



DRAFT POLICY RECOMMENDATIONS OF THE 24TH MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP

The policy recommendations in this document have been thoroughly discussed and formulated during the policy debate session of the 24th Meeting of the Financial Cooperation Working Group, on 18 September 2025.

Policy Recommendation 1: Strengthening legal and regulatory frameworks to enable the effective integration of green, climate-and Disaster Risk Reduction (DRR) - linked Islamic finance instruments into national financial systems

Rationale:

A lack of harmonized and transparent regulations may constrain the effective integration of green and climate-linked Islamic finance into national financial systems. To help address this, regulatory and supervisory frameworks could be enhanced through the introduction of specific provisions for instruments such as green sukuk, aligned with international environmental, social, and governance (ESG) standards, as well as enabling Islamic financing instruments to be implemented within their institutional logics, to prevent their impact on environmental degradation. In extending financing lines, in the project evaluation process, the eligible projects may be more clearly defined, reporting requirements could be standardized, and third-party verification could be encouraged. Moreover, the integration of green sukuk and similar products into national financing strategies may contribute to embedding climate considerations into financial planning and reinforcing resilience and credibility.

Policy Recommendation 2: Promoting diversification and market development of Shari'ah-compliant green financial instruments by simplifying issuance processes, fostering innovation (e.g., resilience-linked sukuk, ESG-compliant contracts), and introducing regulatory incentives to attract investments

Rationale:

The limited availability of Shari'ah-compliant green financial products may hinder Islamic finance's ability to mobilize resources for climate action and DRR. Encouraging product diversification and market-driven innovation can be achieved by simplifying sukuk issuance procedures, creating pipelines of eligible projects, and raising awareness among market participants. Consideration of innovative structures- such as resilience-linked sukuk, ESG-compliant innovative Islamic financing contracts, Shari'ah-compliant carbon emission products, and blended finance- could also attract investment. Moreover, fiscal and regulatory incentives, including temporary tax breaks or preferential treatment for green assets, can further promote the development and adoption of climate-focused Islamic financial products.

Policy Recommendation 3: Developing/improving fiscal and macroprudential incentives, fostering public-private partnerships, and leveraging Islamic financial instruments to scale climate and DRR-aligned investments

Rationale:

The absence of effective incentive mechanisms and limited cross-sector collaboration may reduce the scalability of climate-aligned investments. These issues could be mitigated through fiscal and macroprudential incentives- such as temporary tax benefits and credit guarantees- as well as microprudential incentives to encourage green product development. Building co-investment platforms and fostering public-private partnerships may help de-risk projects and facilitate knowledge sharing. In this regard, coordinated action involving public authorities, Islamic financial institutions, and private sector participants could contribute to generating robust project pipelines and scaling up investment flows. Islamic financial instruments such as green sukuk, takaful, re-takaful, and Islamic social finance tools should be incorporated into the national financial agenda to scale up climate and DRR-aligned investments to harness Islamic finance for sustainable development.

Policy Recommendation 4: Strengthening green Islamic finance by developing secondary sukuk markets, enhancing transparency, and leveraging fintech and blockchain to improve traceability and impact measurement

Rationale:

Weak market infrastructure and limited transparency may hinder the growth and credibility of green Islamic financial instruments. To address these challenges, secondary markets for green sukuk could be developed through trading platforms, market-makers, and disclosure requirements to improve liquidity and investor access. Standardized reporting and independent certification mechanisms may also be introduced to enhance accountability. In addition, leveraging technological solutions such as fintech, regtech, and blockchain could streamline product issuance, strengthen traceability, and enable more accurate measurement of environmental and social impacts. In developing such an opportunity space, Islamic financing instruments should be allowed to operate within their inherently moral conditions to deliver ESG-driven outcomes rather than treating them as any other financing instruments.

Policy Recommendation 5: Ensuring adequate standardized data availability and developing frameworks to enable effective risk assessment, policy-making, and disaster risk reduction

Rationale:

Reliable and comprehensive data is essential for evaluating climate-related risks, including natural disasters, and developing effective policies. National regulators need to focus on data governance frameworks that facilitate systematic data collection and the creation of climate data repositories. These frameworks should adhere to international standards and include key aspects such as risk factors, institutional exposures, mitigation measures, and policy-relevant indicators, all of which are crucial for climate risk assessment, DRR, and informed decision-making.

Policy Recommendation 6: Leveraging Islamic social finance, including waqf and zakat, and digital innovation to support climate action and disaster resilience

Rationale:

Islamic social finance institutions and instruments, such as waqf and zakat, have significant untapped potential to support climate mitigation and resilience efforts. They can be tailored to address different stages of the climate cycle, such as post-disaster recovery, and promote development across various sectors, including social services, education, health, sanitation, economic activities, and sustainable infrastructure. Incorporating digitalization and innovative approaches can boost their reach and impact, as long as these mechanisms are backed by strong governance and transparent operations. By embedding Shari'ah-based values into financing, Islamic finance can be positioned as a genuine alternative that contributes to sustainable and climate-resilient development due to its inherent and intrinsic sustainable development nature. Islamic finance should, therefore, be given an opportunity to gradually realign with its moral-political economy principles, which prioritise justice, balance (*mizan*), and stewardship, leading to a paradigm of complementarity and unity (*tawhid*), thereby implementing the inherently sustainable development nature of Islamic finance. This may involve developing tailored regulations and standards for Islamic finance by framing within *maqasid al-Shari'ah* that prevent financialization and emphasize long-term social and environmental responsibility.

Instruments to Realize the Policy Recommendations:

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 Forums: Adopted policy recommendations can be further elaborated on in the COMCEC Forum Meetings and their Task Forces.

COMCEC Project Funding: Under the COMCEC Project Support Programs, the COMCEC Coordination Office issues an annual call for project proposals. Through these programs, Member Countries participating in the Working Groups can submit multilateral cooperation projects to be funded by grants from the COMCEC Coordination Office. To implement the policy recommendations mentioned above, Member Countries can use the COMCEC Project Support Programs facility. These projects may include organizing seminars, trainings, study visits, exchange of experts, workshops, and preparing analytical studies, needs assessments, and training materials or documents.