**

- Mr. EMIL GULIYEV  
Head of Division, Ministry of Finance
- Ms. INJI HUSEYNOVA  
Senior Advisor, Ministry of Finance

#### **BRUNEI DARUSSALAM**

- Ms. OSFINITA TAHIR  
Embassy of Brunei Darussalam

#### **BURKINA FASO**

- Mr. AMIDOU OUEDRAOGO  
Director of Bilateral Cooperation,  
Ministry of Economy, Finance and Development
- Mr. ANTOINE SANGA  
Counsellor, Ministry of Foreign Affairs



#### **THE REPUBLIC OF CAMEROON**

- Mr. EKURI TAMBE ARONGAGBOR DONATUS

Head of Services, Ministry of Finance

#### **THE REPUBLIC OF CHAD**

- Mr. HAOUA BRAHIM DJABAYE

Director General, Ministry of Economy and Trade

- Mr. MBODOU HISSEIN ABAKAR

Counsellor at the Prime Minister's Office,

Economic, Financial and Budget Affairs

#### **THE REPUBLIC OF COTE D'IVOIRE**

- Mr. WOTOUMO MELESSI MORIGBEY FANNY

Financial Specialist, Ministry Delegated to the Prime Minister

Responsible for the Economy and Finance

#### **THE REPUBLIC OF GABON**

- Mr. MASSALA CLEMENT

First Counsellor, Embassy of Gabon

- Mr. IFOUNGA THIBAUT

Protocol Affairs, Embassy of Gabon

#### **THE ISLAMIC REPUBLIC OF GAMBIA**

- Mr. ESSA A.K DRAMMEH

Director of Financial Supervision, Central Bank of the Gambia

#### **THE REPUBLIC OF INDONESIA**

- Mr. HARYADI

Deputy Director for Islamic Finance Industry Development Policy,

Ministry of Finance

- Mr. YUDHA PERDANA

Staff at Multilateral Forum Division, Ministry of Finance

#### **THE ISLAMIC REPUBLIC OF IRAN**

- Mr. ALI AKBAR ABEDINI  
Director, Central Bank of Iran

#### **THE REPUBLIC OF IRAQ**

- Dr. ABEER AL HUMAIRI  
Director, Ministry of Finance

#### **HASHEMITE KINGDOM OF JORDAN**

- Dr. MUATAZ KHASAWNEH  
Counsellor, Embassy of Jordan in Ankara

#### **THE STATE OF KUWAIT**

- Mr. SAQER ALFADLI  
First Foreign Affairs Researcher, Ministry of Finance  
Head of the OIC Affairs, Ministry of Finance
- Mr. MESHAL ALARDHI  
Controller International Organizations, Ministry of Finance

#### **THE REPUBLIC OF MALDIVES**

- Mr. ABDUL GAFOOR ABDUL LATHEEF  
Senior Policy Executive, Ministry of Finance and Treasury
- Mr. AHMED MAZIN  
Chief Funds Executive, Ministry of Finance and Treasury

#### **THE ISLAMIC REPUBLIC OF MAURITANIA**

- Mr. MOHAMED YAHYA DIDA  
Deputy Director General, Ministry of Affairs Economics and Development

#### **KINGDOM OF MOROCCO**

- Mr. AZIZ ALOUANE  
Head of Division, Ministry of Finance

#### **THE REPUBLIC OF MOZAMBIQUE**

- Mr. SAIDE OMAR  
Ministry of Finance

#### **THE REPUBLIC OF NIGER**

- Mr. AJIROU NAMAMOU  
Focal Point of the Financial Cooperation of COMCEC
- Mr. IRO ABOUBACAR  
Chief of Division Monetary and Banking,  
Ministry of Economic and Finance
- Mr. IRO SOULEY  
Director of Programmation, Ministry of Economy and Finance

#### **THE ISLAMIC REPUBLIC OF PAKISTAN**

- Mr. SAEED AHMAD  
Deputy Governor, State Bank of Pakistan
- Ms. NIGHAT TANVEER  
Additional Director, State Bank of Pakistan

#### **THE STATE OF PALESTINE**

- Mr. AZMI ABU GHAZALEH  
Counsellor, Embassy of Palestine in Ankara

#### **THE REPUBLIC OF SENEGAL**

- Ms. AMINATA KANE  
Chief of Office of Bilateral Affairs, Ministry of Trade

#### **THE FEDERAL REPUBLIC OF SOMALIA**

- Mr. YUSUF AHMED HASSAN  
Commercial Attaché and Industry, Embassy of Somalia in Ankara

### **THE REPUBLIC OF TURKEY**

- Mr. ALİ ARSLAN  
General Manager, Undersecretariat of Treasury
- Mr. M. ALPER BATUR  
Head of Department, Undersecretariat of Treasury
- Mr. ENDER TANRIVERDİ  
Expert, Undersecretariat of Treasury
- Mr. MUHAMMED HABIB DOLGUN  
Expert, TCMB
- Mr. ÖMER ÇEKİN  
Auditor, BDDK
- Mr. BİLAL YAZAROĞLU  
Expert

### **THE REPUBLIC OF UGANDA**

- Mr. LAWRENCE KASENGE  
Senior Economist, Ministry of Finance,  
Planning and Economic Development
- Mr. COLLINS ISHIMWE  
Economist, Finance Officer, Ministry of Finance,  
Planning and Economic Development

### **THE REPUBLIC OF UZBEKISTAN**

- Mr. UCHKUN KHUSANOV  
Counsellor, Embassy of Uzbekistan

## **B. INVITED INSTITUTIONS**

### **Secretariat of COMCEC Capital Markets' Regulators Forum**

- Mr. SELAMİ ERBAŞ  
Chief Expert
- Ms. SEÇİL SAYIN KUTLUCA  
Chief Expert

### **Secretariat of OIC Member States' Stock Exchanges Forum**

- Ms. ELİF AÇIKPORTALI  
Expert

### **CONSULTANT**

- Mr. KABIR HASSAN  
Professor, New Orleans University

### **IDB**

- Mr. AHMED FAYED GEBAILI  
Director of Islamic Financial Services Department
- Mr. WASIM ABDULWAHAB  
Senior Specialist

### **SESRIC**

- Mr. SYED TAHIR MAHMUD  
Researcher
- Ms. NENDEN O.SHANTY  
Researcher

### **TKBB**

- Mr. AYDIN YABANLI  
Deputy Manager

### **WORLD BANK**

- Mr. ZAMIR IQBAL  
Director of World Bank Global Islamic Finance Development Center

**ZAID IBRAHIM CO.**

- Mr. MADZLAN HUSSAIN

Partner

**C. COMCEC COORDINATION OFFICE**

- Mr. M.METİN EKER

Director General, Head of COMCEC Coordination Office

- Mr. MUSTAFA TEKİN

Head of Department

- Mr. SELÇUK KOÇ

Head of Department

- Mr. ALİ İŞLER

Expert

- Mr. ALPER BAKDUR

Financial Sector Specialist

- Mr. UTKU ŞEN

Expert

- Mr. OKAN POLAT

Expert

- Mr. ALİ ORUÇ

Expert, PCM

- Mr. MEHMET AKİF ALANBAY

Expert

- Mr. ORHAN ÖZTAŞKIN

Protocol Relations

- Ms. ÖZGÜL YÜKSEL

Coordinator of Organization

- Ms. HANDE ÖZDEMİR

Coordinator of Registration Office

- Mr. OZAN LİF  
Coordinator of Documentation Centre
- Mr. KEMAL ARSLAN  
Coordinator of Meeting Rooms
- Mr. ALİ VURAL  
Coordination of Website
- Mr. ERCAN İBİK  
Coordinator of Transportation
- Ms. LEYLA AŞK  
Coordination of Social Programme

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