



FINANCIAL COOPERATION



COMCEC

CCO BRIEF
ON
FINANCIAL
COOPERATION

COMCEC COORDINATION OFFICE
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BRIEF ON FINANCIAL COOPERATION

I. Introduction

Financial cooperation plays a pivotal role in 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.

As we all witnessed in the post-pandemic era, more or less all countries have been going through tough times arising from reasons such as high global inflation, rising energy prices, supply-demand mismatch, labor market rigidities, and geopolitical risks. Due to such problems, IMF estimated that Global growth is projected to slow from an estimated 6.1 percent in 2021 to 3.6 percent in 2022 and 2023. Beyond 2023, global growth is forecast to decline to about 3.3 percent over the medium term (IMF, 2022 April).

After the pandemic, it is also forecasted the global recovery to strengthen from the second quarter of this year after a short-lived impact of the Omicron variant. Since then, the world economic outlook has deteriorated because of the regional conflicts. Rising commodity and food prices, supply cuts and food security problems stood out as the most concrete economic problems. On the other hand, the global recovery tends to slow down as the extraordinary government incentives implemented during the epidemic period are reduced to a minimum. A key factor slowing global growth is the generalized tightening of monetary policy, driven by the greater-than-expected overshoot of inflation targets. Strict lockdowns associated with China's zero COVID-19 policy have also affected the Chinese and global economy. (OECD, 2022)

The latest and updated forecast of the Organization for Economic Cooperation and Development (OECD) for global growth is projected to remain subdued in the second half of 2022, before slowing further in 2023 to an annual growth of just 2.2%.

II. Islamic Finance

The asset size of the Islamic finance sector increased to an estimated USD 3.06 trillion in 2021 (from USD 2.75 trillion in 2020). The sector sustained its growth momentum with a growth rate of 11.3% year-on-year based on significant improvement, especially in the Islamic banking and Islamic capital markets segments in some key markets. The Islamic Finance industry consists of three main segments as banking, capital markets and takaful. Islamic banking sector is the dominant component of the Islamic finance industry.

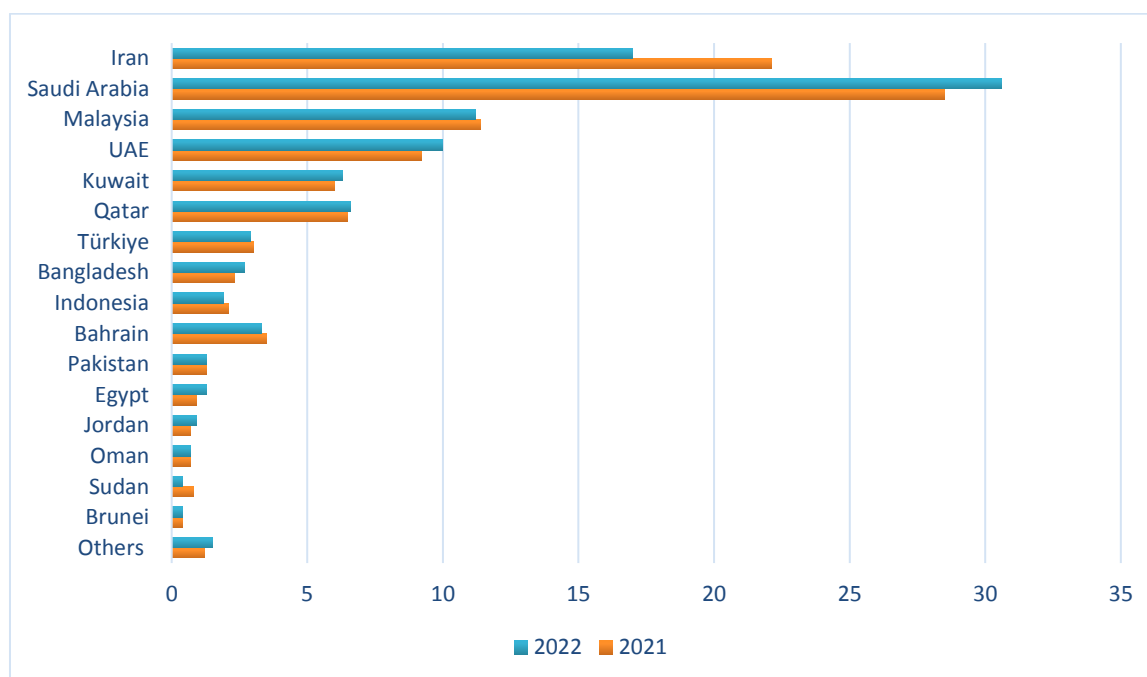
The global Islamic banking assets are representing 68.7% of the industry's total assets and Islamic Capital Market (ICM) is representing 30.5%. Furthermore, the Sukuk market remains dominant in the ICM sector with an estimated value of USD 775.7 billion and a y-o-y growth of 12.5%. Islamic funds grew by 6% from the previous year. The overall takaful sector's direct contributions increased by 4.8% y-o-y to USD 24.2 billion in 2020, after a significant decline (-14.8%) in 2019. (IFSB, 2022)

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	1,212.5	332.3	46.0	12.7	1,603.5	52.4
South-East Asia	287.5	390.3	37.5	4.7	720.0	23.5
Middle East and South Asia	477.1	26.9	22.0	5.6	531.6	17.4
Africa	58.2	1.8	4.0	0.6	64.6	2.1
Others	68.8	24.4	45.1	0.7	139.0	4.5
Total	2,104.1	775.7	154.6	24.3	3,058.7	100.0
Share (%)	68.7	25.4	5.1	0.8	100.0	

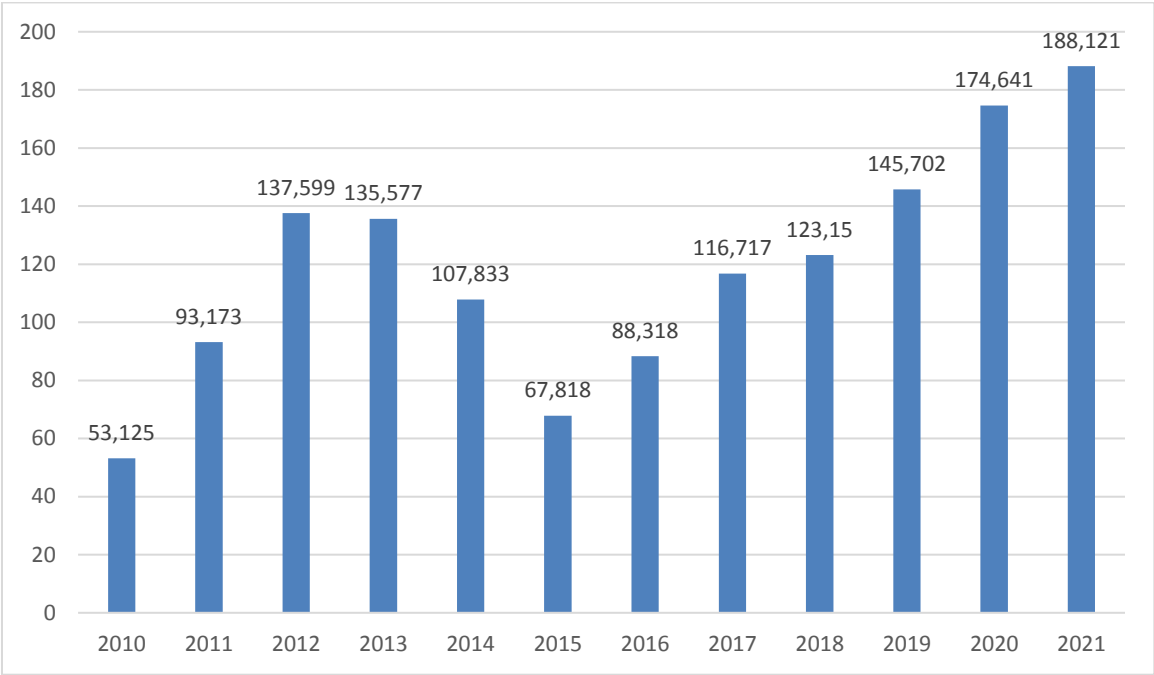
Source: Islamic Financial Services Industry Stability Report 2022

Total assets of Islamic banking grew a 6.1 per cent and increased from USD 1,765.8 billion to USD 1,841.8 billion in 2020. In terms of regions, GCC is the main contributor to the global Islamic banking assets with USD 1,212.5 billion in 2021. It is followed by MESA, South-East Asia, Africa, and other countries with 477.1 billion, USD 287.5 billion, USD 58.2 billion, and USD 68.8 billion, respectively.

Figure 1: Share of Global Islamic Banking Assets by Country (%)

Source: IFSB Islamic Financial Stability Report 2021-2022

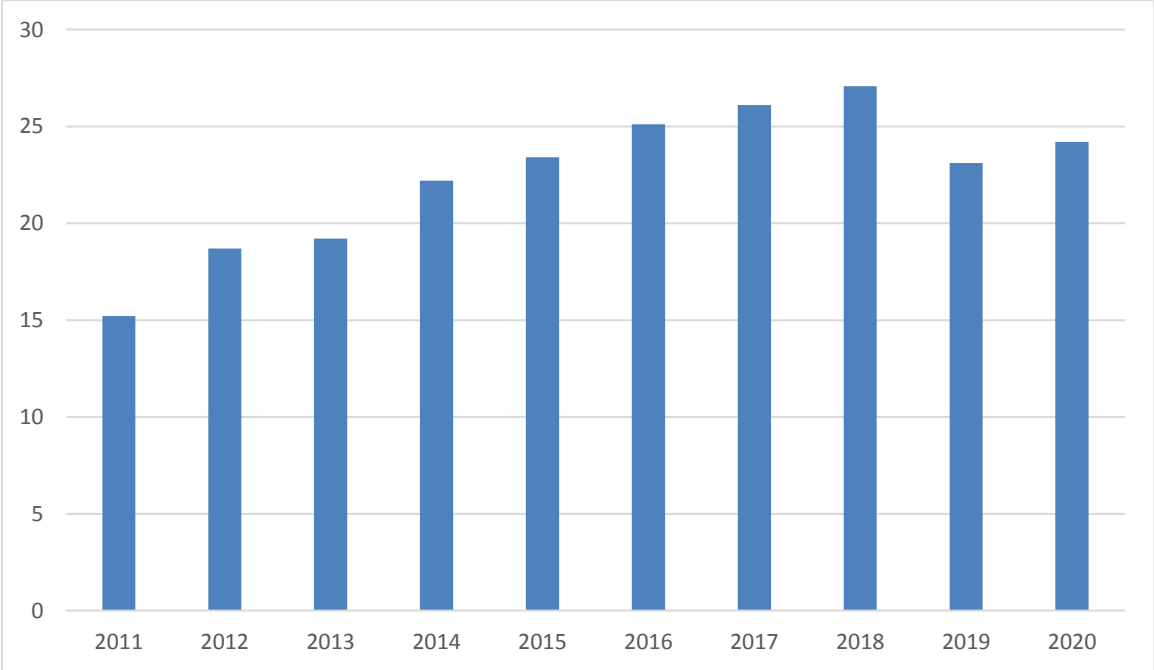
Figure 2: Global Sukuk Issuances (2001-2021, USD billion)



Source: IIFM Sukuk Report 2022

Total global issuance increased 7.72 percent in volume from USD 174.60 billion in 2020 to USD 188,12 billion in 2021 [YoY growth was 19.84% in 2020]. In 2021, the increase in Sukuk issuance was mainly driven by the trajectory continuation of economic stimulus measures implemented by the governments. Malaysia has maintained a dominant share in terms of both volume and value, and remains the largest domestic Sukuk issuer with 44.01% (USD 61.045 billion). The countries like the Bahrain, Indonesia, Saudi Arabia, Pakistan, Qatar and Türkiye are emerging ones.

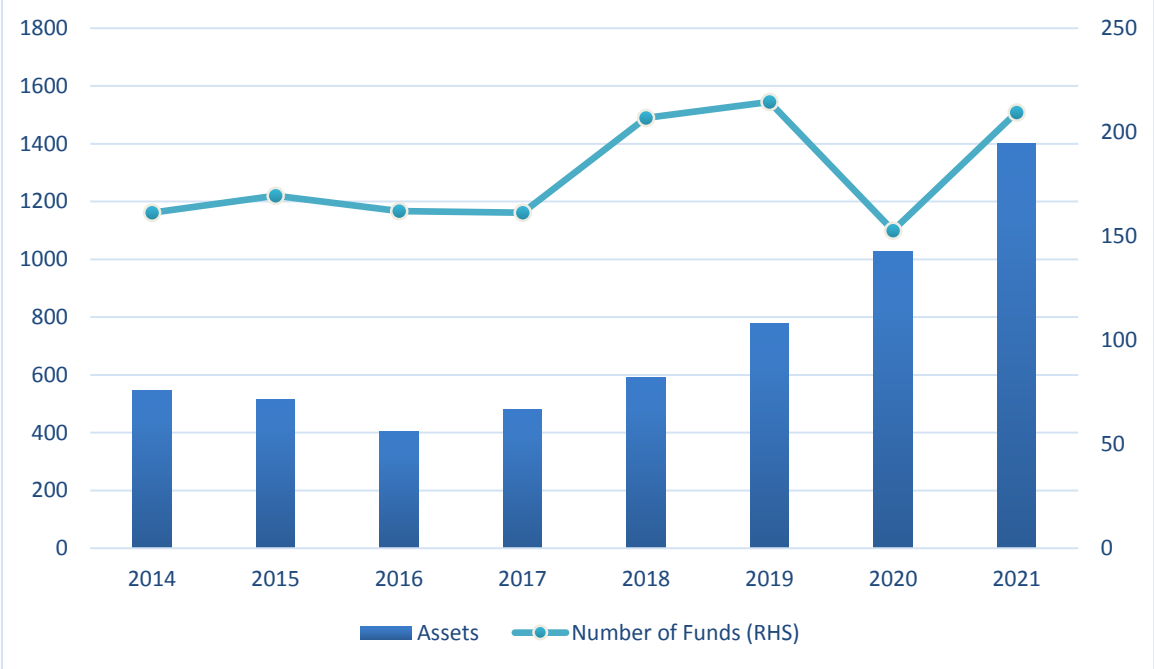
Figure 3: Trend of Global Takaful Contributions (USD billion)



Source: Islamic Financial Services Industry Stability Report 2022

The overall takaful sector’s direct contributions increased by 4.8% y-o-y to USD 24.2 billion in 2020, after a significant decline (–14.8%) in 2019. The decline was attributed to significant changes in the exchange rate (USD) used to denominate Iranian data. The top seven markets, which generated roughly 95% of the overall contributions, are Saudi Arabia, Iran, Sudan, Brunei, Malaysia, UAE and Indonesia.

Figure 4: Assets under Management and Number of Islamic Funds (USD billion)



Source: Islamic Financial Services Industry Stability Report 2021

III. COOPERATION EFFORTS UNDER THE COMCEC: 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. COMCEC Strategy has defined finance as one of the cooperation areas of COMCEC. Deepening and widening of financial cooperation among OIC Member Countries has been defined as an important objective of the Strategy. Within this framework, since the 37th COMCEC Session, the COMCEC Financial Cooperation Working Group elaborated on the Standardization Efforts in Islamic Finance in its 17th and 18th Meetings.

**A. Standardization Efforts in Islamic Finance
(17th and 18th Meetings of the Financial Cooperation Working Group)**

The 17th Meeting of the COMCEC Financial Cooperation Working Group (FCWG) was held on May 9, 2022, in a virtual-only format with the theme of “Standardization Efforts in Islamic Finance”. The first draft version of the report along with a country case was submitted to the 17th FCWG meeting and the final version of the report was submitted to the 18th FWG meeting held on the October 3, 2021.

The main objective of this study aims to examine and analyze the recent initiatives and issues regarding the standardization in Islamic Finance by covering different sectors such as Islamic banking, Islamic capital markets (ICM), and Islamic Insurance (Takaful), with a particular focus

on developments in OIC Member Countries. The report has elaborated and analyzed the recent initiatives taken by governments, international bodies, and national Islamic financial institutions regarding standardization, and constraints and challenges in different jurisdictions.

Furthermore, the 18th Meeting of Financial Cooperation Working Group has come up with the following policy recommendations to be submitted to the Ministerial Exchange of Views Session.

- Developing a comprehensive strategic master plan that clearly defines the standardization and harmonization requirements (at global and local levels).
- Establishing a centralized Shari‘ah governance framework to ensure the compliance of the Islamic Financial Services Industry with standards on Shari‘ah products, dispute resolution, and reporting.
- Ensuring periodical review of the standards so that they reflect current market dynamics and needs.
- Enhancing the legal, regulatory, and supervisory frameworks to create a level-playing field for all market participants.
- Enhancing the coordination among regulatory bodies and with international standard-setting bodies.
- Developing quality human capital by including standardization-related modules in the higher education curriculum/syllabus, conducting training and seminars, and introducing accreditation of Islamic Finance academic programs.

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

COMCEC Project Funding Mechanism

COMCEC Project Funding (CPF) is the other important instrument of the Strategy. Projects financed under the CPF need to serve cooperation among member countries 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 9th Call for Project Proposals, SESRIC is implementing the project called “Strengthening Financial Literacy and Promoting Islamic Finance in the OIC Member Countries”. The project aims at contributing to the efforts put by OIC member countries towards improving their awareness raising mechanisms on Financial Literacy and Islamic Finance. Two virtual trainings namely “The Role of Central Banks in Increasing Financial Literacy” were conducted on September 5-6, 2022 and “Using Financial Technologies in Islamic Finance” on September 7-8, 2022. Also, a workshop on “Best Practices on Promoting Financial Literacy and Islamic Finance in the OIC Member Countries” was held in İstanbul with the participation of 22 member countries.

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 16 meetings so far. The 16th Meeting of the Forum was virtually held on October 11-12, 2022. Along with the efforts to increase cooperation between stock exchanges, the Forum has realized some important projects such as the OIC/COMCEC Index. 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 on the new blockchain-based model for the establishment of the OIC Gold Exchange in cooperation with central banks, 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 eleven meetings so far. The 11th Meeting of the COMCEC Capital Market Regulators Forum was virtually held on November 1, 2022. Regarding the real estate exchange project, the 37th COMCEC Session took note of the briefing by the Secretariat of the COMCEC Capital Market Regulators Forum on the establishment of the COMCEC Real Estate Electronic Platform/COMCEC Real Estate Exchange among the interested OIC Member States and requested the Forum/the Forum's Secretariat to finalize necessary legal, administrative and technological preparations for the establishment of the COMCEC Real Estate Electronic Platform/COMCEC Real Estate Exchange before the 38th Session of the COMCEC.

Moreover, the 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 34th COMCEC Session took note of the communique of the said meeting as well as the decision on the establishment of the "OIC-COMCEC Central Banks Forum". Within this framework, the 4th Meeting of the Forum was held on September 25-26, 2022. The details regarding the Forum activities are available on the Forum website. (www.comceccentralbanks.org)

