



FINANCIAL COOPERATION



COMCEC

**CCO BRIEF
ON
FINANCIAL
COOPERATION**

COMCEC COORDINATION OFFICE

November 2023

BRIEF ON FINANCIAL COOPERATION

I. Introduction

Financial cooperation offers several benefits to individuals, organizations, and countries, including risk sharing, access to capital and market, cost efficiency, expertise sharing, economic development, stability and resilience, resource allocation, leveraging strengths, and innovation. It is important to note that while financial cooperation can bring numerous benefits, it also comes with challenges, such as the need for effective governance and risk management, and the importance of establishing clear agreements and communication channels. Therefore, the importance of international cooperation platforms to mitigate these negative consequences is increasing. It also requires strong cooperation, coordinated policies, and joint international efforts. 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.

During the pandemic, most countries opted for a fiscal expansion through accommodative policies to mitigate pandemic's overall economic cost. However, the pandemic-related support has run out or loosened up over time. Today, many countries, the developed ones in particular, are reducing policy accommodation in response to inflationary pressures, and many developing countries are left with limited fiscal space. Thus, maintaining fiscal sustainability has become even more difficult due to the rising interest rates and the need to protect vulnerable populations against high food and energy prices. Interest rate hikes are exposing debt vulnerabilities, particularly in countries with higher debt levels and larger financing needs¹.

According to IMF, it is forecasted the global growth will slow from 3.5 percent in 2022 to 3.0 percent in 2023 year and 2.9 percent in 2024. This remains well below the historical (2000-2019) average of 3.8 percent.² Furthermore, it is expected that headline inflation continues to decelerate, from 9.2 percent in 2022, on a year-over-year basis, to 5.9 percent in 2023 and 4.8 percent in 2024. Core inflation, excluding food and energy prices, is also projected to decline, albeit more gradually than headline inflation, to 4.5 percent in 2024, by World Bank.³

Consequently, the slowdown is more pronounced in advanced economies than in emerging market and developing ones. Global growth could weaken more than anticipated in the event of further financial sector stress, or if persistent inflation prompts tighter-than-expected monetary policy.

¹ SESRIC, OIC Economic Outlook, 2022.

² IMF, World Economic Outlook, October, 2023.

³ World Bank, Global Economic Prospects, June, 2023.

II. Islamic Finance

Navigating through what remains a challenging global financial condition, the global Islamic financial services industry (IFSI) in 2022 demonstrated soundness and resilience and also recorded structural development.

Yet, the dynamics of economic recovery and financial stability offer a test of resilience based on the structural, political, economic, and financial peculiarities of the various jurisdictions where Islamic finance is practised. Regarding the size of the Islamic financial sector, the total assets of the Islamic finance sector increased from USD 3,06 trillion in 2021 to USD 3,25 trillion in 2022, marking a slower growth of with 6.2% YoY growth rate [2021: USD 3.06 trillion with growth of 13%].

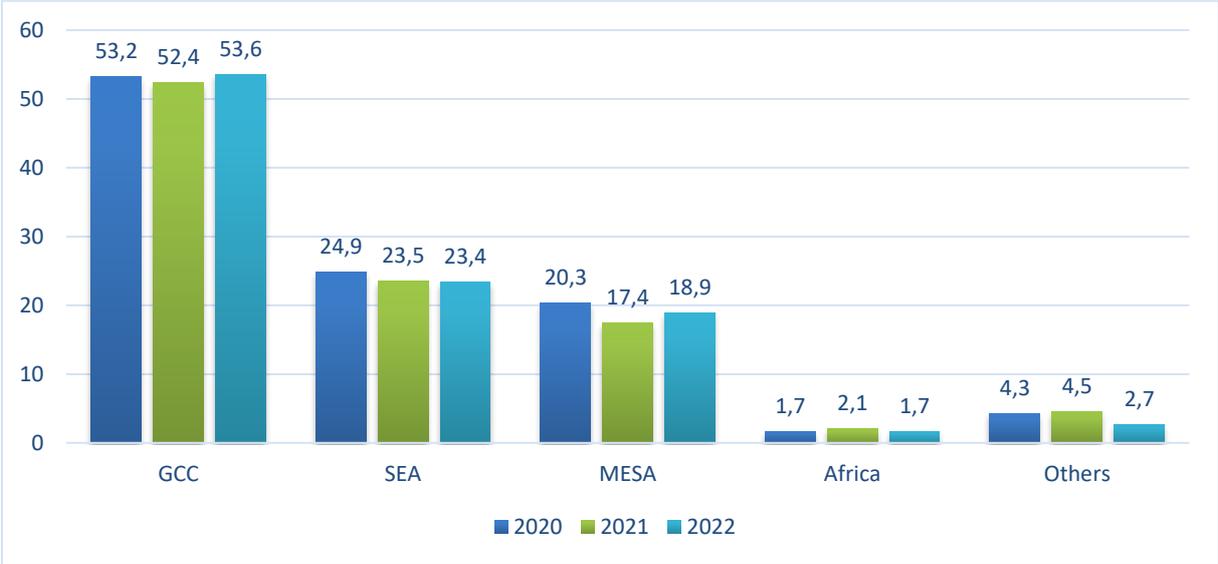
Table 1: Breakdown of IFSI by Sector and by Region, US\$ Billion

Region	Islamic Banking Assets	Outstanding Sukuk	Islamic Funds Assets	Islamic Insurances Contributions	Total	Share (%)
Gulf Cooperation Council (GCC)	1342.9	356.6	24.1	16.7	1740.4	53.6
South-East Asia (SEA)	307.2	411.4	32.8	6.0	757.4	23.3
Middle East and South Asia (MESA)	478.3	57.8	62.9	5.9	604.9	18.6
Africa	49.6	2.9	1.9	0.8	55.2	1.7
Others	71.2	1.0	14.9	0.6	87.7	2.7
Total	2249.2	829.7	136.6	30.0	3245.5	100.0
Share (%)	69.3	25.6	4.2	0.9	100.0	

Source: Islamic Financial Services Industry Stability Report 2023

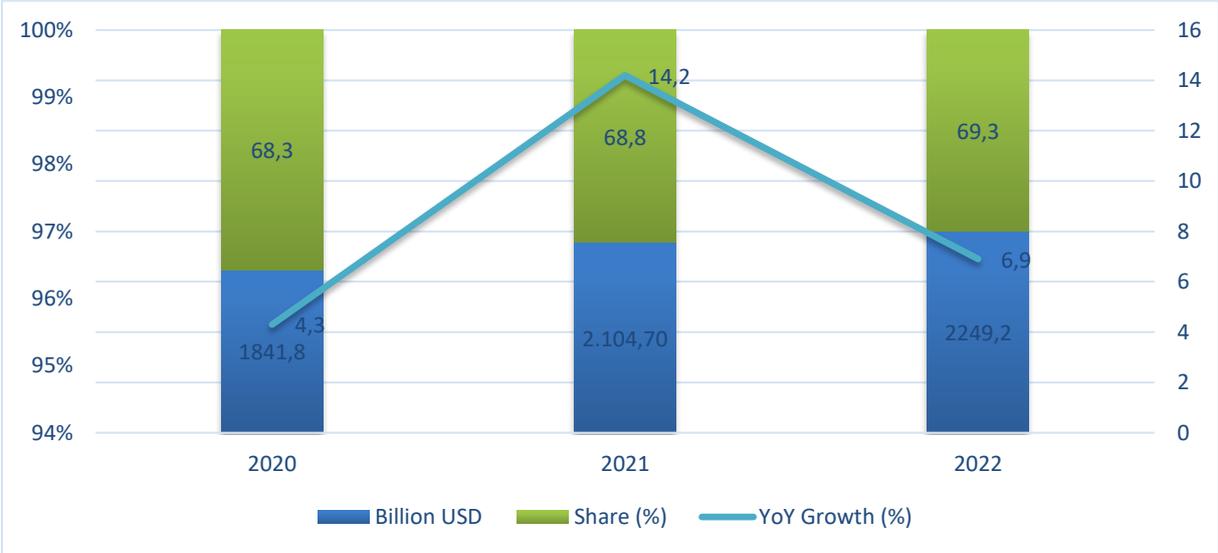
Regarding the concentration of Islamic finance, according to the region, the GCC region still had the most significant share (53.6%), USD 1,730.3 billion in 2022. GCC is followed by Southeast Asia, one of the most potential regions for the growth of the Islamic financial market, with regional countries such as Malaysia and Indonesia recording USD 757.4 billion in total assets and a 23.3% share in the global Islamic finance sector in 2022. The market share of the Middle East and South Asia (MESA), which significantly decreased from 20.3% (in 2020) to 17.4% in 2021, has seen a rebound by achieving to raise its share to 18.6% in 2022. On the other hand, Africa, which had 2.1 per cent of the worldwide industry in 2021, underperformed in 2022, and its share decreased to 1.7% from 2.1% with a USD 55.2 million asset size.

Figure 1: Regional Distribution of Global IFSI Assets (%) (2020-2022)



Source: Compiled from 2021, 2022 and 2023 Islamic Financial Services Industry Stability Reports

Figure 2: YoY Performance of Islamic Banking Sector (2020-2022)



Source: Compiled from 2021, 2022 and 2023 Islamic Financial Services Industry Stability Reports

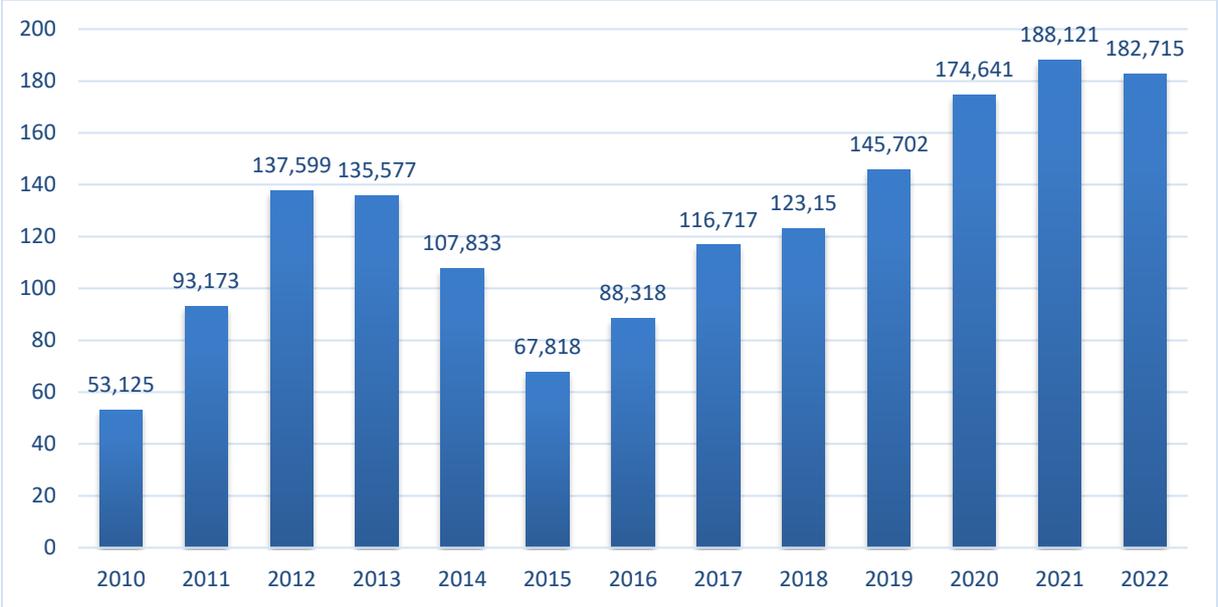
The Islamic Finance industry consists of three main segments as banking, capital markets and Islamic Insurances. Islamic banking sector is the dominant component of the Islamic finance industry. the Islamic banking segment retained its dominance in terms of asset size of USD 2.25 trillion as of the end of 2022 (2021: USD 2.10 trillion) accounting for 69.3% of the value of global IFSI assets (2021: 68.7%). In 2022, the segment recorded a 6.9% y-o-y growth in assets.

The overall Islamic capital market (ICM) segment, consisting of Sukuk, Islamic funds, and Islamic equities registered a slower, single-digit, growth rate for the first time in five years.

ICM’s value of USD 966.3 billion (2021: USD 910.9 billion) accounted for a share of 29.8% of global IFSI assets as of the end of 2022 (2021: USD 30.5 billion).

The Sukuk sub-segment retained its dominance within the ICM segment registering a growth of 7.0% y-o-y in 2022 (12.5%: 2021), while Islamic funds grew marginally by 1.0% y-o-y during the same period. On the other hands, the Islamic Insurances segment registered a growth of 16.1% y-o-y to reach USD 30.0 billion (2022: USD 25.8 billion) as of the end of 2021. Notwithstanding, the segment’s share of global IFSI assets remains 0.9%.

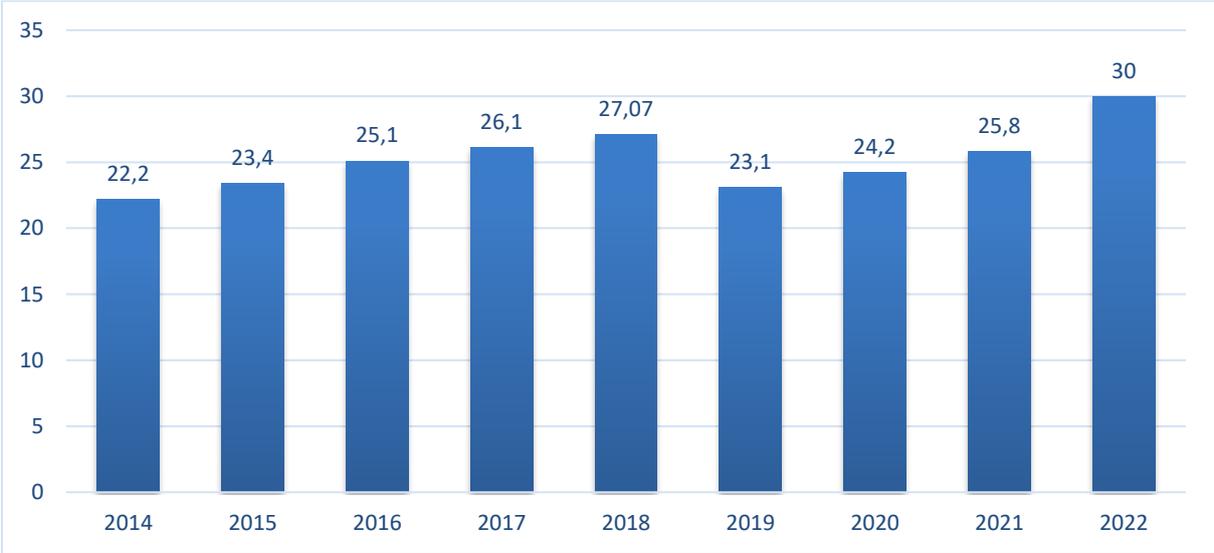
Figure 3: Global Sukuk Issuances (2010-2022, USD billion)



Source: IIFM Sukuk Report 2023

Total global issuance amounted to USD 182.715 billion which confirms the leading position of Sukuk as the key financing instrument. Global Sukuk issuance has shown a slight decrease of around negative 2.96% p.a. or USD 188.121 billion in 2021 compared to USD 182.715 billion in 2022. The issuance volume during 2022 was mainly due to sovereign Sukuk issuances from Asia, GCC, Africa and certain other jurisdictions while Malaysia continues to dominate the overall Sukuk market while the issuances from Saudi Arabia and Indonesia maintained its upward trend and increased with good volume. The Sukuk issuances from certain other countries such as Bahrain, Türkiye etc., also regularly issued Sukuk.

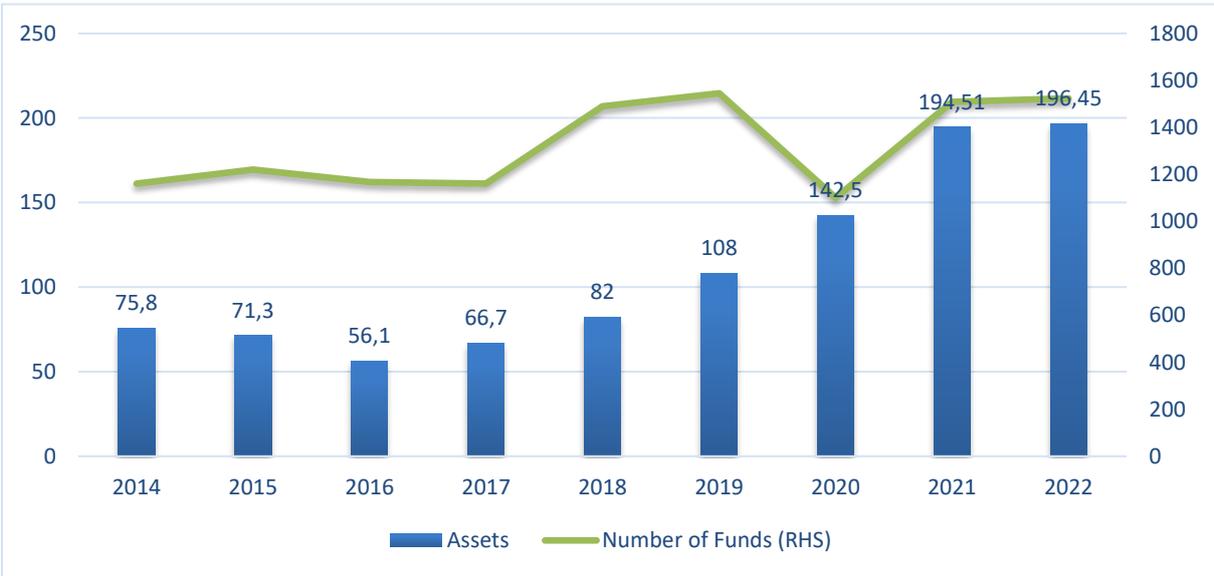
Figure 4: Trend of Global Islamic Insurances Contributions (USD billion) (2014-2022)



Source: Islamic Financial Services Industry Stability Report 2023

The global Islamic Insurances industry recorded a year-on-year contributions growth of 16.1% in 2022 to reach USD 30 billion, far exceeding the annual growth of 5.4% attained in 2021. Over the past 12-year period (2011–22), the industry has grown at a compound average growth rate of 6.4%. The top seven markets, which generated roughly 95% of global contributions, are Saudi Arabia, Iran, Sudan, Brunei, Malaysia, and Indonesia.

Figure 5: Assets under Management and Number of Islamic Funds (USD billion)



Source: Islamic Financial Services Industry Stability Report 2023

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. 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 38th COMCEC Session, the COMCEC Financial Cooperation Working Group elaborated on the Improving Cooperation among Central Banks in Terms of Digital Currencies: Challenges and Prospects for OIC Member Countries in its 19th and 20th Meetings.

Improving Cooperation among Central Banks in Terms of Digital Currencies: Challenges and Prospects for OIC Member Countries

(19th and 20th Meetings of the Financial Cooperation Working Group)

The 19th Meeting of the COMCEC Financial Cooperation Working Group (FCWG) was held on May 9th, 2023, in a virtual-only format with the theme of “Improving Cooperation among Central Banks in Terms of Digital Currencies: Challenges and Prospects for OIC Member Countries”. The first draft version of the report along with a country case was submitted to the 19th FCWG meeting and the final version of the report was submitted to the 20th FWG meeting held on the 9-10 October 2023 in Ankara, at CPAnkara Hotel, Türkiye.

The main objective of this report is to provide an analysis and elaboration on (i) digital currencies, ii) the current initiatives in different jurisdictions on CBDCs, with a particular focus on the initiatives in OIC member countries, iii) the roles and responsibilities among government institutions for introducing and regulating digital currencies, iv) the challenges and prospects of digital currencies for OIC member countries. The report has elaborated and analysed the recent global and local initiatives and issues on digital currencies.

Furthermore, the 20th Meeting of Financial Cooperation Working Group has come up with the following policy recommendations to be submitted to the COMCEC Ministerial Session.

- Establishing a project management/steering committee and identifying the objectives and use cases for CBDCs in consultation with a wide range of relevant stakeholders (government bodies, financial institutions, universities, think tanks, civil society organizations etc.) to build a digital ecosystem that is interoperable with existing payment system(s), increase financial inclusion and improve monetary policy transmission

- Developing legal framework and regulatory compliance / regulatory approval and oversight for ensuring legal clarity, risk management, consumer protection and Central Bank's role
- Setting-up a dedicated task force including Central Bank specialists to identify the right technology stack for the CBDCs (i.e. for providing security, efficiency, scalability, interoperability etc.)
- Designing and developing of CBDCs with extensive testing and pilot studies by Central Banks in consultation with technology experts and relevant stakeholders
- Developing policies/strategies/programs for ensuring security and privacy in order to protect user data and transactions, and to balance privacy and legal requirements
- Facilitating the access of the public to the CBDCs through user-friendly distribution channels in collaboration with financial institutions
- Enhancing monetary transmission mechanism, and improving monetary policy effectiveness and financial stability through the CBDCs
- Developing a comprehensive public relations and communication strategy (i.e. mobile applications) to enhance user capacities and raise awareness about CBDC usage, benefits, and security
- Developing/improving sound monitoring and maintenance mechanisms for gathering insights about the CBDC's performance
- Promoting cross-border CBDC utilization by enhancing international cooperation between Central Banks and international organizations through standards and protocols

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 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 10th Call for Project Proposals, SESRIC has implemented the project called "Unleashing the Potential of Islamic Finance in Supporting MSMEs in the OIC Member Countries" for the benefit of 23 Member Countries. The project aims at contributing to the efforts put by OIC member countries towards improving the role of Islamic Finance in supporting microenterprises and SMEs in post pandemic period. A workshop on "Promoting Islamic Social Finance and Accelerating the Growth of Halal Value Chain Ecosystems" was held in Kuala Lumpur on 20-21 September 2023 with the participation of 44 high-level participants from relevant departments of Central Banks and financial institutions. Also, a virtual training namely "Leveraging Key Stakeholders towards Inclusive and Sustainable Development of MSMEs" was conducted on 24-26 October 2023 .

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 17th Meeting of the Forum was virtually held on October 31st, 2023. Along with the efforts to increase cooperation between stock exchanges, the Forum has realized some important projects such as the OIC/COMCEC Index Fund. According to relevant resolutions of the 38th COMCEC Session and 39th Follow-up Committee Meeting, Member States have been invited to support active promotional and marketing activities for potential investors and the financial community in their respective countries to raise awareness about the S&P OIC/COMCEC Shariah International Fund, launched under the coordination of the OIC Stock Exchanges Forum, which includes shares of the OIC COMCEC 50 Shariah Index.
- The Forum has also been working on Gold Exchange Initiative for the OIC Member Countries. According to relevant resolutions of the 38th COMCEC Session and 39th Follow-up Committee Meeting, the Forum Secretariat is expected to advance the technical preparations on the new blockchain-based model for the OIC Gold Exchange Project in cooperation with central banks, and report to progress the 39th Session of the COMCEC. Furthermore, the Member States and their relevant institutions have been invited to actively support Forum's Task Force on Precious Metals by finding counterparts and designating focal points in their respective countries to lead the OIC Gold Exchange Project in order to contribute to the formulation of the business model for a well-functioning OIC Gold Exchange Market. The detailed information regarding the activities of the Forum is available on www.oicexchanges.org.
- **The COMCEC Capital Markets 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 12th Meeting of the COMCEC Capital Market Regulators Forum was virtually held on 6-7 November 2023. Regarding the relevant resolutions of the 38th COMCEC Session and 39th Follow-up Committee Meeting, it is requested 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 5th Meeting of the Forum was held on September 24th-25th, 2023, in İstanbul, Türkiye. The details regarding the Forum activities are available on the Forum website. (www.comceccentralbanks.org)
