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

# Proceedings of the 9th Meeting of the COMCEC Financial Cooperation Working Group

# "Diversification of Islamic Financial Instruments"

COMCEC COORDINATION OFFICE

November 2017

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

# PROCEEDINGS OF THE 8TH MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP ON

# "DIVERSIFICATION OF ISLAMIC FINANCIAL INSTRUMENTS"

(October 26th, 2017, Ankara, Turkey)

**COMCEC COORDINATION OFFICE**

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# Introduction

The 9th Meeting of the COMCEC Financial Cooperation Working Group was held on October 26th, 2017 in Ankara, Turkey with the theme of "Diversification of Islamic Financial Instruments". The Meeting was attended by the representatives of 16 Member States, which have notified their focal points for the Financial Cooperation Working Group. Representatives of COMCEC Coordination Office, IDB, SESRIC, CIBAFI, AAOIFI, World Bank, Secretariat of OIC Member States' Stock Exchanges Forum and Secretariat of the COMCEC Capital Markets Regulators Forum have also attended the Meeting.[1]

At the outset, the representative of the COMCEC Coordination Office informed the participants about the financial outlook of the OIC Member Countries. It was followed by the presentation made by representatives of IBA-CEIF on diversification of Islamic financial instruments.

The participants elaborated the diversification of Islamic financial instruments through focusing on the research report titled "Diversification of Islamic Financial Instruments" commissioned by the COMCEC Coordination Office specifically for the Meeting.

The Representatives of the Member States shared their experiences, achievements, and challenges regarding diversification of Islamic financial instruments in their respective countries. The participants had the chance to discuss the policy options for enhancing the cooperation in this important field in a moderation session. The Room Document based on the findings of the research report submitted to the Financial Cooperation Working Group Meeting and the answers of the Member Countries to the policy questions sent to the Member States by the COMCEC Coordination Office were the main inputs for the discussions during moderation session.

The efforts exerted by international institutions on Islamic finance were also reflected the discussions.

[1] The list of participants is attached as Annex 1.

# 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. Burak KARAGÖL, Director at the COMCEC Coordination Office introduced the COMCEC and the Programme of the meeting briefly.

Mr. Bai Madi CEESAY, Director at the Ministry of Finance and Economic Affairs of The Gambia, as the Chairperson of the Meeting, introduced himself and thanked all the participants and made a short opening speech.

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

Mr. Cafer BİÇER, the financial sector specialist at the COMCEC Coordination Office, presented the main findings of the Financial Outlook of the OIC Member Countries 2017. Mr. BİÇER underlined that the Financial Outlook was prepared to draw a picture on the recent developments on financial institutions and markets in the OIC Member Countries. The report, as presented, covers three topics: recent global economic and financial developments; financial developments in the OIC countries; and Islamic finance. Mr. BİÇER mentioned that while preparing the report, the various sources of information have been used, such as the World Economic Outlook of the IMF, the World Bank database, the UN reports etc.

At the outset, Mr. BIÇER presented the findings of the report on the recent economic and financial developments in the World by focusing on the developments in the OIC member countries. In this regard, major macroeconomic developments in the world markets including GDP growth rates, inflation, unemployment rates, world trade developments, exchange rates etc. have been presented. In addition, the economic and financial estimates and forecasts were taken from the IMF Outlook were presented for the period of 2016-2019. He stated that as for the selection of the economic jurisdictions, the classification of the World Bank has been used according to the income levels of the country groups. Additionally, the same indicators have been applied to the OIC country groups considering data availability. MR. BİÇER highlighted that the Outlook revealed that the World economy regained growth resilience in 2017 after a weak growth of 2.4 percent in 2016 which has been the lowest rate since the Great Recession of 2009. The prospects for the 2018-2019 period is expected to be positive in terms of growth. The OIC countries are also supposed to follow the similar trend with the world average in this period. The positive growth prospects are assumed to pave the way for favorable forecasts for other indicators such as unemployment rates, inflation etc. during the same period.

Mr. BİÇER stressed that the second chapter of the Outlook focuses on more detailed analysis on the financial developments on the OIC member countries. This part used World Bank's Global Financial Development Database. The database titled "Benchmarking financial systems around the World". was initiated by the work of Cihak, M., Demirgüç-Kunt, A., Feyen, E., & Levine, R. (2012), It is presented that the following four characteristics of financial institutions and markets have been used to measure and benchmark financial systems in the OIC countries: (1) Financial Access: the degree to which individuals can and do use financial institutions and markets, (2) Financial Depth: the size of financial institutions and markets, (3) Financial Efficiency: the efficiency of financial institutions and markets in providing financial services, and (4) Financial Stability: the stability of financial institutions and markets. He mentioned that these four characteristics of financial institutions and markets are used to capture the features of financial systems and to provide the empirical shape of the financial development in the OIC countries.

Mr. BİÇER stated that, in the report, the OIC Member Countries have been categorized in four major groups according to the World Bank Income Grouping Methodology: OIC-Low income group; OIC-Lower middle income group; OIC-Upper middle income; OIC-High income group. The performance of all these groups along with the OIC average and world average has been analyzed by using the following indicators each falling under the characteristics of depth, access, efficiency, and stability: (i) Depth: private credit by deposit money banks to GDP, deposit money banks' assets to GDP, stock market capitalization, stock market total value traded to GDP; (ii) Access: bank accounts per 1,000 adults, bank branches per 100,000 adults, and Market Capitalization Excluding Top 10 Companies to Total Market Capitalization; (iii) Efficiency: bank lending-deposit spread, bank return on assets, bank return on equity; (iv)

Stability: Bank nonperforming loans to gross loans, bank capital to total assets, bank regulatory capital to risk-weighted assets.

Mr. BİÇER has presented the figures highlighting the findings of each indicator for the OIC country groups. In terms of financial depth, the OIC member (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. Over the years, for all indicators, there has been a trend of improvement which is a good sign of financial development in the OIC member countries. As for the financial efficiency, the OIC averages for the selected indicators have been realized close to the world averages. He also stated that the findings of the indicators under this characteristic clearly show that financial access increases in parallel to the economic development and income level in any country.

Regarding the efficiency, the OIC average has performed slightly better than the world average over the selected period. While the high and upper middle income group countries performed better than the world average, the low income segments need further support to improve. He mentioned that the selected indicators under the characteristic of stability reveal that the OIC averages are around the world average while high and upper middle income country groups have performed better than the world average.

Afterwards, Mr. BİÇER touched upon the recent developments in Islamic finance briefly since it is related to the main theme of the 9th Working Group of the COMCEC. After mentioning the main principles of Islamic finance, recent developments taking into account the sub-segments of the industry namely banking, capital markets, and insurance have been presented to shed light on the size, regional allocation and potential. of each sub-segment. It was mentioned during the presentation Islamic banking has the lion share in the sector and its assets valued at USD 1.49 trillion in 2016 representing approximately 79 percent of the industry's total assets. The sukuk market has expanded to new regions in recent years with the bulk of issuances coming from sovereign and quasi-sovereign entities. Total global sukuk issuances amounted to USD 88.3 billion in 2016. Although takaful (Islamic insurance) has a small volume and it is rather an underdeveloped segment of Islamic finance, its popularity has increased in recent years and it has become an important component of Islamic financial industry.

# 3. Overview of Existing Islamic Financial Instrument

Dr. Irum SABA, assistant professor and program director in Institute of Business Administration (IBA), Karachi and research coordinator in Centre for Excellence in Islamic Finance (CEIF)-IBA made the first presentation titled "Overview of Existing Islamic Financial Instruments" which is based on chapters 1 and 2 of the research report.

At the outset of the presentation, Dr. SABA first shared the agenda/scope of the first presentation. She mentioned that the report focuses on the three segments of Islamic finance industry namely Islamic Banking, Islamic Capital Market and Islamic Insurance with a special focus on 9 OIC countries and one non-OIC country.

Dr. SABA explained the methodology of the report: the report mainly used a qualitative approach. The reports published by Islamic Financial Services Board (IFSB), central banks, Global Islamic Finance Reports were used as the main source of references. She underlined that for some of the countries where it was difficult to get data, interviews of industry experts and regulators were taken, e.g. Pakistan, Oman, Nigeria, etc. For better understanding and to get on hand experience of the products and services offered by the Islamic finance industry field visits of different institutions were done.

Dr. SABA briefed the participants about the history and present situation of Islamic banking industry starting from the Arab world and time of Holy Prophet till today. The different phases of Islamic finance were discussed in detail. The total size of Islamic finance industry in the world and the double-digit growth of the industry were mainly focused. She stated that Islamic finance has been practiced in appx. 90 different jurisdictions across the world and the size of the industry stand at $2.1 trillion. Islamic finance industry is overwhelmingly focused on Islamic banking whereas the Takaful penetration in the market is still very low.

She further shared about the top 10 countries as per the Islamic finance assets namely KSA, Iran, Malaysia, UAE, Qatar, Kuwait, Bahrain, Turkey, Indonesia and Bangladesh. She elaborated about the Islamic Banking share in the total banking industry in 12 different jurisdictions. Iran and Sudan were at the top with 100% Islamic banking assets followed by Brunei, KSA, Kuwait and etc.

After explaining the status and brief history of Islamic finance industry, Dr. SABA explained the most common modes used in Islamic finance. Mudarabah, Musharakah, Diminishing Musharakah, Salam, Istisna, Ijarah, Murabahah, Wakala, Qard and Pawn broking were discussed in specific.

At present, the deposit and financing side products of Islamic banks in the case of Middle East, North Africa and Malaysia were presented to the audience. She stressed that the deposit and financing products offered in the case of Malaysia were different as compared to the North Africa and Middle East deposit products. Further, Dr. SABA shared about the Islamic banking sectorial non-performing financing, in which Bahrain was at the top in real estate NPF, Bangladesh in manufacturing NPF, Oman in household and construction NPF were at the top.

She continued her presentation by discussing the instruments offered in the Islamic capital market like Sukuk especially the types of sukuk and the underlying modes in the case of sovereign sukuk and corporate sukuk. She informed the participants that in the case of global Islamic fund assets class equity and money markets comprise 70% of the total asset class in the world.

The last section of the presentation focused on the takaful history and the current models used in different jurisdictions. She touched upon the main models namely Mudarabah, pure wakala,

mixed and wakala-waqf models. The salient features of all the models were discussed in detail with the participants.

It was explained by Dr. SABA that the selected countries for the research report taken from the Arab (Bahrain, Sudan and Oman), Asian (Malaysia, Indonesia, Pakistan, Turkey and Bangladesh) and African (Nigeria) Groups. One non-OIC country namely UK was also added to the research. Countries under research fall under the category of established leaders, emerging leaders, and potential leaders or tail enders.

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

**Question:** Are there any differences between the Indonesia and Malaysia's Islamic banking products?

**Answer:** Dr. SABA underlined that there are some differences between the Indonesia and Malaysia's Islamic banking products. She gave an example that Tawarruq is practiced in Malaysia whereas it is not allowed in Indonesia.

**Question:** What is the difference between the household and construction NPF?

**Answer:** Dr. SABA informed the participants that the household is personal financing whereas construction NPF is of non-personal financing.

**Question:** Which takaful model is the most suitable?

**Answer:** Dr. SABA argued that the suitability of the takaful model depends upon the jurisdiction and fiqh followed in the country. For example in the case of Pakistan Wakalah waqf model is preferred. It is up to the Shariah scholars and regulatory authorities to choose the model as per their preference.

# 4. Diversification of Islamic Financial Instruments, Selected Case Studies and Policy Options

Dr. Irum SABA presented the findings of the chapters 3 and 4 of the research report in her second presentation. She underlined that diversification of instruments refers to the different products, and their structures, available in the different OIC member countries to the firms, investors and consumers, whether they are in Islamic banking, Islamic asset management industry, Islamic capital markets, Islamic insurance (commonly referred to as 'Sukuk') etc. Dr. SABA underlined that the diversity of the Islamic financial instruments in an economy reflects the development level of the Islamic finance architecture and enabling environment.

For ease of analysis, Dr. SABA explained that the Report divides the Islamic finance industry into three main segments: Islamic banking, Islamic capital markets, and Takaful. It was noted that the products found in each of the three segments can be those offered by full-fledged Islamic financial institutions, as well as the products offered by windows of conventional financial institutions, such as Islamic banking branches operated by conventional banks, or Takaful windows of conventional insurance companies.

She informed the participants that the first presentation summarized the existing financial instruments and prominent modes of Islamic Finance described in the report, while the second focused more on the selected 10 case studies and recommendations.

She argued that one cannot truly understand either the nature of the products, the challenges faced in different economies, or present effective or implementable recommendations without actually examining the presence and rich diversity of these instruments today, in different parts of the globe. Hence, a major part of this Report and consequently the presentation was the ten case studies selected for Islamic finance product diversification.

Dr. SABA underlined that case countries were selected from different geographical locations in the world, including South Asia, Africa, Middle East, South East Asia, and Europe. She stressed the fact that different countries are in different stages of product development, Islamic finance history and infrastructure, and this impacts their growth, challenges, and policy recommendations. Hence, leaders in the Islamic finance world such as Malaysia and Bahrain were selected, along with countries with a growing Islamic finance landscape, such as Pakistan, Turkey, Bangladesh and Indonesia. Africa countries Nigeria and Sudan were selected, and the U.K. represented Islamic finance in the non-OIC world as well. Oman was selected as an example of an OIC member country with a very recent introduction to Islamic finance (for example, with a very limited Islamic capital markets and Takaful segment at present).

Dr. SABA highlighted that that the main objective of the study was to reflect and investigate the different products and structures present in the Islamic finance industry in different OIC member countries and to suggest policy recommendations that can be implemented at the national and global level. While the Report was focused on OIC member countries, the fact is that the presence and increasing prospects of these segments of Islamic finance cannot be ignored in the non-Muslim world. This was why United Kingdom's case study was an important part of the Report, even though the U.K. is not an OIC member state.

She presented some of the challenges faced by operators and regulators in the Islamic finance industry. She mentioned that despite the huge growth of the Islamic finance and banking

industry over the past few years, the industry currently faces considerable challenges in product diversification. She argued the challenges as lack of human capital, Shariah harmonization across jurisdictions, regulatory evolution for financial innovation and challenges, customer awareness and public awareness, promotion of risk sharing, greater product innovation for better financial inclusion and a better adaptation of Fintech into Islamic finance products. She examined findings of the report, country by country, to give the participants an appreciation of some common and some unique challenges encountered by the selected case countries, including Nigeria, Indonesia, Pakistan, Sudan, Turkey, Bangladesh, Oman, Bahrain, Malaysia and U.K.

Dr. SABA concluded the presentation by listing some policy recommendations that could be implemented, based on the case studies examined in the Report, to improve the Islamic finance product diversification, legal and regulatory infrastructure and enabling environment in the OIC member countries. The list included both recommendations for local authorities as well as international bodies.

She emphasized that Islamic finance is structured in a slightly different manner than conventional finance. Its unique feature is Shariah compliance, and there is also a need for better innovation, and more encouraged of equity-based financing products (rather than only debt-based instruments). The current model of Islamic finance somewhat restricts the growth of the Islamic finance, as to some extent, it uses replication of the conventional financing structure. Some of the challenges that Islamic finance faces which the policy makers need to address arise primarily of structural matters.

Dr. SABA presented the below general policy recommendations that could be followed globally for a shared prosperous and growth-oriented financial society:

1. Improving a global Shariah governance framework, through greater implementation and more harmonization of the Shariah governance standards across the different countries
2. Introduction of more sovereign Shariah-compliant instruments by the governments of the OIC member countries, to enable better management of the excess liquidity of Islamic financial institutions
3. Creation of an enabling regulatory environment by supporting consistent regulations and development of standards to promote risk sharing.
4. Improving the legal infrastructure for IFIs to operate in, for creating a better enabling environment for Islamic finance. This could include separate taxation laws for IFIs, introducing/revising Islamic banking Act or Takaful Act, development of an Islamic bankruptcy framework for the corporate sector, and introducing a legal framework for dispute resolution and arbitration.
5. Development and introduction of more risk-sharing products and services instead of focusing on replication of conventional risk- -transfer products
6. Establishment of national Shariah Boards in the central banks or Securities and Exchange commissions, where one doesn't exist
7. Establishment of Islamic finance rating standards for IFIs to use
8. Expanding Islamic finance's reach to the lower income group of society.

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

**Question:** One of the participants stressed that the report dived the Islamic finance into Islamic banking, Islamic capital market, and Islamic insurance and asked current situation of the other components of the Islamic finance such as Zakat, waqf and etc.

**Answer:** Dr. SABA mentioned that countries like Malaysia, Pakistan, Bangladesh have huge waqf properties. If the countries focus and manage the waqf property properly it will help to alleviate poverty drastically Governments need to focus on the Islamic economic system as a whole in which banking is just one of the segments.

**Question:** Is it advisable for a new entrant in Islamic finance to follow the leaders of Islamic finance?

**Answer:** Dr. SABA stated that it is suggested that the country should not blindly follow what is done in the other countries. One should learn from others but keep in view the environment of the country and fiqh followed in that country should be focused. AAOIFI and IFSB standards can be used as a standard.

**Question:** One of the participants argued that the rating agencies are also crucial for any Islamic financial institutions. How does Dr. SABA see the importance of it?

**Answer:** Dr. SABA underlined that rating agencies are very crucial. But the skilled manpower is lacking in this field hence making it more difficult for the industry. AAOIFI representative added in the answer and mentioned that AAOIFI is focusing on developing standards on rating criteria and they will be published soon.

# 5. Policy Debate Session on Diversification of Islamic Financial Instruments

The policy debate session was moderated by Mr. Bai Madi CEESAY, Director in the Ministry of Finance and Economic Affairs of The Gambia. At the beginning of the session, Mr. Selçuk KOÇ, Director at the COMCEC Coordination Office, made a brief presentation on the responses of the Member Countries to the policy questions on diversification of Islamic financial instruments sent to the Financial Cooperation Working Group focal points by the CCO.. Afterwards, he introduced the draft policy advices included in the Room Document.

After the CCO presentation, Mr. CEESAY gave the floor to all delegations asking their opinions and comments for each policy advice as well as the experience of their respective countries in this regard. After extensive discussions, the Working Group has come up with the following policy recommendations.

- ***Policy Advice 1:*** *Improving the Islamic Finance Infrastructure through Developing Necessary Legal/Regulatory Frameworks for its each Component namely, Islamic Banking, Islamic Capital Markets and Takaful towards Creating an Enabling Environment for Islamic Finance.*

- ***Policy Advice 2:*** *Developing a Sound and Effective Governance Framework for National and Strengthening Coordination of Shariah Governance Standards and Policies across Different Jurisdiction.*

- ***Policy Advice 3****: Establishing/Developing Islamic Finance Rating Standards*

- ***Policy Advice 4:*** *Strengthening Human Capital in Islamic Finance in the OIC Member Countries through Enhanced Financial Literacy and Awareness Programs/Projects by Governments, Universities and Private Sector*

- ***Policy Advice 5:*** *Facilitating Experience Sharing among the OIC Member Countries in sub-sectors of the Islamic Finance Industry for a Sustainable and Harmonized Growth of the Industry*

## 6. Utilizing the COMCEC Project Funding

Mr. Burak KARAGÖL, Director at the COMCEC Coordination Office, made a presentation on the COMCEC Project Funding introduced by the COMCEC Strategy. At the outset, Mr. KARAGÖL informed the participants about instruments of the COMCEC Strategy; working groups and project funding. Mr. KARAGÖL emphasized that the project funding is a policy support instrument and it has been implemented since 2013.

Mr. KARAGÖL continued his presentation by highlighting the essentials of the COMCEC Project Funding. Mr. KARAGÖL stated that COMCEC Funded Projects can be in two different types as activity-based projects and research projects. He also touched upon the eligible activities under each type of project.

Mr. KARAGÖL underlined that topics of the funded projects should be in line with the COMCEC Strategy, Policy Recommendations adopted by the COMCEC Ministerial Session and Sectoral Themes published on the COMCEC website. He informed the participants on the timeline for the project submission, rules and procedures of the COMCEC Project Funding as well as benefits of the Program for the member countries.

Mr. KARAGÖL shared brief information with participants regarding common characteristics of successful project proposals and stated that "sufficient and informative project summary", "sound project activities and relevant details about them", "qualified human resources in line with Project Submission Guidelines requirements", "detailed and well-designed work plan", "realistic cost estimations in the budget and sufficient explanations for them" are key success factors.

Mr. KARAGÖL also gave information on previously supported projects. He stated that 45 projects were implemented in 2014, 2015, 2016 and 2017 4 of them were tourism projects. They were titled as "The Workshop On The Challenges of Electronic Payment Systems in West and Central African States", "Islamic Capital Market Capacity Building Programs", "Enhancing Financial Literacy and Capacity Building on Islamic Financial Instruments", "Towards an Improved Institutional Framework for Islamic Finance" and "Short Course on Strategies in Enhancing Tourism Workforce in Community-Based Tourism (CBT) within the OIC Member Countries" implemented by Cameroon, Malaysia and The Gambia (2 projects) respectively.

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

**Question:** Do you have a threshold with regards to the number of projects that the CCO can approve for any given year for the Financial Cooperation Working Group?

**Answer:** Mr. KARAGÖL underlined that there is not a threshold with regards to the number of projects that the CCO can approve for any given year for the Financial Cooperation Working Group.

**Question:** Does CCO finance local projects or multi-national projects?

**Answer:** Mr. KARAGÖL highlighted that within the COMCEC Project Funding only multinational projects can be financed.

# 7. Stories of the Member States

## 7.1. Indonesia

Mr. Haryadi, Deputy Director for Islamic Finance Industry Development Policy, the Ministry of Finance, made a presentation on Diversification of Islamic Financial Instruments: Case of Indonesia. He divided his presentation into three areas:

1) Islamic Finance Industry Landscape in Indonesia;
2) The Development of Islamic Finance Industry in Indonesia;
3) Islamic Finance Instruments: Development Strategies.

Mr. Haryadi started his presentation by briefly describing the Indonesian Islamic Finance Industry Landscape. Indonesia as the largest Muslim country in the world possesses some hidden potentials for the development of Islamic finance industry that needs to be unleashed. Mr. Haryadi explained that the Indonesian Islamic financial market, however, is segmented in a distinctive way, making it a lot more complex than other countries. The market structure consists of several layers that have loosely defined boundaries with overlaps and interdependencies that are often disputed among players.

In addition, Indonesia has more regulations for Islamic finance than the majority of the other countries championing Islamic finance. Nevertheless, these regulations seem to be complex, scattered and divided between many regulators such as the Ministry of Finance (MoF) for sovereign sukuk issuance and tax policy; the Central Bank of Indonesia (BI) for monetary policy and payment system; the Financial Services Authority (Otoritas Jasa Keuangan - OJK) for regulation and supervision of the industry; and the Deposit Insurance Corporation (IDIC) for deposit insurance and resolution.

In the second part of his presentation, Mr. Haryadi briefly described the development of Islamic finance in the country. Based on data from OJK, as of July 2017, total assets of Indonesia Islamic finance industry (exclude capitalization of Islamic stocks) have reached IDR1,028.78 trillion or around USD77.22 billion (USD1=IDR13,323) which represents 7.95percent of the industry.

He added that, as of July 2017, there are 34 Islamic banks in Indonesia that consist of fully-fledged Islamic banks (13), Islamic window units (21) and Islamic rural banks (167). In non-banking industry, players consist of Islamic insurance (takaful), multi-finance and other Islamic non-banking financial industry. In addition, there were 12 takaful operators in the country whilst 46 takaful units of conventional insurance companies were offering Life or non-Life Takaful products. As of July 2017, the total assets of takaful industry have reached IDR37.29 trillion. Mr. Haryadi also highlighted another sub-sector regulated by OJK; Islamic leasing companies and Islamic venture capital. There were only 3 fully-fledged Islamic leasing companies in the mid of 2017 whilst there were 34 Islamic business units of conventional leasing companies were operating in the country. The majority of these companies are offering commercial leasing for equipment. Besides that, there are 4 (four) Islamic venture capital companies and 3 Islamic business units with assets more than IDR37 trillion.

He touched upon that, in the capital market, sovereign sukuk has dominated the issuance and outstanding value of total sukuk market. The Government of Indonesia started issuing sukuk in 2008 and since then has issued them regularly in Indonesian Rupiah and US dollars. On the contrary, the growth of corporate sukuk has been much slower to date. The overall corporate bond market is underdeveloped in Indonesia as only a few corporates including some State-

Owned Enterprises (SOEs) have issued sukuk. The majority of corporates are still heavily relying on the traditional channel of funding via banking.

Mr. Haryadi also provided information the Islamic mutual fund industry. As of July 2017, there were 153 Islamic Mutual funds with Net Asset Value (NAV) of IDR17.9 trillion, or around 4.8% of the industry. Furthermore, related to capital market industry, he explained that there are two Islamic stock indices in Indonesia, the ISSI (Indonesia Syariah Stock Index) that covers 355 Islamic Stocks listed at the mid of 2017 and the JII (Jakarta Islamic Index) that has 30 top Islamic stocks shortlisted by the Indonesia Stock Exchange.

In the last part of his presentation, Mr. Haryadi described that, in 2016, OJK has launched the Roadmap of Islamic Finance Development. That roadmap is the integration between the roadmaps of three financial sectors; banking, non-banking financial industry and capital market, which addresses strategic issues and development strategies for a period of 2017-2019.

Strategies for Islamic financial instrument diversification to be conducted by OJK are divided by each sector as follows:

- **Islamic Banking**

(1) To develop revenue sharing-based alternative funding/investments and investment management products in line with customer lifecycle;

(2) To develop Islamic liquidity and risk management instruments (including hedging instruments);

(3) To enhance regulations concerning new products and activities;

(4) To launch Islamic savings deposit products for students;

(5) To develop and enhance Islamic banking product standard (including documentation) in line with business characteristics;

(6) To enhance the role of IBWG (Islamic Banking Working Group) in Islamic banking product development;

(7) To enhance financial service excellent;

(8) To develop branchless banking;

(9) To promote the presence of domestic product in other countries.

- **Islamic Non-Banking Financial Industry**

(1) To foster the development of Islamic financing;

(2) To develop regulations covering Sharia aspects of pension programs;

(3) To develop national interest such as agricultural insurance and microfinancing;

(4) To develop cross-section sharia-based products.

- **Islamic Capital Market**

(1) Launched regulation concerning Islamic mutual fund based on foreign securities and sukuk-based mutual fund;

(2) Launched regulation concerning Islamic real estate investment fund and Islamic asset-backed securities;

(3) To develop corporate sukuk other than mudharabah and ijarah;

(4) To develop wakaf-based sukuk.

## 7.2. Iran

Mr. Majid PIREH, Supervisory Expert at Securities and Exchange Organization of Iran delivered a presentation about Diversification of Islamic Finance Products in Iran. During his presentation, he emphasized that Iran constitution persists in compliance with financial instruments with Shariah rules and regulations.

Mr. PIREH stressed that like many other jurisdictions, the financial system in Iran is comprised of three main subsystems which include banking sector, capital market and insurance sector. He highlighted that Securities and Exchange Organization (SEO) of Iran as the sole regulatory and supervisory body of Iran capital market is responsible for regulating the market in order to protect the market players' right including equity holders and sukuk investors. Moreover, the SEO should provide optimized mechanisms for entities to raise funds through capital market instruments and institutions. Mr. PIREH briefed the participant that currently the market cap is reaching to more than $125 Billion for equity sector and more than $8.5 Billion for sukuk and Islamic Treasury Notes sector.

He mentioned that Ijarah sukuk is one of the most popular forms of sukuk in Islamic financial markets which likewise different Iranian entities have used for fund raising. Debut Ijarah sukuk in Iranian capital market was issued in order to finance Mahan Airlines Corporation. Since then, Iranian capital market has welcomed other Ijarah sukuk issuances for financing companies in different sectors including private and public sectors. He underlined that it is noteworthy that since 1994 Iranian financial system is using Musharakah sukuk for financing different companies but the 2nd type of sukuk came on the stage in March 2011. The 3rd type of sukuk was issued in 2013 which was Murabaha sukuk and since then, many companies have financed by Murabaha sukuk.

He stated that considering the above, sukuk in Iran is diversified with the following 3 types of sukuk which include:

- Musharakah Sukuk
- Ijarah Sukuk
- Murabaha Sukuk

Mr. Pireh in the next sections of the presentation added that sukuk was used both for financing corporate section and sovereign section. During the last two years, the government of the Islamic Republic of Iran has been financed by issuing Ijarah and Murabaha sukuk.

During his presentation, he mentioned that legal framework in Iran has encouraged sukuk issuance for financing. Iranian sukuk market is backed by 3 acts which Iran parliament has enacted in order to facilitate sukuk issuance. Following the acts for sukuk issuance, two main supervisory bodies (i.e. the central bank of IRR and Securities and Exchange Organization) are supervising the market and entities should find the issuance license from one of the aforementioned supervisory institutions.

Majid Pireh also emphasized that sovereign sukuk in Iran is following a different operational model than its corporate counterpart. While in sovereign sukuk the fund rising should be permitted by the parliament, the corporates do not require that. Moreover, as a major part of the private sector, sukuk is under the supervision of Securities and Exchange Organization and the regulatory entity asks for providing some investor protection mechanisms such as guaranteeing, however, it is not necessarily applicable for the sovereign sector. Also, it is clear the profit rates in sovereign sukuk are less than corporate sukuk.

## 7.3. Turkey

Mr. Utku ŞEN, Treasury Expert at the General Directorate of Financial Sector Relations and Exchange in the Undersecretariat of Treasury, made a presentation on diversification of Islamic financial instruments in Turkey.

At the outset, he presented a scheme that shows the Islamic financial instruments and the authorities which regulate and supervise them. In this sense, he said that the regulation and supervision of lease certificates (Sukuk), participation funds and real estate certificates are under the responsibility of Capital Markets Board of Turkey (CMB). Banking Regulation and Supervision Agency (BRSA) regulates and supervises the banking sector, including participation banks. Undersecretariat of Treasury is the sole authority for sovereign Sukuk issuances. Treasury is also responsible for regulation and supervision of insurance sector, including takaful sector. Lastly, the Central Bank of the Republic of Turkey (CBRT) provides liquidity facilities for the banking sector, including participation banks.

Mr. ŞEN gave information on lease certificates (Sukuk), participation funds and participation pension funds. He mentioned that the other funds that have been approved by CMB may be classified under the Islamic collective investment scheme, including real estate mutual funds, real estate investment trusts and private equity/venture capital investment funds. Apart from these funds, real estate certificates, a new instrument, may be considered as an example of Islamic financial instruments.

He stated that Sukuk was the most commonly used capital market instrument for raising funds compatible with interest-free financing principles. In the Sukuk market, as of first half of 2017, cross border outstanding Sukuk was around USD 5.4 billion and around 70% of the issuances were sovereign Sukuk made by the Turkish Treasury. Similarly, on the domestic side, outstanding Sukuk is USD 8.8 billion and sovereign Sukuk is dominating the market with 92% market share. While all sovereign Sukuk issuances were issued in terms of ijara structure, corporate Sukuk issuances were based on wakala (55%), ijara (30%), murabaha/tawarruq (10%) and musharaka (5%).

Mr. ŞEN also elaborated participation funds. He stressed that they were important instruments for the investors who prefer avoidance of interest-based transactions. According to legal provisions, these funds can be invested in lease certificates, participation accounts at participation banks, corporate shares, gold and other precious metals and other non-interest bearing capital markets instruments. He also touched upon specific sub-categories of participation funds. These are Sukuk participation funds and short-term Sukuk participation fund (money market Sukuk participation fund).

For the sovereign Sukuk issuances, Mr. ŞEN summarized the improvements in the legal framework and the features of lease certificates. He also shared the data about the sovereign Sukuk issuances. In this sense, Turkish Treasury issued 21 sovereign Sukuk both in the international and domestic markets. He stressed that lease certificates became an important tool for public finance in Turkey. After that, he introduced the Gold Indexed Ijara Sukuk, a new type of ijara Sukuk was issued by the Turkish Treasury in October 2017. In the Gold Indexed Ijara Sukuk structure, only individual investors (natural persons) can invest in it and demand is collected in different rounds across Turkey through the state owned banks and only 22K and 24K golds will be accepted. The maturity of Sukuk is two years and annual lease rate is 2.40 percent. He underlined that the investors can sell or transfer securities to another individual before maturity and on maturity. He added that investors may request the final payment as

one kilogram of gold bar (produced by refineries) or republic gold quarter coins printed by Turkish State Mint.

Afterwards, Mr. ŞEN informed the participants about the takaful sector in Turkey. He emphasized that takaful is a new sector and has potential to grow in the following years. Currently, eight takaful companies operate in Turkey with a 3.75% market share. In addition, there is no re-takaful company operating in Turkey. On the other hand, first regulation in the takaful sector has been made in October 2017 by the Turkish Treasury which is the sole authority in this sector. The purpose is to regulate the procedures and principles regarding the participation insurance activity in terms of operation, development and proper follow-up of the takaful system. Prior to regulation, takaful companies were subject to the same rules with conventional insurers in Turkey. But, according to the Regulation, takaful companies will be subject to the different rules related to takaful, such as segregation of funds, surplus distribution, establishing Shariah Board etc. However, in the cases where there is no provision in the Regulation, the relevant provisions of the insurance legislation will apply for takaful sector. Prior to regulation, Turkish Treasury did not oblige any specific takaful model such as separate company model or window model. However, according to the Regulation, window takaful model is limited 3 years as from publication date of the regulation.

On the topic of the banking sector, Mr. ŞEN stated that participation banks showed a tremendous growth performance during the last decade. In this sense, Mr. ŞEN informed the participants about the assets of the participation banks between 2005 and August 2017. He said that the market share of participation banks was around 4.8 percent as of August 2017.

Mr. ŞEN gave information about CBRT liquidity facilities for participation banks. He stressed that CBRT accepts sovereign Sukuk as collateral since 2012 and IILM Sukuk since 2014. CBRT also extended liquidity facilities for participation banks to use of open market operations.

He also summarized the business angel scheme and fund of funds system. He provided information about the feature of both system and shared the investments made in this field.

At the end of his presentation, Mr. ŞEN touched upon SWOT analysis of Islamic financial system and ongoing legal initiatives in Turkey. According to his statements, BRSA prepared a draft law, named as "Interest-free Finance Law", that aims to bring Islamic financial institutions into compliance with the Islamic finance principles and establishing an effective Shariah governance system. In this sense, a central Shariah board and Shariah boards along with sub-departments (compliance, supervision, audit) in Islamic financial institutions are projected to be established. In this context, he emphasized that draft law is not replacement law but an additional law that does not make any alteration within the laws in force.

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

**Question**: How do you manage ?the issue of ownership transfer in sovereign sukuk in the Islamic Republic of Iran?

**Answer:** Mr. PIREH mentioned that like many other jurisdictions, transfer of ownership in governmental entities is a very complicated procedure and requires the parliament permission. He stated that to avoid the related difficulties, they have modified Ijarah sukuk issuance mechanism so that the government may raise funds through private sectors assets. They have implemented financial lease structure so that the assets usufructs remain with the private sector and the government shall pay for the payable accounts to the investors.

**Question:** Does Turkey have a plan to issue long-term Sukuk in capital markets?

**Answer:** Turkish delegate expressed that Turkey doesn't have a plan to issue long-term Sukuk for the coming years.

**Question:** How do you price Sukuk in the domestic market?

**Answer**: Turkish delegate stressed that while pricing the Sukuk, the market conditions (the price in the short-long term bond markets and etc.) are considered and the price is set before receiving the demand from the market.

# 8. International Institutions' Perspective on Diversification of Islamic Financial Instruments

## 8.1. Shariah Governance Challenges for Islamic Banking, Islamic Capital Markets and Takaful Windows

Mr. Omar ANSARI, Deputy Secretary General of AAOIFI made a presentation on Shariah Governance Challenges in the Islamic Finance.

Mr. ANSARI highlighted that the Islamic finance industry witnessed double-digit growth over the last decade and continues to assert its relevance. Today, the industry assets are estimated over USD 1.7 trillion spread all over both Muslim majority countries and non-Muslim countries alike. He added that it is expected that these assets will more than double by 2020 which potentially will not only create massive opportunities but also greater challenges one of being the challenge of Shari'ah Governance.

Mr. ANSARI argued that Shari'ah Governance is all about ensuring and managing the conformity of transactions and activities of the Islamic financial institutions (IFIs) to the precepts of Shari'ah, and striking a fine balance between the conflicting interests of the shareholders, stakeholders, and the society at large, based on the universal principles of justice, equity, and fairness. He underlined that Shari'ah Governance gives IFIs the legitimacy to exist. Moreover, it helps boost public confidence and trust in the system and mitigates Fiduciary and Reputational risks. He pointed out that there are references to few Islamic Banks which either closed down or suffered huge losses due to non-existent or weak Shari'ah Governance.

Mr. ANASARI mentioned that for any Islamic infrastructural and financial institution, the key aspects of Shari'ah Governance challenge are as follows:

- Changing the thinking style and mindsets of stakeholders with regards to the differences in conventional governance and Shari'ah governance model
- Understanding the conceptual differences between the two governance models, their implications, and its implementation mechanism
- How to take care of the interests of the investment account holders where there is a trust-based or fiduciary relationship involved?
- How to take care of Policyholders' interests and safeguard the Takaful Risk Pool (whether based on Wakala or Waqf)?
- How to set up the Shari'ah Governance infrastructure without making Islamic finance expensive?
- Shari'ah Governance organs, no matter how good, are run by humans. How to tackle the challenge of "People Risk"?
- The regulatory approach to Governance does not typically consider the impact of Shari'ah on different matters, such as capital adequacy requirements; or the laws and regulations are unclear; or violations are not penalized appropriately
- Considering the overall human resource issues—both at regulatory and at institutional levels—in terms of availability, competency, motivation, ethics etc.

- Lack of adoption of internationally benchmarked Governance standards; Lack of standardization of Shari'ah Governance framework resulting in inefficient processes and increased Shari'ah non-compliance risks

MR. ANSARI stressed that AAOIFI acknowledges and appreciates the need and significance of Shari'ah Governance for IFIs. As such, it has established a Governance and Ethics Board (AGEB) comprising of 15 experts and Shari'ah Scholars which has previously issued 7 standards on Governance and Ethics. He underlined that, recently, it issued the standard on and exposure drafts for 'Central Shari'ah Board' and 'Shari'ah Compliance Function', respectively. He argued that it is now widely understood that achieving uniformity of Shari'ah, accounting, auditing, and governance practices is one of the keys to the sustainability of the Islamic finance industry, and as such, it is imperative to adopt the AAOIFI governance standards in order to aptly address the Shari'ah Governance challenge.

## 8.2. Technology, Innovation and Artificial Intelligence for the Growth of Islamic Finance

Dr. Mahmoud AL-HOMSI, Research Economist at CIBAFI, made a presentation on Technology, Innovation and Artificial Intelligence for the Growth of Islamic Finance.

At the first part of his presentation, Dr. AL-HOMSI covered an overview of the Islamic finance industry and its top concerns and risks. He mentioned that, for the last decade, Islamic finance industry has been doubling in size every 5 years and the market size is expected to reach US$4 trillion by 2020. The Islamic finance industry is still dominated by Islamic banks followed by Capital Markets (Sukuk), and Takaful. He briefed the participants that The Global Islamic Bankers' Survey 2016 published by CIBAFI highlighted top concerns and risks of the Islamic banking industry. The results indicated that "Information Technology" and "Product Innovation" are among the top ten concerns of Islamic banks, whereas "Technology risk and IT Security" are among top five risks.

In the second part of his presentation, Dr. AL-HOMSI briefed the participants on financial technology (Fintech) and digital innovation trends, opportunities and risks from banks and customers' perspectives. The global investments in Fintech reached US$28.3 billion in 2016 from US$22.3 billion in 2015, growing by 27%. The investments in Fintech are mainly divided into three categories:

1- Deposits, lending and capital raise such as crowdfunding and peer to peer lending.
2- Investment management such as automated processing of investment advice and artificial intelligence.
3- Payment services and market infrastructures such as E-money, mobile money and distributed ledger technologies (Blockchain).

Dr. AL-HOMSI argued that, without a doubt, Fintech is in the process of reshaping the financial market industry, but the question arises whether Fintech represents a threat or opportunity to the financial market industry? He stressed that it is rather early to say if Fintech with its innovative financial products and services represents a clear threat or an opportunity.

Dr. AL-HOMSI underlined that as the delivery of financial services becomes increasingly technology-driven, Fintech has the potential to change traditional banking business models (intermediation), structures and operations in the time to come. Fintech products and services may disrupt the financial services industry and replace many of the consumer banking and

payment services, insurance services, asset and wealth management services. Fintech may also enhance efficiency, reduce costs, increase and expand access to financial services.

He highlighted that CIBAFI believes some of the trends and growth areas of Fintech could take shape in the following:

• Artificial Intelligence (AI) and smart data are on top of the list to be watched for in the coming 3 years.

• The use of Distributed Ledger Technology such as blockchain technologies will continue to increase especially in developing markets.

• National governments are increasingly developing regulatory sand boxes, including the governments of the U.K., Australia, U.S., Hong Kong, Malaysia, Singapore, Switzerland, Thailand, Bahrain and the United Arab Emirates.

He argued that to benefit from the above trends and top areas of Fintech and innovative products by banks and Islamic banks:

- **Artificial Intelligence (IA) and data analytics** provide data collection, aggregation and storage services, advanced data analytics and personal finance management directly to customers. Banks can use advanced data analytics to research customer needs, provide real-time service delivery and enhance their risk management.
- **Distributed Ledger Technology (DLT)** is facilitating value transfer exchanges between parties without the need for intermediation, by reducing settlement times or improving the transparency of recordkeeping and reporting. It also streamlines banks' back-office operations.

He mentioned that Fintech has some implications for banks and customers. From banks' perspective, Fintech may be associated with some risks including strategic and profitability risks, high operational risk, third-party/vendor management risk, compliance risk including failure to protect customer data (data protection regulation), money laundering and terrorism financing risk, and liquidity risk. From customers' perspective, risks associated with Fintech might be related to data privacy and security, discontinuity of banking services, and inappropriate marketing practices.

Dr. Al-HOMSI concluded his presentation with the following forward-looking prospects:

• To what extent will the regulators encourage and facilitate such innovative products and services offerings within the context of Fintech, and how they could ensure the safety and soundness of the financial system without hindering innovation and its potential benefits?

• Issues related to consumer protection and compliance with applicable laws and regulations, including anti-money laundering and countering financing of terrorism (AML/CFT) regulations.

• The position of Shariah scholars is still not clear concerning some innovative products and services offerings within Fintech ecosystem and cryptocurrencies in particular.

• Readiness and ability of human resources to work in Fintech environment.

## 8.3. Using Islamic Finance Instruments for Infrastructure and Socially Responsible Investments

Mr. Muharrem CEVHER, Financial Sector Specialist, World Bank GIFDC (IIFM), made a presentation on using Islamic Finance Instruments for Infrastructure and Socially Responsible Investments.

Mr. CEVHER underlined that Islamic finance could play a role in meeting some of the Sustainable Development Goals (SDGs) adopted by the UN in its 2030 Agenda for Sustainable Development. The SDGs comprises a total of 17 goals and 169 measurable targets centered on five pillars: people, planet prosperity, peace, and partnership. He stated that Islamic finance principles are compatible with those SDGs as one of the most important value proposition of Islamic finance is upholding sincerity, justice and moral values when dealing with other human beings. In addition, asset-backed nature of Islamic finance might provide solutions to the issues regarding access to clean water and sanitation, affordable and clean energy, development of industry innovation and infrastructure, and the establishment of sustainable cities and communities.

Mr. CEVHER stressed that financing infrastructure is well suited to Islamic finance. He highlighted that the global economy will need to invest around $90 trillion in infrastructure assets in the period of 2016–30, there is the potential to leverage Islamic finance for infrastructure provision. Islamic finance has the potential to serve an efficient means of infrastructure finance given its emphasis on tangibility, partnership- and equity-style financing and profit sharing. He added that sukuk could contribute to the mobilization of funds to infrastructure projects with its distinct features. Thus, sponsors of infrastructure projects may consider sukuk as a viable financing alternative to raise funds. The share of infrastructure sukuk issuances in global sukuk issuances has increased significantly in recent years. Sukuk can be used more flexibly over the long-time period typical of infrastructure projects since payments are tied to underlying returns rather than to fixed schedules. In addition, Islamic finance might take a larger share in public-private partnerships (PPPs) through Islamic syndicated financing.

He argued that another promising area for Islamic finance to grow is socially responsible investments. He briefed the participants that socially responsible investing (SRI) is an investment strategy which seeks to consider both financial return and social good. In the USA, the estimated total volume of assets held by explicitly SRI investors now exceeds US$3 trillion, having increased by more than 30 percent just since 2005. SRI and Islamic finance share several commonalities such as having an ethical investment philosophy, valuing social return, avoiding harmful activities and serving to the ultimate benefit of society. A key instrument by which Islamic finance facilitates SRI is the SRI sukuk as sukuk provides investors with a high degree of certainty that their money will be used for a specific purpose. He underlined that the structuring of Sukuk is a rigorous process overseen by several stakeholders that ensures that Sukuk does not finance any activity considered harmful to the society (a kind of built-in SRI due diligence process). Sukuk addresses lack of supply of fixed-income products for SRI while many more SRI investment products exist on the equity side of the capital markets than on the fixed income side. In this context, once conventional SRI investors realize the potential of SRI Sukuk as a new fixed income alternative for their portfolios, the number issues of this type should increase dramatically and investor base for sukuk broadens as well.

Mr. CEVHER highlighted that a good example of the use of Islamic finance in financing SRI is the Vaccine Sukuk of International Finance Facility for Immunization (IFFIm). He stated that

the IFFIm, a multilateral development institution, has expanded the boundaries of Islamic finance for a socially responsible purpose with its debut sukuk transaction in 2014 which was issued with technical support from the World Bank. In its attempt to issue SRI sukuk, the IFFIm was motivated to raise funds to be utilized for vaccinations. He touched upon that for this transaction, a mubaraha structure was preferred due to the ease of implementation. The offering received a high demand in the market. As a result, the IFFIm increased the deal size to $500 million from original $300 million. Also, the pricing was sealed at the tight end of price guidance implying a lower cost compared to its vaccine bond issuance took place in 2013. Following the successful sukuk debut, the IFFIm tapped the market for another $200 million SRI sukuk issuance in less than a year. He expressed that these issuances gave the Islamic investors an opportunity to invest in a high-quality socially responsible investment. With vaccine sukuk issuances, the IFFIm expanded its investor base to the Islamic investors. It is observed in the case that vaccine sukuk promises portfolio diversification opportunity with attractive risk-adjusted returns and socially responsible goals.

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

**Question:** Do you have any recommendations to set up the Shari'ah Governance infrastructure without making Islamic finance expensive?

**Answer:** Mr. ANSARI underlined that it is not an easy task because improving a system is always required additional costs. He underlined that they can provide some flexibility with regards to rules not principles to small institutions/windows so they can maintain the functions without extra costs.

**Question:** Mr. HARYADI informed the participant that Indonesia has recently issued an OJK regulation on the financial technology and added that even one or two fintech technology institutions in Indonesia are Shariah compliant. He asked whether there is any other firm which sharia- compliant in other member countries.

**Answer:** Dr. AL-HOMSI mentioned that there are some companies in Malaysia specialized on crowd-funding. But he doesn't have such information for other countries.

**Question:** What type of infrastructure projects are funded by Sukuk issuance across the world?

**Answer:** Mr. CEVHER stressed that Malaysia accounts for more than 60 percent of the total infrastructure sukuk issuance followed by Saudi Arabia with a 30 percent share. He added that generally big infrastructure projects like airports, hospitals and highway projects have been funded by sukuk issuance.

# 9. Closing Remarks

The Meeting ended with closing remarks of Mr. Bai Madi CEESAY, Director in the Ministry of Finance and Economic Affairs of The Gambia and the Chairperson of the Meeting and Mr. Burak KARAGÖL, Director in the COMCEC Coordination Office.

In his closing remarks, Mr. KARAGÖL informed the participants that the 10th Meeting of the COMCEC Financial Cooperation Working Group will be held on March 29th, 2018 in Ankara with the theme of "The Role of Sukuk in Islamic Capital Markets". He stated that a research report will also be prepared for the tenth meeting and shared with the focal points and other participants at least one month before the meetings.

# Annex 1: List of Participants

**LIST OF PARTICIPANTS**
**9th MEETING OF THE FINANCIAL COOPERATION WORKING GROUP**
**26 October 2017, Ankara**

**A. MEMBER COUNTRIES OF THE OIC**

**ISLAMIC REPUBLIC OF AFGHANISTAN**
- Mr. AHMAD SAEED ASLAM
  Aid Management & Financial Specialist, Ministry of Finance
- Mr. MOHAMMAD ASHRAF HESAM
  Aid Coordination Specialist, Ministry of Finance
- Mr. AHMAD SAWIZ
  Senior Programs Coordinator, Ministry of Finance

**PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA**
- Mr. DJAMEL ADOUANE
  Assistant Director, Ministry of Finance

**REPUBLIC OF AZERBAIJAN**
- Mr. ZAKA MIRZAYEV
  Deputy Head of the Department, Ministry of Finance

**REPUBLIC OF BENIN**
- Mr. SERGE LOUPEDA
  Economist, Ministry of Economy and Finance
- Mr. ZIME KORA GOUNOU
  Assistant of the Secretary, Minister of Economy and Finance

**BURKINA FASO**
- Mr. AMIDOU OUEDRAOGO
  Director, Ministry of Economy, Finance and Development

**REPUBLIC OF GABON**
- Mr. IFOUNGA THIBAULT
  Chief of Protocol, Embassy of Gabon in Ankara

**REPUBLIC OF GAMBIA**
- Mr. BAI MADI CEESAY
  Director, Ministry of Finance and Economic Affairs

**REPUBLIC OF INDONESIA**
- Mr. HARYADI HARYADI
  Deputy Director, Ministry of Finance
- Mr. EKO NUR PRIHANDOKO
  Head of Subdivision, Ministry of Finance

**ISLAMIC REPUBLIC OF IRAN**

- Mr. MOJTABA KARIMI
  Senior Officer, the Central Bank of I.R. of Iran
- Mr. MAJID PIREH
  Supervisory Expert, Security & Exchange Organization

**REPUBLIC OF IRAQ**

- Mr. KHALED ALMURAD
  Director General, Ministry of Finance
- Mr. ABEER AL-HUMAIRI
  Director, Ministry of Finance
- Ms. ALAA AL FARIS
  Assistant General Manager, Central Bank of Iraq
- Ms. IBTIHAL ABDULHUSSEIN FAYYADH
  Manager, Central Bank of Iraq
- Mr. THARWAT SALMAN
  Commercial Attache, Embassy of Iraq in Ankara

**THE STATE OF KUWAIT**

- Mr. SAAD ALRASHIDI
  Head of the OIC Affairs, Ministry of Finance
- Mr. FATMA ALI
  Economic Analyst, Ministry of Finance

**KINGDOM OF SAUDI ARABIA**

- Mr. FAYEZ ALHEMAIDHI
  Economic Researcher, Ministry of Finance
- Mr. SALH ALAWWAD
  Resident Advisor, Ministry of Finance

**REPUBLIC OF SOMALIA**

- Mr. HASSAN AHMED ALI
  First Secretary, Embassy of Somalia in Ankara
- Ms. SADIA ALI

**REPUBLIC OF TOGO**

- Mr. KWAMI MICHEL ADOUVO
  Coordinator of Project

**REPUBLIC OF TURKEY**

- Mr. HAKAN ERTÜRK
- Deputy Director General, Undersecretariat for the Treasury
- Mr. MÜCAHİT DUMAN
- Head of Department, Undersecretariat for the Treasury
- Mr. HAKAN ER
  Director, CBRT
- Mr. Uğur YÜCE
  Chief Expert, BRSA
- Mr. Mehmet Cihat DİLEK
  Expert, Undersecretariat for the Treasury

- Mr. HASAN BELBER
  Expert, CAPITAL MARKETS BOARD
- Mr. DENİZ TUNCA
- Expert, SPK
- Mr. UTKU ŞEN
  Expert, Undersecretariat for the Treasury
- Mr. VEYSEL ERGENÇ
  Expert, Undersecretariat for the Treasury
- Ms. BÜŞRA BAYKARA
  Assistant Expert, SPK
- Mr. SELMAN DAL
  Assistant Expert, CBRT
- Mr. ERHAN AKKAYA
  Assistant Expert, CBRT

**REPUBLIC OF UGANDA**

- Mr. COLLINS HERBERT ISHIMWE
  Senior Economist, Ministry of Economy, Finance and Development
- Mr. MUSA LUKWAGO
  Senior Economist, Ministry of Finance

**B. OIC SUBSIDIARY ORGANS**

**STATISTICAL, ECONOMIC, SOCIAL RESEARCH AND TRAINING CENTER FOR ISLAMIC COUNTRIES (SESRIC)**

- Mr. CEM TİNTİN
  Researcher

**C. OIC AFFILIATED ORGANS**

**GENERAL COUNCIL FOR ISLAMIC BANKS AND FINANCIAL INSTITUTIONS (CIBAFI)**

- Mr. MAHMOUD AL HOMSI
  Research Economist

**D. SPECIALIZED ORGANS OF THE OIC**

**ISLAMIC DEVELOPMENT BANK (IDB)**

- Mr. NOSRATOLLAH NAFAR
  Lead Research Economist

**E. INVITED INSTITUTIONS**

**SECRETARIAT OF OIC MEMBER STATES' STOCK EXCHANGES FORUM**

- Mr. MAHMUT VARLI
  Assistant Specialist, Borsa İstanbul

**SECRETARIAT OF COMCEC CAPITAL MARKETS' REGULATORS FORUM**

- Ms. SEÇİL SAYIN
  Chief Expert, Capital Markets Board (SPK)

**AAOIFI**

- Mr. OMAR MUSTAFA ANSARI
  Deputy Secretary General,

**WORLD BANK**

- Mr. MUHARREM CEVHER
  Financial Sector Specialist, World Bank Global Islamic Finance Development Center

**IBA**

- Dr. IRUM SABA
  Assistant Professor

**F. <u>COMCEC COORDINATION OFFICE</u>**

- Mr. BURAK KARAGÖL
  Director
- Mr. SELÇUK KOÇ
  Director
- Mr. CAFER BİÇER
  Financial Sector Specialist
- Mr. CEZMİ ONAT
  Financial Sector Specialist
- Mr. FATİH ARSLAN
  Expert
- Mr. OKAN POLAT
  Expert

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# Annex 2: Agenda of the Meeting

**AGENDA**
**9th MEETING OF THE COMCEC**
**FINANCIAL COOPERATION WORKING GROUP**
**(October 26th, 2017, Ankara)**

***"Diversification of Islamic Financial Instruments"***

Opening Remarks

1. Financial Outlook of the OIC Member Countries
2. Overview of Existing Islamic Financial Instruments
3. Diversification of Islamic Financial Instruments, Selected Case Studies and Policy Options
4. Policy Debate Session on Diversification of Islamic Financial Instruments
5. Utilizing the COMCEC Project Funding
6. Member Country Presentations
7. International Institutions' Perspective on Diversification of Islamic Financial Instruments

Closing Remarks

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# Annex 3: Program of the Meeting

**9th MEETING OF THE COMCEC**
**FINANCIAL COOPERATION WORKING GROUP**
**(October 26th, 2017, Ankara)**

***"Diversification of Islamic Financial Instruments"***

**PROGRAMME**

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|---|---|
| 08.30-09.00 | **Registration** |
| 09.00-09.05 | **Recitation from the Holy Quran** |
| 09.05-09.15 | **Opening Remarks** |
| | **Financial Outlook of the OIC Member Countries** |
| 09.15-09.35 | - *Presentation: Mr. Cafer BİÇER*<br>*Financial Sector Specialist*<br>*COMCEC Coordination Office (CCO)* |
| 09.35-09.45 | - *Discussion* |
| | **Overview of Existing Islamic Financial Instruments** |
| 09.45-10.15 | - *Presentation: Dr. Irum SABA*<br>*Center for Excellence in Islamic Finance-IBA* |
| 10.15-10.45 | - *Discussion* |
| 10.45-11.00 | *Coffee Break* |
| | **Diversification of Islamic Financial Instruments, Selected Case Studies and Policy Options** |
| 11.00-11.45 | - *Presentation: Dr. Irum SABA*<br>*Center for Excellence in Islamic Finance-IBA* |
| 11.45-12.30 | - *Discussion* |
| 12.30-14.00 | *Lunch* |

**Policy Debate Session on Diversification of Islamic Financial Instruments**

*There was a moderation session under this agenda item. The participants deliberated on the policy options/advices on diversification of Islamic financial instruments. At the beginning of the session, the CCO made a short presentation introducing the responses of the Member Countries to the policy questions as well as the Room Document.*

14.00-14.15 - *Presentation: "Responses of the Member Countries to the Policy Questions on Diversification of Islamic Financial Instruments"*

*Mr. Selçuk KOÇ*
*Director*
*COMCEC Coordination Office*

14.15-15.30 - *Discussion*

**Utilizing the COMCEC Project Funding**

15.30-15.45 - *Presentation: Mr. Burak KARAGÖL*
*Director*
*COMCEC Coordination Office (CCO)*

15.45-16.00 - *Discussion*

16.00-16.15 *Coffee Break*

16.15-17.15 **Member Country Presentations**

- *Presentation(s)*
- *Discussion*

**International Institutions' Perspective on Diversification of Islamic Financial Instruments**

17.15-17.30 - *Presentation: "Shariah Governance Challenges for Islamic Banking, Islamic Capital Markets and Takaful Windows"*

*Mr. Omar ANSARI*
*Deputy Secretary General*
*AAOIFI*

17.30-17.45 - *Presentation: "Technology, Innovation and Artificial Intelligence for the Growth of Islamic Finance"*

*Dr. Mahmoud AL-HOMSI*
*Research Economist*
*CIBAFI*

17.45-18.00 - *Presentation: " Using Islamic Finance Instruments for Infrastructure and Socially Responsible Investments"*

*Mr. Muharrem CEVHER*
*Financial Sector Specialist*
*World Bank Global Islamic Finance Development Center*

18.00-18.15 - *Discussion*

18.15-18.25 - **Closing Remarks and Family Photo**

# Annex 4: Policy Recommendations

**POLICY RECOMMENDATIONS OF THE**

**9TH MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP**

The COMCEC Financial Cooperation Working Group (FCWG) has successfully held its 9th Meeting on October 26th, 2017 in Ankara, Turkey with the theme of "Diversification of Islamic Financial Instruments". During the Meeting, FCWG made deliberations on diversification of Islamic financial instruments. The Room Document, prepared in accordance with the main findings of the analytical study conducted for the 9th Meeting of FCWG and the answers of the Member Countries to the policy questions, was the main input for the discussions. Accordingly, the participants have come up with the policy advices below.

***Policy Advice 1: Improving the Islamic Finance Infrastructure through Developing Necessary Legal/Regulatory Frameworks for its each Component namely, Islamic Banking, Islamic Capital Markets and Takaful towards Creating an Enabling Environment for Islamic Finance.***

***Rationale:*** Islamic finance is still at the early stages of its development in many OIC member countries compared to its conventional counterparts. Considering its potential, Islamic finance needs a conducive and enabling environment to realize its potential. It is a known fact that the countries having a strong legal environment during the early stages of the development of an industry tend to show significant progress compared to countries with insufficient legal infrastructure. In this regard, legal infrastructure constitutes an important condition for the development of the sector in any jurisdiction. The legal infrastructure should include, not only a general law but specific legal frameworks for each component of the Islamic financial sector namely; banking, capital markets, and takaful. The following specific items are of particular importance under the development of a legal system for any jurisdiction: (i) Separate Islamic Banking, Islamic Capital Markets and Takaful Law to allow for registry and operations of the companies. (ii) Taxation law to allow for a level playing field, or preferential treatment to Islamic financial products to encourage the market players to move towards Islamic finance. (iii) The legal framework for dispute resolution and arbitration. In almost all Islamic finance jurisdictions there is a need for dispute resolution centers which are governed by the Islamic law. (iv) Develop a general Islamic bankruptcy framework for the corporate sector.

***Policy Advice 2: Developing a Sound and Effective Governance Framework for National and Strengthening Coordination of Shariah Governance Standards and Policies across Different Jurisdiction.***

***Rationale:*** Developing a sound governance framework at the national is of particular importance for developing Islamic Finance Industry. The following specific points can be taken into consideration while creating such a framework: (i) Shariah governance standards and framework should be incorporated in the Islamic financial law. (ii) There is a need for the further development of the Shariah governance standards especially for the takaful industry and the Islamic capital markets. Some of the global standard-setting organizations at global level such as the AAOIFI and IFSB have already issued standards which can be utilized by the OIC member countries. (iii) The existence of an independent national level advisory board can

help coordinating the rules and regulations related to the Shariah governance and minimize diversity of different practices among the member countries. Since Shariah compliance is the unique differentiating factor for Islamic finance, there is also an immediate need for coordinating different Shariah Governance Frameworks among the OIC member countries to ensure that the products and operations of Islamic financial institutions do not contradict with the principles of the Islamic Law. Policymakers of the OIC countries need to ensure a sound governance framework by making it a legal/regulatory requirement.

***Policy Advice 3: Establishing/Developing Islamic Finance Rating Standards***

***Rationale:*** With the evolution of Islamic financial instruments and more focus on risk-sharing, Islamic financial transactions require a newer set of rules of book-keeping and financial reporting. A global adoption of Islamic finance accounting and reporting standards like AAOIFI is crucial for further development of the sector while ensuring transparency and disclosure in the financial reporting. A set of harmonized standards is a pre-condition for providing innovative Islamic financial instruments. While there have been efforts in this regard by AAOIFI and IFSB, there is an urgent requirement for developing detailed standards for greater Shariah compliance disclosure and a wider acceptance of these standards by the OIC member countries. In this regard, the focus can be given to develop rating standards which would help investors. While conventional rating agencies have been interested in rating for Islamic financial products, there is a need to increase and spread the rating efforts of the specialized Islamic finance rating agencies across the OIC Region.

***Policy Advice 4: Strengthening Human Capital in Islamic Finance in the OIC Member Countries through Enhanced Financial Literacy and Awareness Programs/Projects by Governments, Universities and Private Sector***

***Rationale:*** Provision of adequate and trained human capital is critical to the sustainable growth of all Islamic finance sub-sectors. At the public level, governments and regulators can take initiatives to establish educational, training and research centers. Private institutions such as research and training institutions, advisory firms and trade associations can contribute to for the development of human capital. Universities and academic institutions can also play an important role not only in providing education and training in Islamic finance but also in conducting research that can support the industry.

***Policy Advice 5: Facilitating Experience Sharing among the OIC Member Countries in sub-sectors of the Islamic Finance Industry for a Sustainable and Harmonized Growth of the Industry***

***Rationale:*** Some OIC member countries have taken the lead in developing the Islamic financial infrastructure and regulations. In this respect, experience sharing in the following areas among the Islamic finance destinations in the OIC Region among others: (i) Experiences related to policy development and regulatory framework enhancements (ii) Practices related to innovative sovereign sukuk issuance attracting retail investors for infrastructure development. (iii) The best practices and implementations of some member countries in the area of liquidity management.

**Instruments to Realize the Policy Advices:**

**COMCEC Financial Cooperation Working Group**: In its subsequent meetings, the Working Group may elaborate on the above-mentioned policy areas in a more detailed manner.

**COMCEC Project Funding**: Under the COMCEC Project Funding, the COMCEC Coordination Office issues calls for project proposals each year. With the COMCEC Project Funding, the member countries participating in the Working Groups can submit multilateral cooperation projects to be financed through grants by the COMCEC Coordination Office. For realizing above-mentioned policy recommendations, the member countries can utilize the COMCEC Project Funding facility. These projects may include organization of seminars, training programs, study visits, exchange of experts, workshops and preparation of analytical studies, needs assessments and training materials/documents, etc.

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