



FINANCIAL COOPERATION

OIC/COMCEC FC/ 38-22 D()



COMCEC

CCO BRIEF
ON
FINANCIAL
COOPERATION

COMCEC COORDINATION OFFICE

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BRIEF ON FINANCIAL COOPERATION

I. Introduction

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

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

Almost all countries have been going through a difficult phase with a high level of uncertainties due to the COVID-19 pandemic, which has adverse effects on social and economic areas of all countries. While governments have been taking measures to control the spread of the pandemic and prevent the rise in the number of deaths by supporting the health system and promoting vaccination of their societies, they have been occupied with moderating the adverse consequence of the COVID-19 outbreak on their economies.

In this framework, Financial cooperation plays a more important role against the adverse effects of COVID-19 by facilitating capital mobility, increasing financial literacy, managing financial risks, supervising financial institutions, increasing product diversity and broadening and deepening financial markets. Hence, regional or global financial cooperation is essential to ensure international financial system stability and thereby should contribute to improving the economic and social situation on a global scale.

II. Islamic Finance

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

Regarding total assets of the Islamic financial sector is considered, according to the latest data by (IFSB, 2021) as depicted in Table 1, the total asset size of the Islamic finance sector has slightly increased from 2.44 trillion in 2019 to USD 2,70 trillion in 2020 with 10.7% YoY growth rate [2019: 11.4%] despite the negative effects of the COVID-19 pandemic. Regarding the concentration of Islamic finance according to the region, the GCC region still had the most significant share (48.9%), USD1,318.7 billion in 2020. GCC is followed by South-East Asia, one of the most potential regions for the growth of the Islamic financial market with the regional countries such as Malaysia and Indonesia, recorded USD670.6 billion total assets and 24.9% share in the global Islamic finance sector in 2020. The market share of the Middle East and South Asia (MESA) significantly decreased from 25.9% (in 2019) to 20.3%

in 2020. It is important to stress also that the total Islamic finance assets of Africa reached USD46.9 million and has a share of 1.7 percent of the worldwide industry.

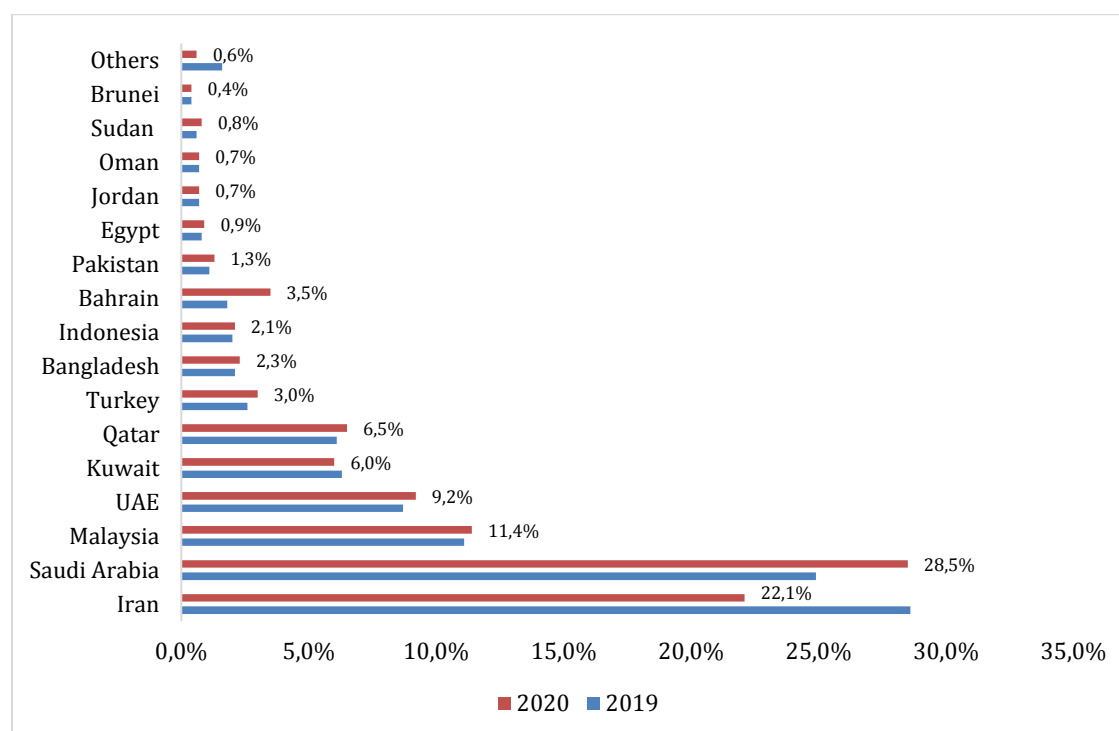
Table 1: Breakdown of IFSI by Sector and by Region, US\$ Billion

Region	Islamic Banking	Outstanding Sukuk	Islamic Funds' Assets	Takaful Contributions	Total	Share
GCC	979.7	280.4	46.3	12.3	1,318.7	48.9%
South-East Asia	258.2	366.4	41.9	4.1	670.6	24.9%
Middle East and South Asia	499.0	18.9	22.8	5.5	546.2	20.3%
Africa	43.1	1.7	1.5	0.6	46.9	1.7%
Others	61.8	22.1	31.3	0.6	115.8	4.3%
Total	1,841.8	689.5	143.8	23.1	2,698.2	100.0%
Share	68.3%	25.6%	5.3%	0.9%	100.0%	

Source: 2021 Islamic Financial Services Industry Stability Report

Total assets of Islamic banking recorded a double-digit growth rate and increased from USD 1,571.3 billion to USD 1,765.8 billion in 2019. In terms of regions, GCC was the main contributor to the global Islamic banking assets with USD 854.0 billion in 2019. It was followed by MESA, South-East Asia, Africa, and other countries with USD 584.3 billion, USD 240.5 billion, USD 33.9 billion, and USD 53.1 billion, respectively.

Figure1: Share of Global Islamic Banking Assets by Country (%)

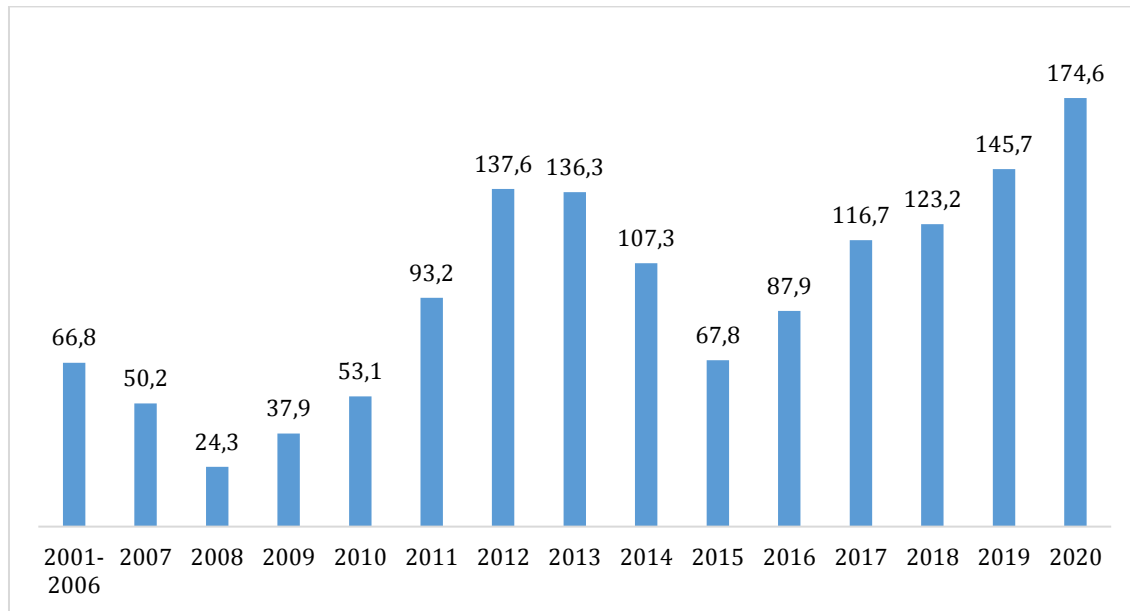


Source: Compiled from 2020 and 2021 Islamic Financial Services Industry Stability Reports

In terms of the countries' shares in global Islamic finance, the top five countries changed in 2020. Saudi Arabia's share continued to increase in 2020 and reached 28.5 percent [2019: 24.9 %], which carried the country to the top. Saudi Arabia was followed by Iran, which significantly lost its share in the global Islamic banking assets from 28.6 percent in 2019 to 22.1 percent in 2020. While Malaysia (11.4%) and

UAE (9.2%) kept their position as third and fourth in 2020, Qatar's share (6.5%) surpassed Kuwait (6.0%) and made Qatar the fifth-biggest Islamic banking asset size in the world. Kuwait, Turkey, Bangladesh, Indonesia, Bahrain, Egypt, and Sudan are the other countries that increased their shares in the global Islamic finance sector (see Figure 1).

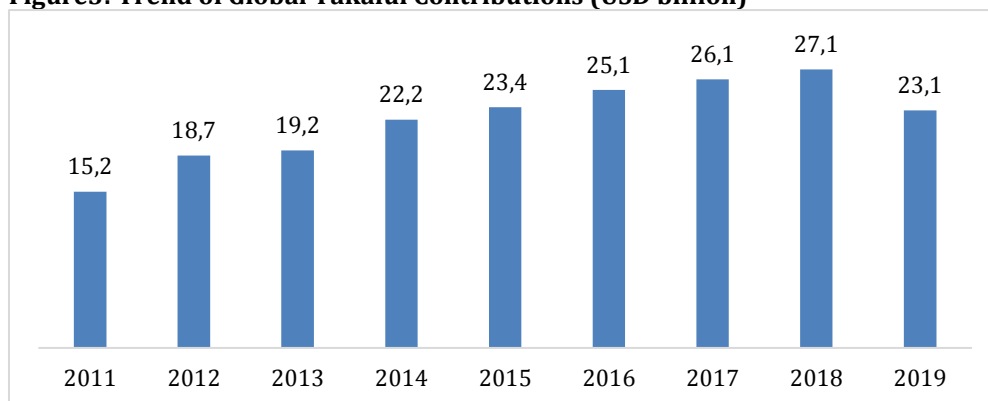
Figure2: Global Sukuk Issuances (2001-2020, USD billion)



Source: IIFM Sukuk Report 2021

Islamic capital markets continued to show a positive trend in 2020 despite the negative expectations towards Islamic finance due to COVID-19. As a result, sukuk remained attractive to issuers, although severe conditions occurred in the financial markets. The sukuk market observed double-digit growth rates again because of the IsDB's socially responsible sukuk issuance and other core sukuk issuer countries such as Malaysia, Saudi Arabia, Indonesia, Turkey. As seen in Figure 14, total global sukuk issuances increased 20 percent in volume from USD 145.7 billion in 2019 to USD 174.6 billion in 2020 [YoY growth was 18% in 2019] (IIFM, 2021). This can be explained by the funding needs of sovereigns to overcome the deficits in the budgets to finance their projects for sustaining the running of the economy.

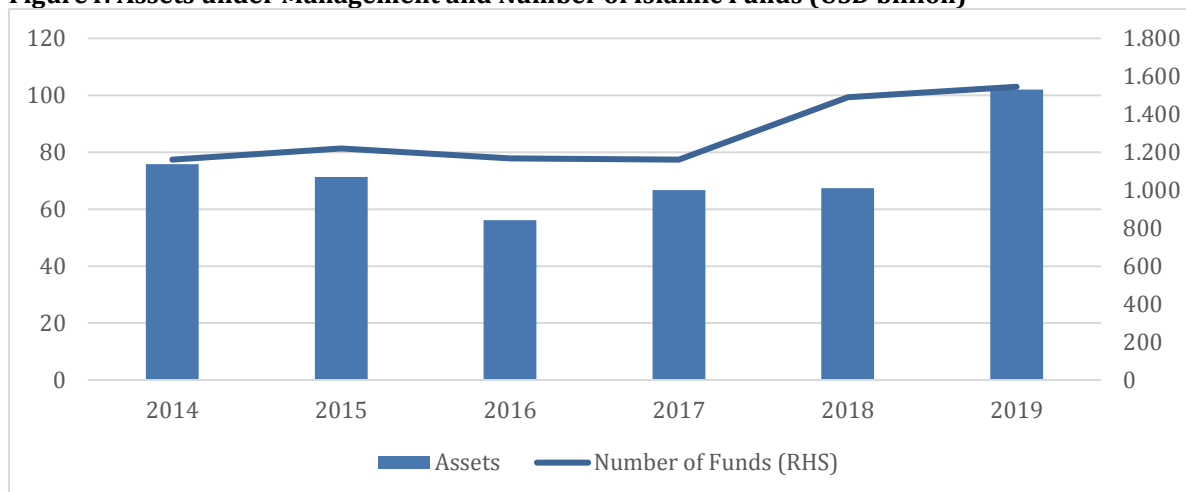
Figure3: Trend of Global Takaful Contributions (USD billion)



Source: Islamic Financial Services Industry Stability Report 2020

The top five countries of the total takaful contributions in 2019 was slightly changed, and Saudi Arabia surpassed Iran: Saudi Arabia [USD 10.1 billion], Iran [USD 4.9 billion], Malaysia [USD 2.9 billion], UAE [USD 1.3 billion], and Indonesia [USD 1.1 billion] (IFSB, 2021).

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



III. COOPERATION EFFORTS UNDER THE COMCEC: THE COMCEC STRATEGY AND FINANCIAL COOPERATION

The idea of enhancing financial cooperation under the COMCEC dates back to its initial meetings. Cooperation efforts in this area have been intensified and deepened in recent years. The COMCEC Strategy has defined finance as one of the cooperation areas of COMCEC. Financial cooperation deepening has been defined as a strategic objective of the Strategy. Within this framework, since the 36th COMCEC Session, the COMCEC FCWG elaborated on the role of Islamic Finance in supporting Microenterprises and SMEs against COVID-19 in its 15th and 16th Meetings.

A. The Role of Islamic Finance in Supporting Microenterprises and SMEs against COVID-19

(16th and 17th Meetings of the Financial Cooperation Working Group)

The 16th Meetings of the COMCEC Financial Cooperation Working Group was held on September 9th, 2021, respectively, in a virtual-only format with the theme of “The Role of Islamic Finance in Supporting Microenterprises and SMEs against COVID-19”.

Within this framework, a research report with the same theme is being prepared for two consecutive COMCEC FCWG meetings (15th and 16th). While the first draft version of the report was submitted to the 15th FCWG meeting, the final version of the report was submitted to the 16th FCWG meeting.

The main objective of this study was to examine the role of Islamic finance in supporting the MSMEs throughout and after the COVID-19 pandemic in various aspects such as Islamic banking, Islamic capital markets, takaful, and Islamic social finance institutions, with particular focus on the developments at national and global levels in OIC Member Countries. The consultant have elaborated and analysed the recent initiatives taken by governments, international bodies, national Islamic financial institutions towards MSMEs, and constraints and challenges in different jurisdictions. Furthermore, the analytical report is expected to suggest policy recommendations to OIC Member Countries to promote the role of Islamic finance in supporting the MSMEs during the COVID-19 and accelerate the development of Islamic finance.

The COMCEC Financial Cooperation Working Group will focus on the issue of Standardization Efforts in Islamic Finance in its upcoming meetings to be held in 2022.

All the reports submitted to the Meetings and the presentations made during the Meetings are available on the COMCEC web page (www.comcec.org).

The COMCEC Project Funding Mechanism

COMCEC Project Funding (CPF) is the other important instrument of the Strategy. Projects financed under the CPF need to serve multilateral cooperation and must be designed in accordance with the objectives and the expected outcomes defined by the Strategy in the finance section. Projects also play important roles in realization of the policy recommendations formulated by the member countries during the FCWG meetings.

Under the 7th and 8th Calls for Project Proposals, a total of 3 projects were selected to be financed by the CCO. The projects completed during the 2021 implementation period are as follows;

Brunei Darussalam's "Capacity Building Program on Sukuk, ESG Sukuk and Islamic Fintech" project aimed at training of stakeholders of the capital market ecosystem including regulatory bodies, securities exchanges, and financial institutions with the partnership of Indonesia and Malaysia. In this context, it was held on a training on legal framework on sukuk and a workshop for experience sharing on responsible and sustainable financing through the issuance of sukuk.

The other project, titled "Facilitating Women Entrepreneurs' Access to Islamic Finance" were implemented by Sierra Leone in partnership with the Gambia and Nigeria. This project aimed to empower women and SME's on entrepreneurship and Islamic finance. Project activities were a study visit to the Gambia for learning best practices on SMEs and Islamic finance and a training on entrepreneurship and SME development on the basis of Islamic finance.

Malaysia implemented the project called "Advancing Islamic Capital Market through Financial Technology" with the partnership of Türkiye, Egypt, Pakistan, Kuwait, Maldives and Brunei Darussalam. The project aimed at enhancing human and institutional capacity on the development of contemporary Islamic capital market using financial technology through workshop and policy recommendation report.

Also, one project was selected to be financed by the CCO in 2022 under the 9th Call for Project Proposals.

This project will be implemented by the SESRIC in 2022. The project titled "Strengthening Financial Literacy and Promoting Islamic Finance in the OIC Member Countries" aims at contributing to the efforts put by OIC member countries towards improving their awareness raising mechanisms on Financial Literacy and Islamic Finance. Two trainings and a workshop will be organized to enable participants to share knowledge, lessons, and experiences.

- Other Ongoing Efforts under the COMCEC:

- **OIC Member States' Stock Exchanges Forum:** Cooperation among the Stock Exchanges was launched in 2005 in line with the decision taken by the 20th Session of the COMCEC. The Forum has held 14 meetings so far. The 15th Meeting of the Forum was virtually held on October 5th-6th, 2021. Along with the efforts to increase cooperation between stock exchanges, the Forum has realized some important projects such as the OIC/COMCEC Index. 37th COMCEC Session requested the Member States to actively support promotion of the S&P OIC/COMCEC Shariah 50 Index and the Fund to the investors in their respective countries through public events, press releases, and one-on-one meetings. The Forum has also been working on Gold Exchange Initiative for the OIC Member Countries. According to relevant resolution of the 37th COMCEC

Session, the Forum Secretariat is expected to advance the technical preparations for the establishment of the OIC Gold Exchange, the assessment of the feasibility of the business model and report to the 38th Session of the COMCEC. The detailed information regarding the activities of the Forum is available on www.oicexchanges.org.

The COMCEC Capital Market Regulatory Forum: The COMCEC Capital Market Regulatory Forum was established in 2011 in line with the relevant resolutions of the 27th Session of the COMCEC. The Forum has held 9 meetings so far. The 10th Meeting of the COMCEC Capital Market Regulators Forum was virtually held on October 5th, 2021. Regarding the real estate exchange project, the 37th COMCEC Session called upon the interested Member States to actively participate in the establishment of the COMCEC Real Estate electronic platform/COMCEC Real Estate Exchange and invited them to identify their authorized bodies as well as notify them to the Forum’s Secretariat for enhancing coordination. The details regarding the Forum activities are available on the Forum website. (www.comceccmr.org)

- **OIC-COMCEC Central Banks Forum:**

In the 16th Meeting of the Central Banks and Monetary Authorities of the OIC Member States, the central banks of the OIC Member States decided to continue its activities as the “OIC-COMCEC Central Banks Forum. The Forum has held 3 meetings so far. The 3rd Meeting of the OIC- COMCEC Central Banks Forum was held virtually on September 29th, 2021.

The 37th Session of the COMCEC requested SESRIC to continue organizing training and capacity-building programs for the benefit of the relevant national institutions of the Member States within the framework of its Central Banks Capacity Building Programme (CB-CaB).

The details regarding the Forum activities are available on the Forum website. (www.comceccentralbanks.org)

