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

COMCEC FINANCIAL OUTLOOK 2023

COMCEC COORDINATION OFFICE
October 2023

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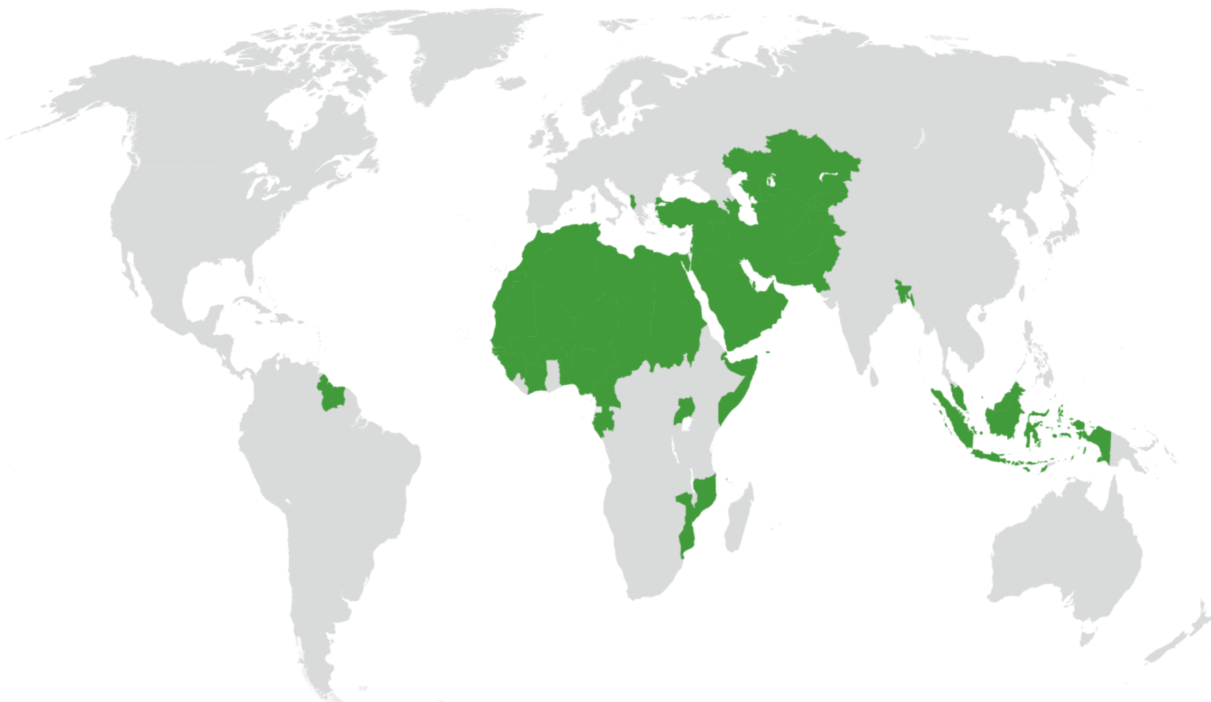

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PREFACE

The COMCEC Outlooks are prepared in each cooperation area to explore the global trends and the current situation in the OIC Member Countries in the respective area and enrich the discussions during the Working Groups Meetings by providing up-to-date data.

The COMCEC Financial Outlook 2023 is prepared by Assoc. Prof. Mücahit ÖZDEMİR to present a general outlook of the financial system of the OIC Member Countries, highlighting the potential areas for cooperation as well as evaluating the recent developments in the global economic and financial system.

Views and opinions expressed in the report are solely those of the author and do not represent the official views of the COMCEC Coordination Office (CCO) or the Member States of the Organization of Islamic Cooperation. The final version of the report is available on the COMCEC website.[1] The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the COMCEC/CCO concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its political regime or frontiers or boundaries. Designations such as "developed," "industrialized," and "developing" are intended for statistical convenience and do not necessarily express a judgment about the state reached by a particular country or area in the development process.

[1] E-book: http://ebook.comcec.org

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ABBREVIATIONS

AuM	Assets under management
BIS	Bank for International Settlement
COMCEC	Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GNI	Gross National Income
IFSI	Islamic Financial Services Industry
MESA	The Middle East and South Asia
NPL	Non-Performing Loans to Gross Loans
OIC	Organization of the Islamic Cooperation
OIC-HIGH	OIC-High Income Group
OIC-LIG	OIC-Low Income Group
OIC-LMIG	OIC Lower Middle-Income Group
OIC-UMIG	OIC-Upper Middle-Income Group
ROA	Return on Asset
ROE	Return on Equity

INTRODUCTION

As a large regional international organization, COMCEC is one of the four standing committees of the OIC responsible for enhancing economic and commercial cooperation among the Member States. Since the commencement of its activities in 1984, COMCEC has initiated many programs and projects towards improving financial cooperation among the OIC Member States. Besides, the COMCEC Strategy identified financial cooperation as one of the significant cooperation areas and envisaged the establishment of the Financial Cooperation Working Group as an essential instrument for strengthening financial cooperation among member countries. Furthermore, cooperation among the Stock Exchanges, Capital Market Regulators and Central Banks, and Monetary Authorities of the Member States are other crucial ongoing initiatives in financial cooperation under the COMCEC.

Financial Outlook has been prepared in order to provide an overview of the financial system of the OIC member countries by emphasizing the recent global economic and financial developments.

The outlook comprises three main sections: the first section gives a general overview of the financial system of the OIC member countries. It outlines financial depth, access, efficiency, and stability in addition to the weaknesses and strengths according to selected financial indicators. In this Outlook, the OIC member countries are classified according to their income levels. The second section briefly addresses the Islamic finance industry. The third section underlines the cooperation efforts under the COMCEC Strategy and the ongoing activities under the COMCEC in this field.

1. FINANCIAL OUTLOOK OF THE OIC MEMBER COUNTRIES

Financial markets have crucial roles for 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 (Hanson & Ramachandran, 1990). Hence, financial markets started to be liberalized in the 1980s and 1990s, and the role of the markets in 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.

Some of the main functions of a financial system are identified as "the trading of risk, allocating capital, monitoring managers, mobilizing savings, and easing the trading of goods, services, and financial contracts" (Levine, 1997, p. 689). For the financial sector to contribute to the growth, the industry itself has to be resilient and be able to reduce its vulnerabilities. Given the complexity and dynamism of modern financial products and markets, appropriate institutions are needed to reduce the risks and vulnerabilities that can lead to severe and costly economic downturns (COMCEC, 2016).

The financial sector is significantly connected to the overall institutional framework in a country. Given that intertemporal financial transactions make it one of the most institution-sensitive sectors, a financial system can only thrive in an environment with active institutions that reduce agency conflicts between contract parties. There might also be reverse influences from a thriving financial sector to the institutional strengthening of a country (Beck, 2016).

A financial system consists of institutional units and markets that interact to mobilize funds for investment and provide facilities for the financing of commercial activity. The role of financial institutions within the system is primarily to intermediate between those that provide funds and those that need funds, and typically involves transforming and managing risk. In this regard, the financial system has significant effects on whole economic systems, and a healthy financial system contributes to economic growth by easing access to finance, increasing financial literacy, and allocating resources efficiently.

In order to achieve a well-functioning system, financial markets require depth, access, efficiency, and stability. Depth means that financial institutions and financial markets are a sufficient size. Access reflects the degree to which economic agents use financial services. Efficiency means that financial institutions can successfully intermediate financial resources and facilitate transactions. Finally, stability refers to low market volatility plus low institutional fragility.

These characteristics of the market have been measured by using particular indicators to compare financial systems across countries and over time (Čihák et al., 2012).

In this regard, the purpose of this outlook is to shed light on recent financial developments by using the characteristics as mentioned above of the financial markets and to analyze the financial markets of the OIC countries over time.

The outlook utilizes several measures of the following four characteristics of financial institutions and markets to measure and benchmark financial systems:

(a) Financial Depth: Measures the size of financial institutions and markets,

(b) Financial Access: Measures the degree to which individuals can and do use financial institutions and markets,

(c) Financial Efficiency: Measures the efficiency of financial institutions and markets in providing financial services,

(d) Financial Stability: Measures the stability of financial institutions and markets in order to measure and benchmark financial systems in the OIC region (Čihák et al., 2012).

Although the above-referred study of the World Bank has developed several measures to compare the characteristics of the financial markets, the following indicators are selected to analyze the four measures of the financial markets in the OIC countries, as depicted in Table 1.

Table 1: Selected Financial Data on the OIC Member States

CATEGORY	INDICATOR CODE	NAME OF THE INDICATOR
ACCESS	GFDD.AI.01	Bank accounts per 1,000 adults
	GFDD.AI.02	Bank branches per 100,000 adults
	GFDD.AM.02	Market capitalization excluding top 10 companies to total market capitalization (%)
DEPTH	GFDD.DI.01	Private credit by deposit money banks to GDP (%)
	GFDD.DI.02	Deposit money banks' assets to GDP (%)
	GFDD.DM.01	Stock market capitalization to GDP (%)
EFFICIENCY	GFDD.EI.02	Bank lending-deposit spread
	GFDD.EI.05	Bank return on assets (%, after-tax)
	GFDD.EI.06	Bank return on equity (%, after-tax)
STABILITY	GFDD.SI.02	Bank non-performing loans to gross loans (%)
	GFDD.SI.03	Bank capital to total assets (%)
	GFDD.SI.05	Bank regulatory capital to risk-weighted assets (%)

Source: World Bank Global Financial Development Database (September 2022 Version)

In this Financial Outlook, OIC Member Countries have been categorized into four major groups based on the World Bank Income Grouping Methodology (according to their GNP per capita levels). According to this categorization, which is updated with 2022 figures, 14 countries [2021: 15] are in the OIC Low Income Group (OIC-LIG); 21 [2021: 21] are in the OIC Lower Middle Income Group (OIC-LMIG); 13 [2021: 13] are in OIC Upper Middle Income Group (OIC-UMIG), and eight [2021: 7] are in OIC High Income Group (OIC-HIGH) as shown in Table 2[2].

Table 2: Categorization of OIC Member States

CATEGORY	COUNTRIES	NUMBER OF COUNTRIES
OIC-Low income group (1,085 USD or less)	Afghanistan, Burkina Faso, Chad, Gambia The, Guinea-Bissau, Mali, Mozambique, Niger, Sierra Leone, Somalia, Sudan, Togo, Uganda, Yemen	14
OIC-Lower middle income group (1,086 USD to 4,255 USD)	Algeria, Bangladesh, Benin, Cameroon, Comoros, Cote d'Ivoire, Djibouti, Arab Rep. of Egypt, **Guinea**, Iran, **Jordan**, Kyrgyz Republic, Lebanon, Mauritania, Morocco, Nigeria, Pakistan, Senegal, Tajikistan, Tunisia, Uzbekistan	21
OIC-Upper middle income (4,256 USD to 13,205 USD)	Albania, Azerbaijan, Gabon, **Indonesia**, Iraq, Kazakhstan, Libya, Malaysia, Maldives, **Palestine**, Suriname, Turkey, Turkmenistan	13
OIC-High income group (13,205 USD or more)	Bahrain, Brunei Darussalam, **Guyana**, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates	8

Source: Composed by the author according to the latest available classification of World Bank 2023, https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups, access date: 28 September 2023. *Note:* Upgraded and downgraded countries are shown in green and red, respectively.

Four out of 56 OIC member countries succeeded in moving up to the higher categories in 2022 compared to 2021. Guinea had been in the OIC-LIG since 1987 (the oldest reported year by the World Bank); however, the country achieved to move to OIC-LMIG in 2022. Indonesia and Palestine advanced from OIC-LMIG to OIC-UMIG in 2022. Notably, Palestine upgraded from OIC-LMIG to a higher income category for the first time since 1994 (the oldest data for this country). Guyana is the last country to achieve progress in 2022 by moving to the top category, OIC-HIG. The country had been in the OIC-UMIG since 2015 and became the first country for 15 years

[2] A full list of the OIC member country groups based on income levels from 2013 to 2022 is also provided in the appendix. It should be noted that the analysis of the four characteristics of financial institutions and markets (depth, access, efficiency, and stability) for each OIC income level group have been conducted according to classifications for 2013-2020 due to the latest available data in World Bank Financial Development Database. The classifications for each year between 2013 to 2022 are given as a reference to understand the recent changes in the groups of OIC member countries.

(Oman moved up to this category in 2007) years to be classified in the OIC-HG with Bahrain, Brunei Darussalam, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

On the other hand, Jordan is the only OIC member country that fell into a lower category in 2022. compared to 2021. The country, which had been in OIC-UMIG since 2017, moved to the lower category, OIC-LMIG.

While quite a number of indicators are produced to measure the performances of financial institutions and markets, the data limitation, especially for the low-income and lower-middle-income group of the OIC countries, have led to employ a few benchmarks to assess the financial markets. These four characteristics of financial institutions and markets (depth, access, efficiency, and stability) with 12 indicators are used to capture financial systems' features and provide the empirical shape of the financial development in the OIC countries. The figures have been composed with the data from the latest World Bank Global Financial Development Database, which was updated in September 2022[3] to analyze the recent developments in the financial markets in OIC countries. Historical coverage of the database is from 1960 to 2021; however, there are several yearly missing data for each indicator for many countries, including OIC member countries. The last eight years' figures (2013-2020) have been used to make the analysis more reliable. Also, OIC countries have been examined in terms of income level groups each year rather than country-based analysis; therefore, the figures indicate average values of available data for the four income categories. Data availability and accuracy are essential for developing a meaningful analysis in the financial sector. For the OIC countries, the lack of accurate and sufficient data for low-income group countries of the OIC is the main challenge while gathering data.

1.1 Financial Access

Financial access (inclusion) can briefly be defined as the use of financial services by individuals and firms. Financial access helps people and corporations benefit from new business opportunities, invest more in education, save for the future, insure against various risks, etc. This topic has been of growing interest worldwide and is considered one of the main areas, particularly in emerging markets and developing economies, for the further development of financial markets. The benefits of financial intermediation and markets are believed not to be used by all sectors and populations, resulting in adverse effects on inclusive economic growth, poverty alleviation, income distribution, efficient allocation of resources, etc.

Čihák et al. (2012, p. 12) highlight the importance of financial access to the different groups of economic units as follows: "A well-functioning financial system allocates capital based on the expected quality of the project and entrepreneur, not on the accumulated wealth and social connections of the entrepreneur". A well-functioning financial system that overcomes market frictions will more effectively provide financial services to a wide range of firms and households, not just large companies and wealthy individuals. Thus, to develop informative proxies of

[3] Although the September 2022 database includes 2021 data for some countries, the available data is not enough for OIC member countries. Therefore, the report covers 2020 figures in the database and updated previous statistics in the database for the earlier years (2013-2019).

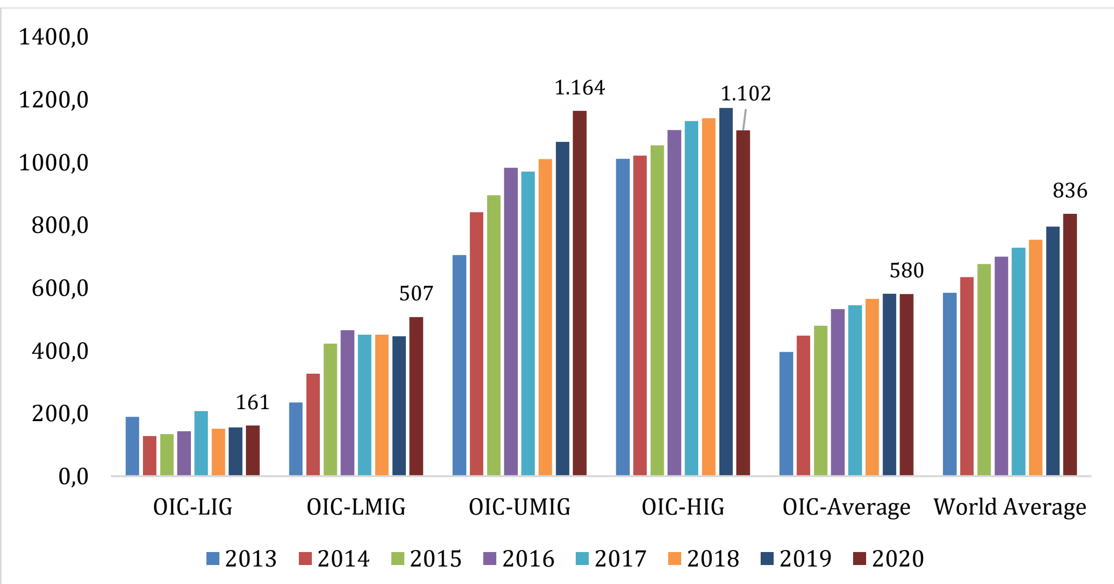
financial development, it is helpful to move beyond the financial depth and include indicators of financial access—the degree to which the public can access financial services.

A typical proxy variable of access to financial institutions is the number of bank accounts per 1,000 adults. Other variables in this category include the number of bank branches per 100,000 adults (commercial banks), the percentage of firms with a line of credit. When using these proxies, the following points should be kept in mind regarding their weaknesses: the number of bank branches is becoming misleading with the move towards branchless banking. The number of bank accounts does not suffer from the same issue, but it has its own limitations (in particular, it focuses on banks only and does not correct because some bank clients have numerous accounts) (Čihák et al., 2012).

Bank accounts per 1,000 adults is one of the leading indicators of access to financial services, which refers to 'the number of depositors with commercial banks per 1,000 adults'. As a result of the underdeveloped nature of economic and financial markets as well as the low level of financial inclusion, this level for low-income group countries has been lagging behind the world averages significantly.

While the world average was recorded as 836 in 2020, the OIC-LIG was realized as 161 in the same year (Figure 1). The level of bank accounts opened by adults in OIC-HIG and OIC-UMIG countries, which have exceeded the world averages significantly, was recorded as 1,102 and 1,164, respectively. This indicates a close correlation between economic growth, income level, and banking activities in a particular country. These figures indicate that the low-income group of OIC countries needs to develop their markets to increase financial inclusion to support their economic growth and poverty reduction.

Figure 1: Bank Accounts per 1,000 Adults

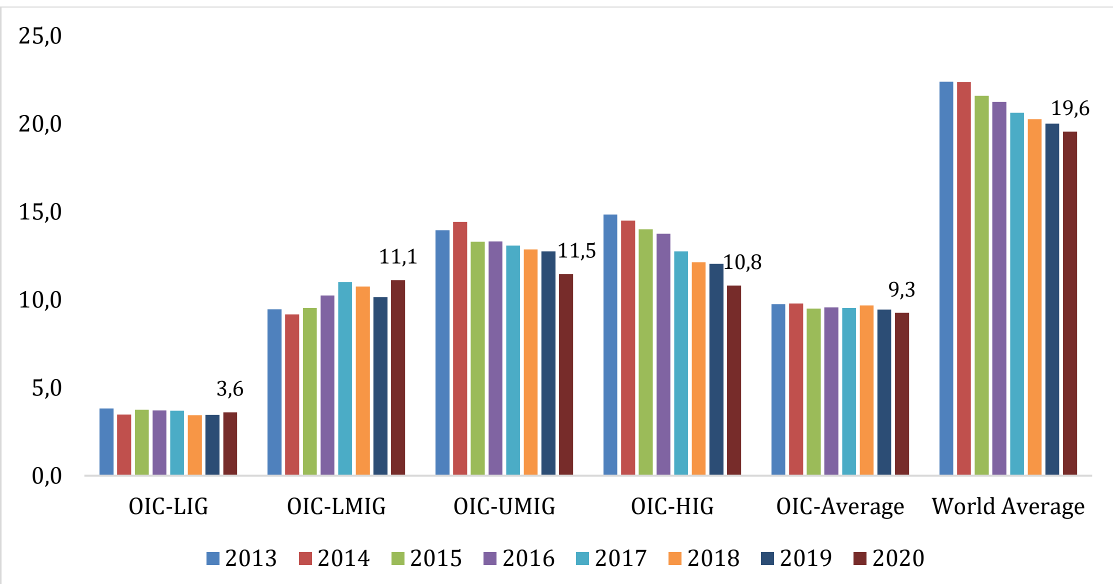


Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

Another indicator used to measure financial access is **the number of bank branches per 100,000 adults,** which refers to the number of commercial bank branches per 100,000 adults in an economy.

As depicted in Figure 2, the number of bank branches is consistent with the bank account as both indicate a low level of financial access recorded for the low-income group of OIC countries, which reached 3.6 branches per 100,000 adults in 2020, while the world average realized as 19.6 in the same year. Unlike the previous indicator, the UMIG and HIG groups of the OIC have shown lower performance than the world averages across the selected period. Although the financial markets and instruments have recorded considerable growth and diversified significantly over the years, the branches have not increased in parallel and even decreased for high-income countries in line with the trend in the world average. Among other factors, this can be explained by the widespread usage of branchless/internet banking. Also, it shows that high-income countries have already reached a peak in terms of branches and are going to more online branches. On the other hand, the policymakers in the low-income group countries should focus on enhancing banking activities and access to financial markets by investing in branchless banking initiatives that have emerged as a cost-effective option in recent years.

Figure 2: Bank Branches per 100,000 Adults

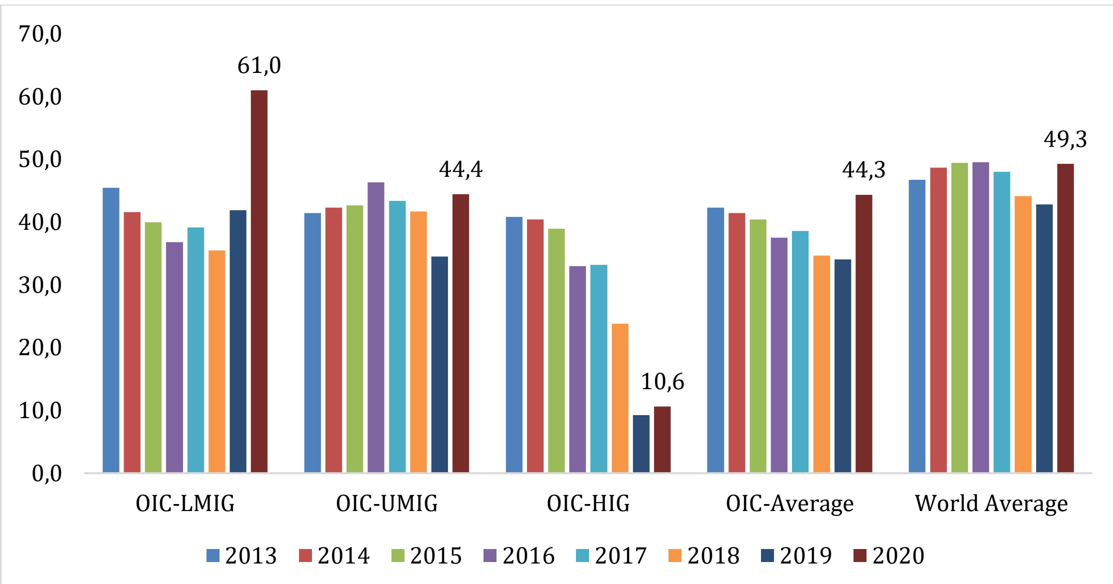


Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

Data on access to financial markets are more limited. The data is scant, especially for countries with low-income and undeveloped stock exchange markets. Measures of market concentration are utilized to understand the level of access to stock and bond markets. Here we used the **Market capitalization excluding top 10 companies to total market capitalization (%)** to approximate access to financial markets. This ratio is calculated as 'value of listed shares outside the ten largest companies to the total value of all listed shares'.

The world average fluctuated around 45-49 percent from 2013 to 2020 (Figure 3). As for the OIC countries, the ratios for all groups increased in 2020. As this ratio increases across the countries and country groups, it should be interpreted that the value of outstanding shares of comparatively smaller companies is increasing in the market and meaning access to the market is affected positively. Because the data is available only for those countries whose markets have the maturity as well as the undeveloped nature of stock exchanges in the OIC countries, it is understandable to have smaller shares in OIC states compared to the world averages.

Figure 3: Market Capitalization Excluding Top 10 Companies to Total Market Capitalization (%)



Source: Author's calculation from the World Bank Global Financial Development Database (November 2021 Version)

As a result, in terms of financial efficiency, the OIC averages for the selected indicators have been found around the world averages over the years chosen. As mentioned earlier, there is a close correlation between economic development, income level, and financial access. Therefore, the findings of the indicators under this characteristic sign that as the economies develop, financial access increases in parallel. OIC countries' high and upper-middle-income groups have performed much better than others. In this regard, the policies towards promoting financial access should focus on the low-income group countries as well as on the groups of financially deprived segments of other group countries.

1.2 Financial Depth

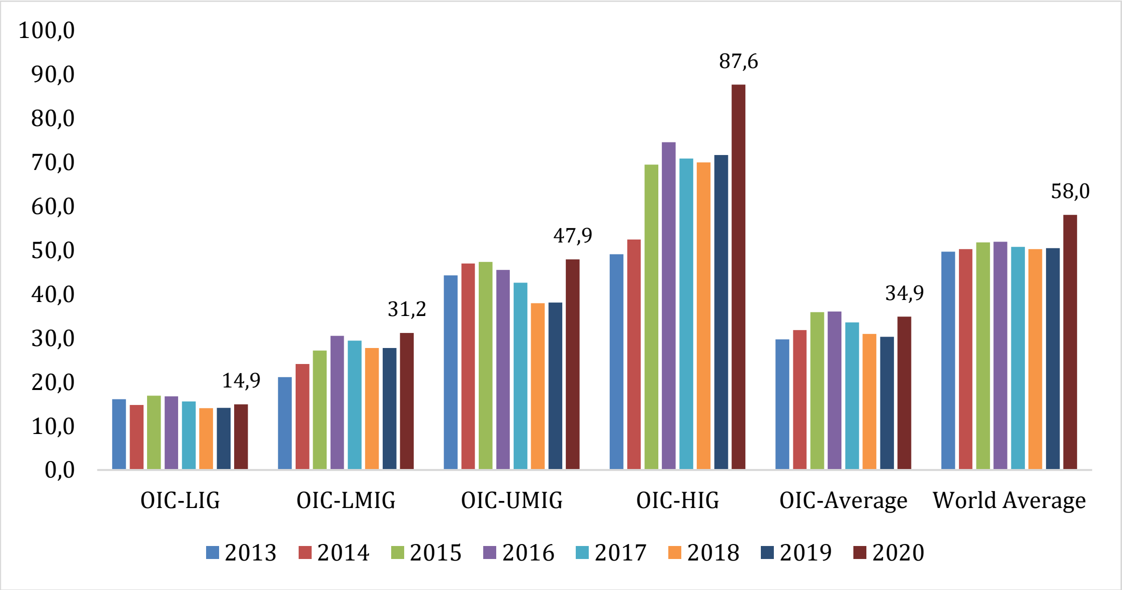
A reasonable level of financial depth is one of the crucial fundamentals for well-functioning financial markets and institutions to reach the desired role of finance in an economy to lead to economic growth, prosperity, and poverty reduction. As the financial institutions and markets are deepened, financial services have been diversified and sophisticated for financial consumers.

Financial depth captures the size of the financial sector relative to the economy. It is the size of banks, other financial institutions, and financial markets in a country compared to a measure of economic output. The most commonly used variable to measure the depth of the markets and institutions is private credit relative to the GDP. Private credit excludes credit issued to governments, government agencies, and public enterprises. It also excludes credit issued by central banks. An alternative to private credit to GDP is total banking assets to GDP, a variable that is also included in the Global Financial Development Database. It could be accepted as a more comprehensive measure of size because it includes not only credit to the private sector but also credit to the government as well as bank assets other than credit. However, it is available for a smaller number of economies and has been used less extensively in the literature on financial development (World Bank, 2020). In order to measure the depth, private credit by deposit money banks to GDP, deposit money banks' assets to GDP, and stock market capitalization to GDP were used.

Private credit by deposit money banks to GDP refers to the financial resources provided to the private sector by domestic money banks as a share of GDP. Domestic money banks comprise commercial banks and other financial institutions that accept transferable deposits, such as demand deposits. Since the role of the private sector in economic growth has been increasing all over the world, this indicator provides a valuable measure of how financial markets and institutions are used and affect the economy in terms of size. Empirical research has shown that economies with better-developed banking and credit system tend to grow faster over long periods (Demirguc-Kunt & Levine, 2008). In this regard, the domestic credit to the private sector to GDP ratio is a significant indicator to measure the financial depth of any country.

As shown in Figure 4, the OIC average of the private sector credit given by the domestic banks as a share of GDP is significantly lower than the world average, and it indicates the underdeveloped nature of the private sector in the OIC countries. The OIC average in 2020 reached 34.9%, while the world average for the same period realized 58.0%. The rates have differed significantly across different income groups among the OIC countries. As seen from the graph below and as expected from the level of economic development, OIC-LIG and OIC-LMIG countries have low levels of private credits from the banking sector. OIC average has fluctuated for the last eight years. Especially the rates for the OIC-HIG countries have increased significantly over the years, surpassing the world average and reaching 87.6% in 2020. As a result, it is found that there is a considerable gap between the world and the OIC Member States average. The figures indicate the underdeveloped nature of the private sector and banking. This issue can be seen as an essential obstacle to the investment and economic growth of the OIC member countries.

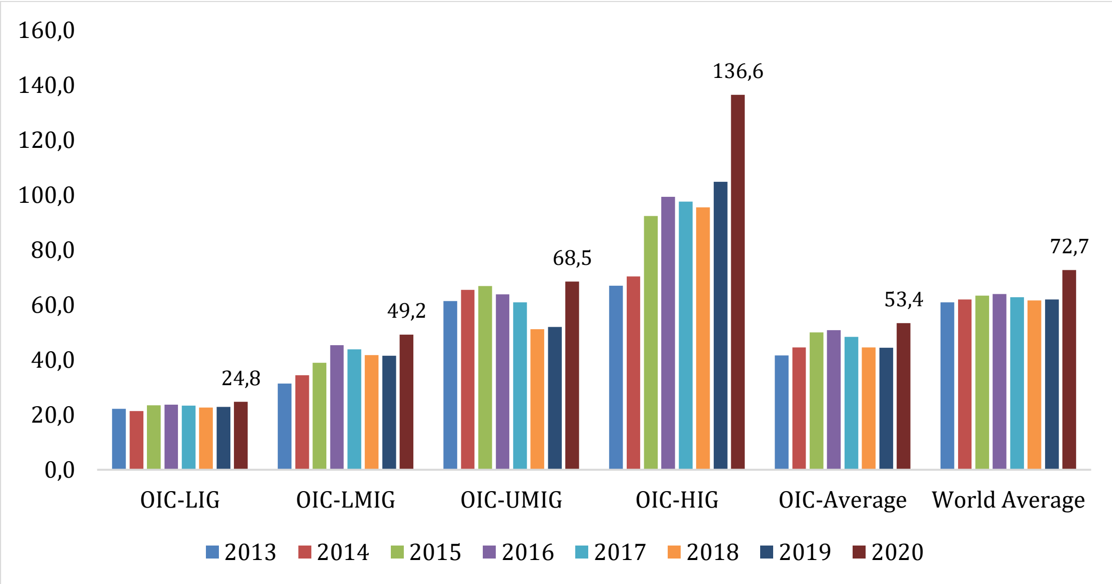
Figure 4: Private Credit by Deposit Money Banks to GDP (%)



Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

Deposit money banks' assets as a share of GDP is another indicator used to measure the depth of financial institutions and markets. According to the World Bank (2019), this measure refers to total assets held by deposit money banks as a share of GDP, and assets include claims on the domestic real nonfinancial sector, including central, state, and local governments, nonfinancial public enterprises, and the private sector. Compared to private credit, this indicator also includes credit to government and bank assets other than credit. The results for the OIC average and various income groups are similar to the previous indicator. As shown in Figure 5, the OIC average fluctuated over the years and was below the world average. On the other hand, the OIC-HIG group has surpassed, and OIC-UMIG moved closer to the world averages in recent years. Since this indicator includes the banks' claims on the government, the results for these two groups indicate the increasing role of the government in using financial markets more than the low-income groups. It is also noted that the positive development path of the OIC-LIG income started again in 2020.

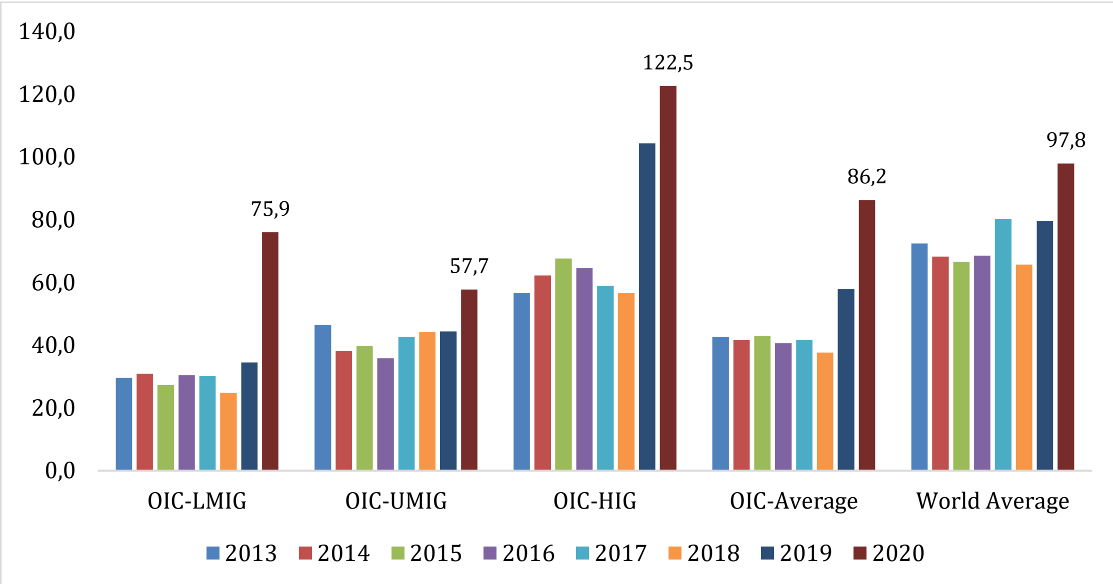
Figure 5: Deposit Money Banks' Assets to GDP (%)



Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

In order to measure the depth of the financial markets, stock and bond markets could be used as an indicator. To approximate the size of the stock markets, the most common choice in the literature is stock market capitalization to GDP (Čihák et al., 2012). This indicator refers to the total value of all listed shares in a stock market as a percentage of GDP. Regarding this indicator, the low-income group of OIC member countries does not have data; therefore, the analysis is conducted on the rest of the country groups. The world average recorded significant growth in 2020 and reached 97.8%. Although the OIC average was significantly lower than the world average in the previous years, the gap narrowed with the notable increase in the OIC average in 2020. The recent rise stemmed from the data of Saudi Arabia, which increased from 63.1 in 2018 to 303.5 in 2019 and continued in 2020. One of the factors behind the significant increase in the Stock Market Capitalization to GDP ratio of Saudi Arabia was the public offering of Aramco, one of the largest companies in the world, in 2019. The same effect of Saudi Arabia's data was also valid for OIC-HIG.

Figure 6: Stock Market Capitalization to GDP (%)



Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

A well-established, stable, and functioning stock market will ease the accumulation and attraction of long-term capital for sustainable economic growth and development. The stock market has a crucial role in financial markets, and the smooth functioning stock market is accepted as a substantial condition for financial sector evolution. This is also considered a prerequisite to sustainable economic growth and development that makes the national economy to enhance more foreign investors. A well-functioning stock market plays a vital role in encouraging liquidity, mobilizing and assembling savings, producing information for prospective investments and capital allocation. Therefore, it is accepted that the existence of an active and stable stock market can stimulate the rate of economic growth (Azam, Haseeb, Samsi, & Raji, 2016).

As a result, as highlighted in the literature, macroeconomic and institutional factors play an important role in stock market development. Macroeconomic factors such as real income, developments in the banking sector, interest rates, private capital flows, inflation, and exchange rates have effects on stock market development. As for the institutional factors, legal environment, regulations, legal protection of investors, corporate governance, financial liberalization, trade openness, etc., an economy can affect the development of the stock market. As the stock markets consist of various financial instruments such as securities, public and corporate bonds, future and option contracts, a stable and well-functioning stock market helps attract foreign investors. The findings and analysis of these two indicators, stock market capitalization and stock market total value traded, show that stock markets in the OIC Member

States have a potential for further expansion to enhance and enlarge the development of the markets to meet the financing need of corporations.

The OIC countries have shown significant fluctuations among various income groups over the selected period in terms of financial depth. While the high-income and upper-middle-income countries have performed better than the other groups, the averages of the indicator for other groups have been recorded below than world averages.

1.3 Financial Efficiency

The structure and operation of the financial system have undergone remarkable changes in the past couple of decades due to significant improvements in technology, product innovation, and integration in the global financial system, competition in financial services, and policy, regulatory, and trade reforms. These developments have led to dynamic and sophisticated global financial markets and fostered economic growth; at the same time, however, specific problems and issues have plagued the financial system (OECD, 2010). In this regard, among other characteristics, the efficiency of the financial intermediaries and markets has emerged as an essential tool for understanding the financial system.

As for intermediaries, efficiency is primarily constructed to measure the cost of intermediating credit. Efficiency measures for institutions include indicators such as overhead costs to total assets, net interest margin, lending-deposits spread, non-interest income to total income, and cost to income ratio, return on assets, and return on equity, etc. Regarding financial markets, efficiency measures focus less on directly measuring the cost of transactions and more on measuring transactions. A primary measure of efficiency in the stock market is the turnover ratio. The logic of using this variable is that the higher the turnover (the more liquidity), the more efficient the market (Čihák et al., 2012).

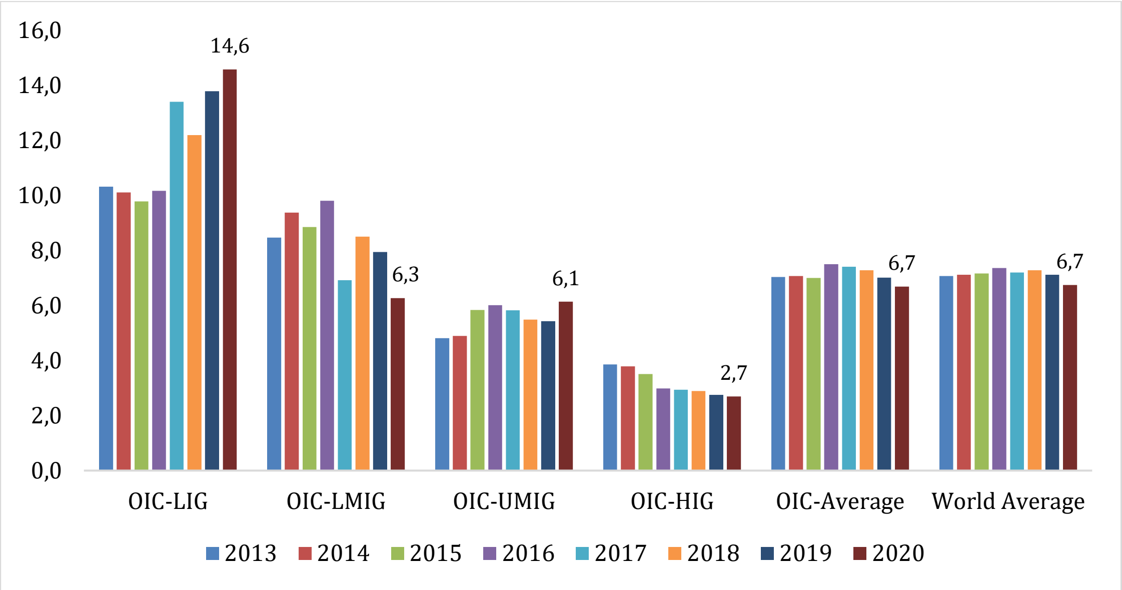
In this report, the following measures for institutions and markets are used to understand and compare the efficiency of the financial system among the countries and country groups.

Bank lending deposit spread refers to the difference between the lending and deposit rates. The lending rate is the rate banks charge on loans to the private sector, and the deposit interest rate is the rate commercial banks offer on three-month deposits.

There is an indirect correlation between economic development and interest rate spreads, as shown in Figure 7, as the advanced and high-income economies tend to have lower spreads than the lower-income groups. As the financial markets become more developed and the institutional structure of the financial system is more mature, the competition among the intermediaries goes up, and leading to interest rate spreads decrease. This paves the way for a better economic environment and a conducive atmosphere for investment.

Figure 7 depicts that OIC-LIG lending deposit spread which was around 14.6 during the selected period, and it was relatively higher than the OIC average rate. On the other hand, the spreads of OIC-LMIG, OIC-UMIG and OIC-HIGH were relatively lower than the world average and realized as around 6.3 percent, 6.1 percent and 2.7 percent, respectively, during the same period.

Figure 7: Bank Lending-Deposit Spread (%)

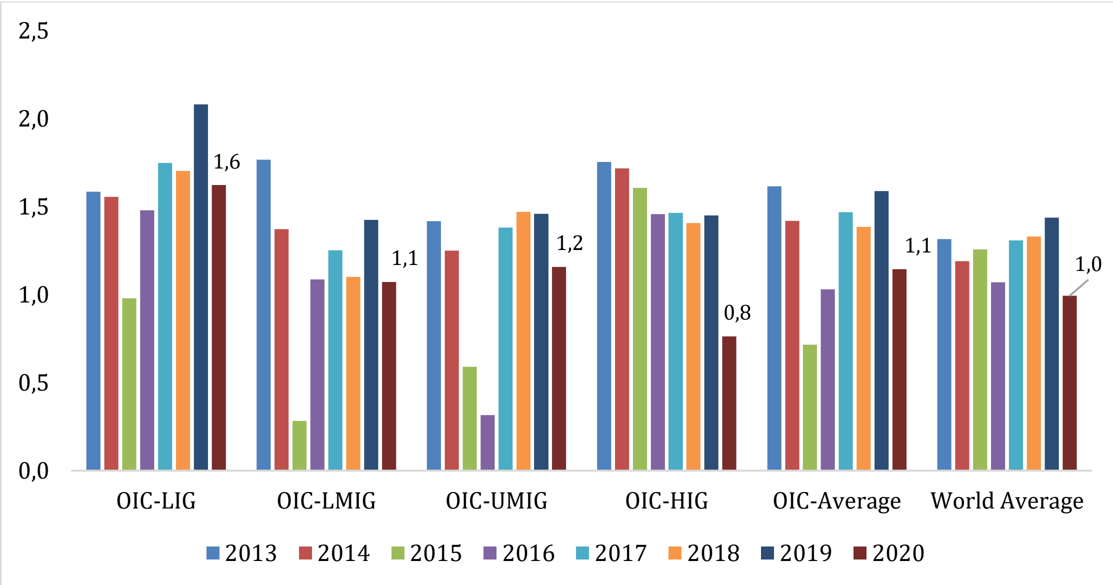


Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

Bank Return on Asset (ROA) is another indicator used to measure the efficiency of financial intermediaries. It is calculated as a ratio of commercial banks' after-tax net income to yearly averaged total assets. This indicator measures the profitability of a company relative to its total assets. Therefore, it gives an idea about the efficiency of a financial intermediary in using its assets to generate earnings. The higher ratio indicates better performance for individual corporations and banks as well as for the financial system as a whole.

As shown in Figure 8, OIC average ROA data fluctuated between 1.0% to 2.0% and above the world average in 2020. Lower ROA data could be interpreted as the efficiency of economies. Also, this situation could be explained by the weak asset base of financial intermediaries, lack of competition, and shallow market structure. The world average realized as 1.6 percent in 2013, wavered over the selected period, and decreased to 1.0 percent in 2020.

Figure 8: Bank Return on Assets (ROA) (%, after-tax)

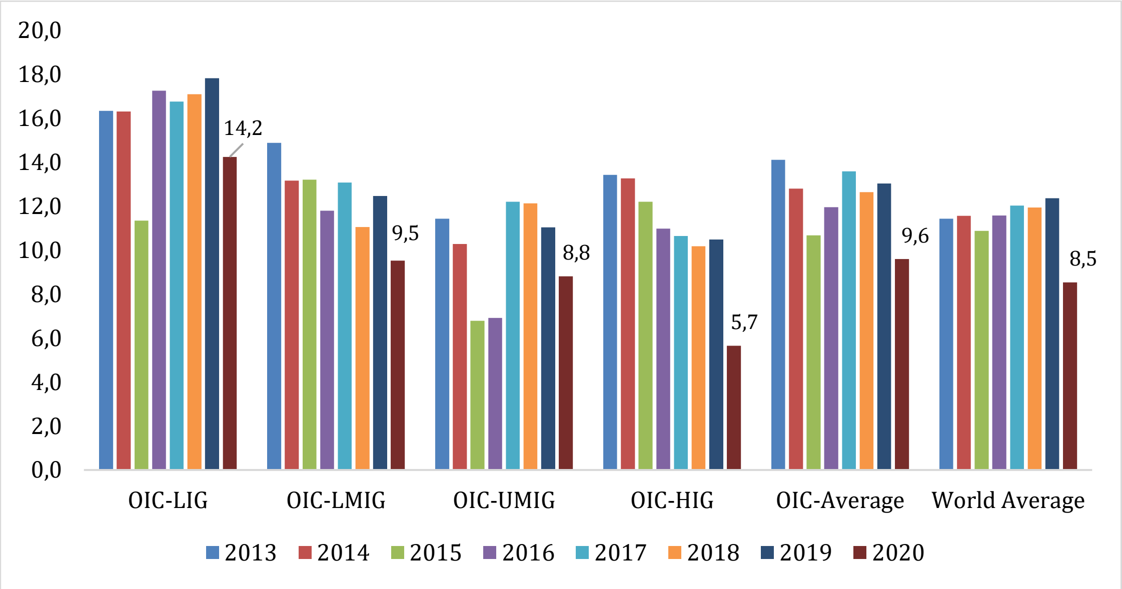


Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

Bank Return on Equity (ROE) is another ratio used to measure the efficiency of financial intermediaries. The ROE measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. It is calculated as a ratio of commercial banks' after-tax net income to yearly averaged equity.

Figure 9 shows the ROE data for OIC income groups and the average world performance during 2013-2020 when the OIC group recorded a better performance than the world. The world average decreased to 8.5 percent in 2020. OIC-LIG and OIC-LMIG countries had the highest ROE across the OIC average and other income groups at 14.2 and 9.5, respectively.

Figure 9: Bank Return on Equity (ROE) (%, after-tax)



Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

As a result, in terms of the efficiency characteristic, the OIC average has performed slightly similar to the world average for the selected indicators between 2013 and 2020.

1.4 Financial Stability

The importance of financial stability is highlighted by the World Bank (2020) as follows: "A stable financial system is capable of efficiently allocating resources, assessing and managing financial risks, maintaining employment levels close to the economy's natural rate, and eliminating relative price movements of real or financial assets that will affect monetary stability or employment levels. A financial system is in a range of stability when it dissipates financial imbalances that arise endogenously or as a result of significant adverse and unforeseen events. Instability, the system will absorb the shocks primarily via self-corrective mechanisms, preventing adverse events from disrupting the real economy or other financial systems. Financial stability is paramount for economic growth, as most transactions in the real economy are made through the financial system".

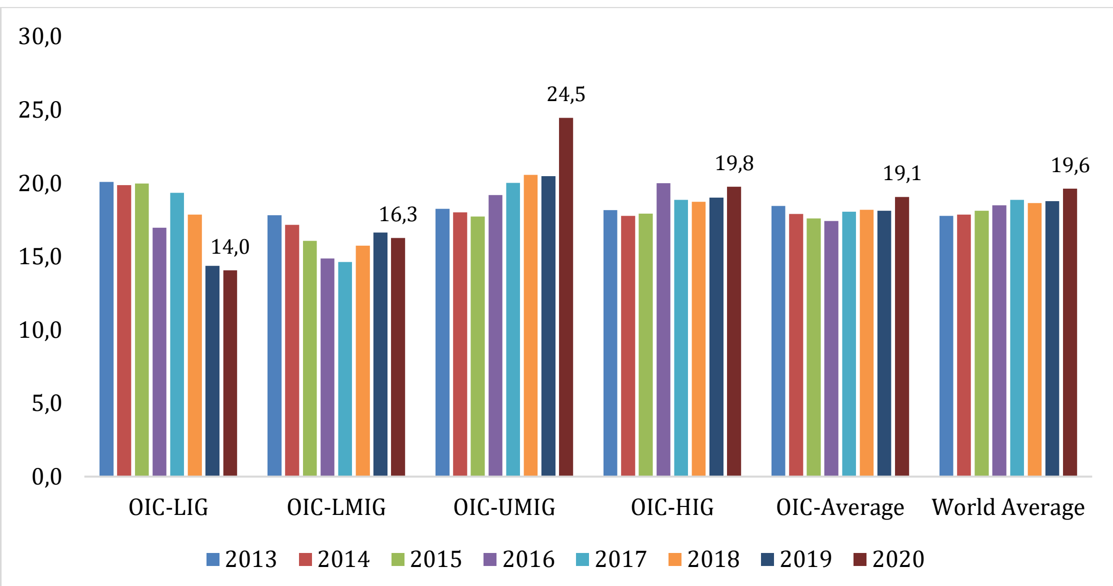
Financial stability is an essential feature of a well-functioning financial sector. The recent rapid growth of the financial industry should be accompanied by proper risk management and regulation in order to refrain from systemic risks that can be a severe threat to global financial stability. In this regard, the system has created various mechanisms to measure systemic risk, stress tests, and other tools for financial stability. As the global financial markets have been integrated over the recent decades, the importance of financial stability has increased since it is closely connected with macroeconomic stability, economic growth, employment, etc.

In this part of the report, bank regulatory capital to risk-weighted assets, bank capital to total assets ratio, and banks non-performing loans to total gross loans variables are used to measure the financial stability of financial institutions in the OIC Member States.

Bank regulatory capital to risk-weighted assets refers to the capital adequacy of deposit takers. It is a ratio of total regulatory capital to its assets held, weighted according to the risk of those assets. This ratio is used as an essential indicator to measure the robustness of financial institutions during financial shocks. Global financial regulatory institutions, for example, the Bank for International Settlement (BIS), recommend financial institutions banks to hold an adequate amount of capital to protect from systemic risks.

The following figure shows that OIC-UMIG has the highest scores over the selected period compared to the other income groups and the world average. This can be explained by the robustness and strong asset structure of the banking system for this group. Among the OIC income groups, OIC-LIG has the lowest scores in regulatory capital to risk-weighted assets, which was realized as 14.0 percent in 2020, and OIC-LMIG followed it with 16.3 percent. These results indicate that the financial sector in all OIC member country groups except OIC-LIG and OIC-LMIG are less vulnerable to financial stress than the world average.

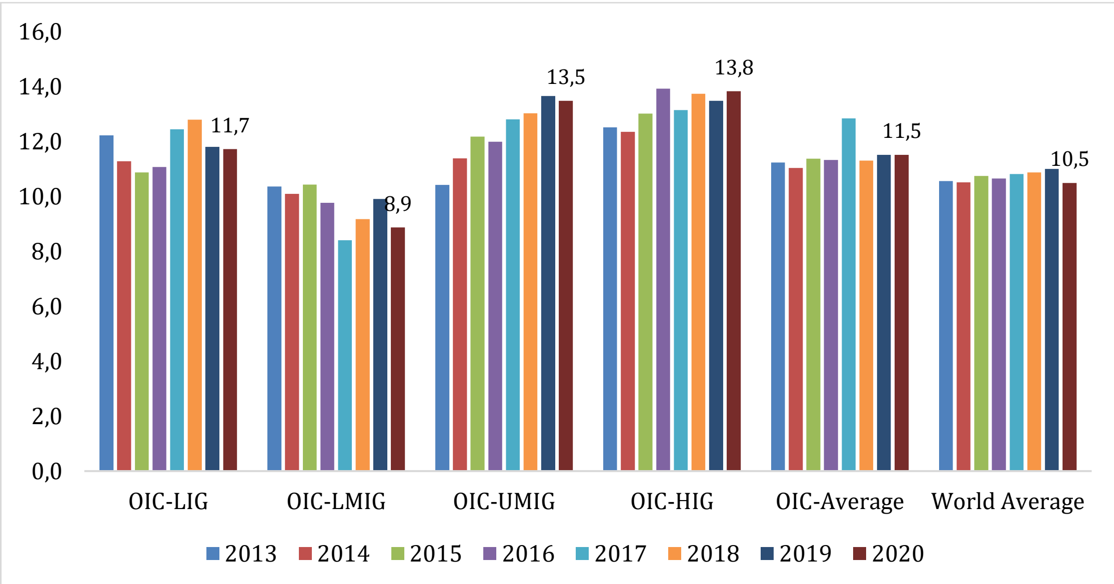
Figure 10: Bank Regulatory Capital to Risk-Weighted Assets (%)



Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

Another indicator used to measure the stability of financial intermediaries is the ratio of **bank capital and reserves to total assets**. Capital and reserves include funds contributed by owners, retained earnings, general and special reserves, provisions, and valuation adjustments. Capital includes tier 1 capital (paid-up shares and common stock), which is a common feature in all countries' banking systems, and total regulatory capital, which includes several specified types of subordinated debt instruments that need not be repaid if the funds are required to maintain minimum capital levels (these comprise tier 2 and tier 3 capital). Total assets include all nonfinancial and financial assets. The OIC-HIG and OIC-UMIG countries' average performance was better than any other OIC groups and the world average for 2013-2020.

Figure 11: Bank Capital to Total Asset (%)

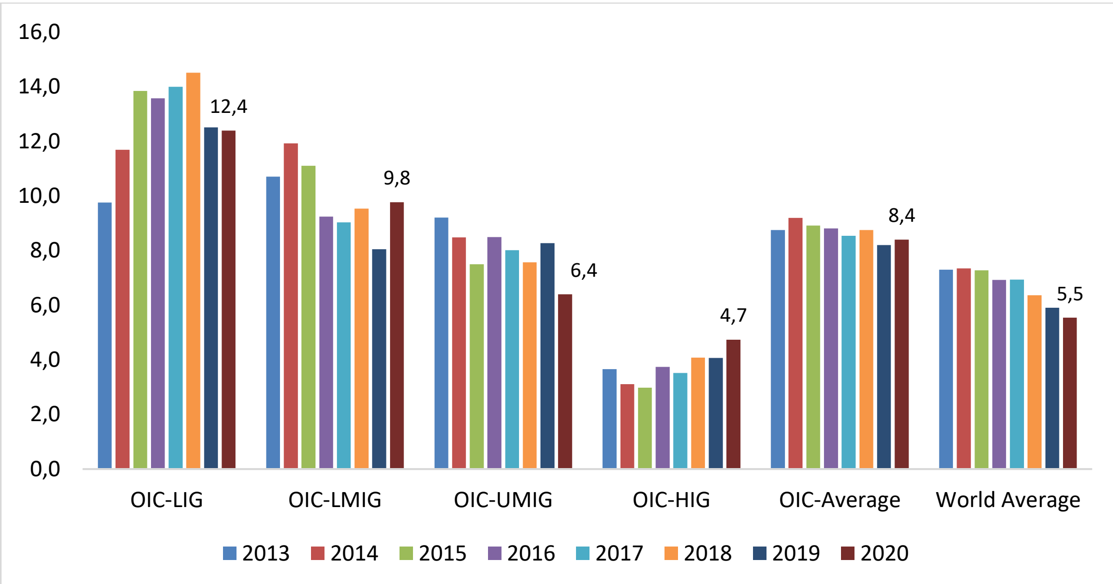


Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

The non-performing bank loans to gross loans (NPL) ratio is calculated as defaulting loans (payments of interest and principal past due by 90 days or more) to total gross loans (total value of loan portfolio). The loan amount recorded as non-performing includes the gross value of the loan as recorded on the balance sheet, not just the overdue amount. As this ratio increases, the possibility of insolvency in the banking sector also increases.

Figure 12 depicts that the best performing group among the OIC countries is OIC-HIG, of which NPL ratios are below the world average between 2013-2020. On the other hand, OIC-UMIG performed well in recent years, and the ratio decreased from 8.3 in 2019 to 6.4 in 2020, and below the OIC average.

Figure 12: Bank Non-performing Loans to Gross Loans (%)



Source: Author's calculation from the World Bank Global Financial Development Database (September 2022 Version)

Financial stability is a very crucial characteristic to measure the robustness of financial institutions and markets. This characteristic has an overarching impact on all other financial measures and indicators and reflects the health of all economies as its impact systemically affects the overall economic structure. The selected indicators reveal that the OIC averages are hovering around the world average. On the other hand, some country groups have performed better than the world average.

2. ISLAMIC FINANCE

Islam covers all aspects of human life and brings rules and injunctions derived from the ontological sources of Islam, namely the Quran and Sunnah. Based on the Islamic view, the Islamic economy is a part of the Islamic order which consists of *aqidah* (faith and belief), *shariah* (practices and activities), and *akhlaq* (moralities and ethics). *Shariah* determines the principles of daily activities of humans for the sake of God (*ibadat*) as well as the transactions among people (*muamalat*). Islamic economy is related to the economic sides of *muamalat,* which has to be in line with the principles of *shariah*. So, Islamic economics has its own vision and covers all economic aspects of life through its principles and value system at both micro and macro levels.

Islam emphasizes justice in all parts of society and aims to realize and promote human well-being (Chapra, 2000) through individuals, organizations, or institutions. In other words, the main target of the Islamic economy is to achieve human welfare and articulate knowledge through operational institutions. Islamic financial institutions are one of the main components and functional parts of the Islamic economic system through which foundational principles of the system can be realized in society.

Islamic finance is becoming one of the most significant aspects of the modern global financial system. Although the Islamic finance industry has grown substantially, it has mostly succeeded in a limited number of regions. There is a considerable amount of opportunity for the industry to grow further by increasing public awareness.

Based on the Vision and the guiding Core Principles of the COMCEC Strategy, finance, especially Islamic finance, has been a relevant field of study for the Financial Cooperation Working Group that brings together the relevant experts from the Member Countries regularly to produce knowledge, share experiences and best practices and develop a shared understanding. In this context, the Financial Cooperation Working Group prepares analytical reports on the Islamic finance industry on various topics, such as Islamic finance architecture, Islamic insurance (*Islamic Insurances*), and Islamic pension funds, written by leading academics and practitioners. These reports generate knowledge for not only scholars but also policymakers by introducing country case studies and providing recommendations.

Furthermore, during 2020-2021, the Financial Cooperation Working group focused on the adverse effects of COVID-19 on the most significant segment of the economy, namely MSMEs, and the role of Islamic finance in supporting this segment. A detailed technical report has been prepared to elaborate on the topic.

2.1 Concept and the Brief Modern History of Islamic Finance

Islamic finance is based on, basically, two injunctions which are a prohibition of *riba* and *gharar*. The former 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 that "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.

The history of modern Islamic banking can be traced back to Mit Ghamr Saving Bank, founded in Egypt in 1963. Several other local Islamic financial institutions operated in Muslim countries, such as Muslim Pilgrims Savings Corporation (Tabung Hajj) in Malaysia in the 1960s and interest-free credit institution in Pakistan in the late 1950s (Warde, 2000). Many commercial Islamic banks were established in Middle Eastern countries that benefitted from petrodollars after the 1970s. Since then, it has gained ground in global markets and emerged as an alternative and ethical form of finance against the conventional one. Over the years, the industry's market and development trends have been shaped by certain phenomena, including deregulation, increased openness of the markets, technological change, and global and regional socio-economic developments.

Islamic banks realized Islamic finance at first, then new institutional models and instruments emerged, such as Islamic Insurances companies, sukuk. The industry has gained new momentum with the onset of the new millennia. The global and regional communities have coordinated the efforts to increase the awareness of the world towards this new ethical form of finance. The efforts have been shaped around to provide the recognition and acceptance of Islamic finance by the mainstream drivers of the industry. The standardization efforts paved the way for establishing international standard-setting bodies at the global scale and regulation and legal environment created by local authorities. Another historic juncture for the development of the industry has been the global financial crisis of 2008. Since the core pillars of Islamic finance require a ban on speculation, asset-backing principle, and risk-sharing, the industry has proved its soundness and maturity against financial crises. Therefore, Islamic finance has been recognized as part of global finance with its growing customer base, asset size, diversified instruments, and geographical spread. Also, the importance of Islamic finance in the global financial system has been recognized by institutions ranging from international organizations to global financial institutions.

Islamic finance has emerged as a valuable tool for financing development worldwide, including in non-Muslim countries. Major financial markets are discovering substantial evidence that Islamic finance has already been mainstreamed within the global financial system. The Islamic finance industry has expanded rapidly over the past decade, growing at 10-12% annually. Total assets are estimated at over USD 2 trillion, covering bank and non-bank financial institutions, capital markets, money markets, and insurance. In many Muslim-majority countries, Islamic banking assets have been growing faster than conventional banking assets. There has also been a surge of interest in Islamic finance from non-Muslim countries such as the UK, Luxembourg, Germany, South Africa, and Hong Kong. Islamic finance is equity-based, asset-backed, ethical, sustainable, environmentally- and socially-responsible finance. It promotes risk sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare (World Bank, 2015).

The growing market shares and rising domestic systemic importance of Islamic finance underscore the importance of developing robust regulatory frameworks for prudential regulation and supervision in Islamic finance jurisdictions.

2.2 Islamic Finance Outlook

Regarding the size of the Islamic financial sector, according to the latest data (IFSB, 2023), as depicted in Table 3, the total assets of the Islamic finance sector increased from USD 3,06 trillion in 2021 to USD 3,25 trillion in 2022 with 6.1% YoY growth rate [2021: 13%] after the recovery from the COVID-19 pandemic. Regarding the concentration of Islamic finance, according to the region, the GCC region still had the most significant share (53.6%), USD1,730.3 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 USD757.4 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 USD55.2 million asset size.

Table 3: Breakdown of IFSI by Sector and Region (2022, USD billion)

Region	Islamic Banking	Outstanding Sukuk	Islamic Funds' Assets	Islamic Insurances Contributions	Total	Share
GCC	1342.9	356.6	24.1	16.7	1740.3	53.6%
South-East Asia	307.2	411.4	32.8	6.0	757.4	23.3%
Middle East and South Asia	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	2.249.2	829.7	136.6	30.0	3245.5	100.0%
Share	69.3%	25.6%	4.2%	0.9%	100.0%	

Source: 2023 Islamic Financial Services Industry Stability Report

The Islamic financial sector comprises three main sectors: Islamic banking, Islamic capital markets, and Islamic insurance (*Islamic Insurances*). As shown in Table 4, Islamic banking was still the dominant segment, with 69.3 percent [2021: 68.8%] in 2022. The Islamic banking sector grew 6.9 percent and reached USD 2,249.2 billion [2021: USD 2.104,1 billion] in the relevant year. Sukuk market and Islamic funds constitute Islamic capital markets and represented 25.6 percent [2021: 25.4%] and 4.2 percent [2021: 5.1%], respectively, in 2022. Islamic funds significantly shrank 11.6 in 2021. The share of the *Islamic Insurances* segment increased to 0.9 percent in 2022 from 0.8 percent in 2021. Although there was a slight advancement in the

Islamic Insurances sector's share in the Islamic finance industry, total *Islamic Insurances* contributions increased by 23.5 percent in 2022 (Table 4).

Table 4: YoY Performance of Islamic Finance by Sector (2021-2022)

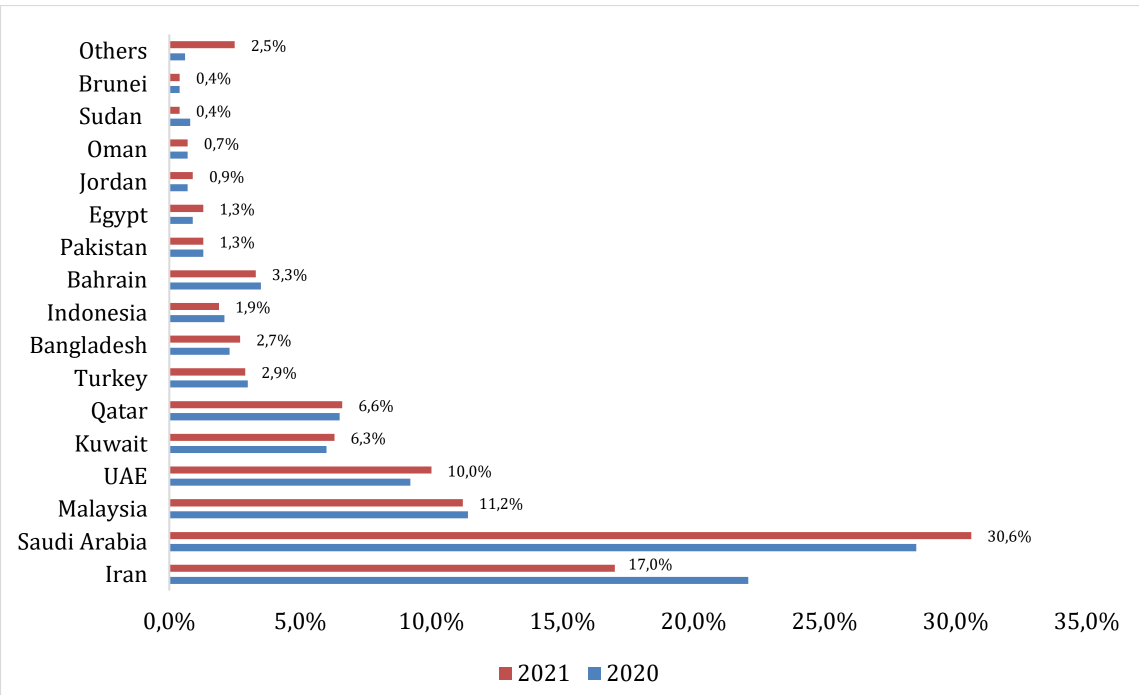
	2021		2022		
Sector	**Billion USD**	**Share (%)**	**Billion USD**	**Share (%)**	**YoY Growth (%)**
Islamic Banking	2.104,1	68,8	2.249,2	69,3	6,9
Outstanding Sukuk	775,7	25,4	829,7	25,6	7,0
Islamic Funds' Assets	154,6	5,1	136,6	4,2	-11,6
Islamic Insurances Contributions	24,3	0,8	30,0	0,9	23,5
Total	3.058,7	100,0	3.245,5	100,0	6,1

Sources: Compiled from 2022 and 2023 Islamic Financial Services Industry Stability Reports

2.3 Islamic Banking

Total assets of Islamic banking recorded a double-digit growth rate and increased from USD 1,841.8 billion to USD 2,104.1 billion in 2021. Regarding regions, GCC was the main contributor to global Islamic banking assets, with USD 1,212.5 billion in 2021. It was followed by MESA, South-East Asia, Africa, and other countries with USD 477.1 billion, USD 287.5 billion, USD 58.2 billion, and USD 68.8 billion, respectively.

Figure 13: Share of Global Islamic Banking Assets by Country (%)



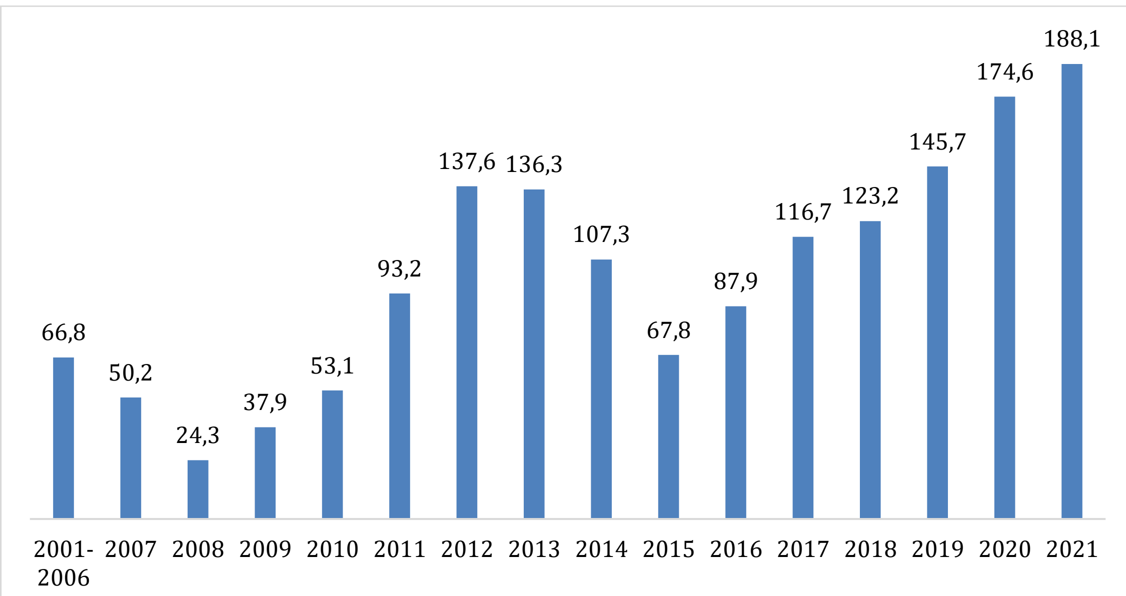
Source: Compiled from 2021 and 2022 Islamic Financial Services Industry Stability Reports

In terms of the countries' shares in global Islamic finance, the top five countries were not changed in 2021. Saudi Arabia's share continued to increase in 2021 and reached 30.6 percent [2019: 28.5%], 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 22.1 percent in 2020 to 17.0 percent in 2021. Although the rank of the other top five countries was not changed in 2021, UAE (from 9.2% to 10%) and Qatar (from 6.5% to 6.6%) have shown a slight increase in their global shares. Kuwait, Bangladesh, Bahrain, Egypt, and Sudan are the other countries that increased their shares in the global Islamic finance sector (see Figure 13).

2.4 Islamic Capital Markets

Islamic capital markets continued to show a positive trend in 2021, although the growth rate fell behind the previous year's performance due to global economic uncertainties. Sukuk remained attractive to issuers, despite severe financial market conditions. The sukuk market observed double-digit growth rates again because of the issuance by the core sukuk issuer countries such as Malaysia, Saudi Arabia, Indonesia, and Turkey. As seen in Figure 14, total global sukuk issuances increased 8 percent in volume from USD 174.6 billion in 2020 to USD 188.1 billion in 2021 [YoY growth was 20% in 2020] (IIFM, 2022). 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.

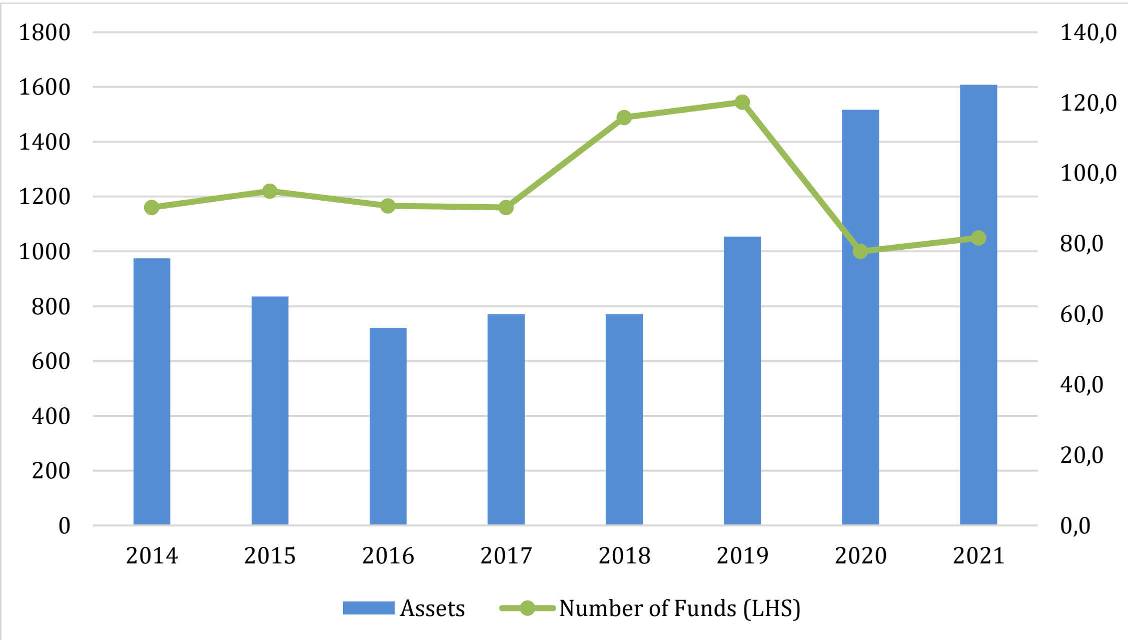
Figure 14: Global Sukuk Issuances (2001-2021, USD billion)



Source: IIFM Sukuk Report 2022

Islamic funds is another main component of the Islamic capital market segment. They are investment vehicles that take the form of equal participating shares/units, representing the shareholders'/unitholders' share of the assets and entitlement to profits or losses. There are many types of Islamic funds, such as Islamic index funds, Islamic hedge funds, Shariah private equity funds, sukuk funds, Islamic equity funds, etc.

Figure 15: Assets Under Management and Number of Islamic Funds (USD billion)



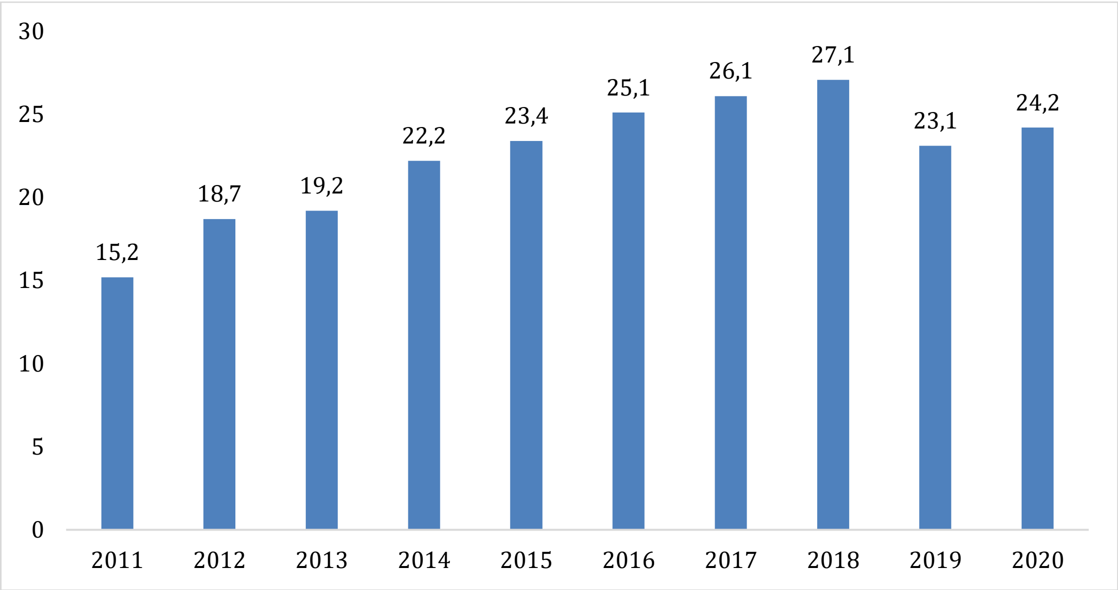
Source: Islamic Financial Services Industry Stability Report 2022

As shown in Figure 15, the total assets under management (AuM) grew 6 percent [2020: 31.9%] and reached around USD 120 billion in 2021 despite the uncertainties in the global economy. The number of Islamic funds has also slightly increased in the same year.

2.5 Islamic Insurances

Considering the relatively small share of the Islamic Insurances industry, the sector is still a niche market in the global Islamic finance industry. Despite its share, the Islamic Insurances industry continued its upward trend in most countries. Population growth and robust regulatory environment present opportunities for the Islamic Insurances sector to expand. The global Islamic Insurances contributions increased to USD 24.2 billion in 2021 from 23.1 in 2020 (Figure 16) and were mainly driven by the GCC and MESA regions, USD 12,7 and USD 11.4, respectively. They were followed by Southeast Asia USD 3.0 billion and Africa USD 0.6 billion.

Figure 16: Trend of Global Islamic Insurances Contributions (USD billion)



Source: Islamic Financial Services Industry Stability Report 2022

3. FINANCIAL COOPERATION UNDER THE COMCEC

The financial cooperation area has great potential for the socio-economic development of the OIC member countries. However, this potential has not been fully utilized due to several reasons. First of all, the majority of the OIC Member States' financial markets are not working efficiently to support sustainable economic growth and development, and this issue especially affects the low and lower-middle-income OIC member countries adversely. In addition, various economic and financial difficulties such as the small size of their financial markets, lack of diversified financial products and inefficiency of their financial institutions have adverse effects on economic development. In this regard, financial cooperation has emerged as an important area for the COMCEC to help the Member States to overcome the issues in this area.

The ideas for enhancing financial cooperation under the COMCEC date back to its initial meetings. The Cooperation efforts in this area have been intensified and deepened in recent years. The COMCEC Strategy, adopted by the 4th Extraordinary Islamic Summit in 2012, defined finance as one of the cooperation areas of COMCEC. Furthermore, there are also several ongoing efforts in this field, such as cooperation among the Stock Exchanges Forum, COMCEC Capital Markets Regulators Forum, and the Meetings of Central Banks and Monetary Authorities.

3.1 COMCEC Strategy: Financial Cooperation

COMCEC Strategy defines "deepening financial cooperation among the member countries" as the strategic objective of the COMCEC in this field. The Strategy identifies, "Regulatory and Supervisory Cooperation", "Capital Flows", "Visibility of Financial Markets", "Training, R&D Activities and Statistics" as output areas in its finance section and specifies several expected outcomes under each of them.

3.1.1 Regulatory and Supervisory Cooperation

COMCEC aims to help improve the quality of regulation, supervision, and cooperation among regulatory and supervisory bodies in the OIC Member States. The expected outcomes defined by the Strategy are as follows:

- Developed legal, regulatory and institutional framework,
- More standardized contracts and more harmonized regulations,
- Converged listing requirements, trading rules and technical infrastructure,
- Strengthened arbitration procedures, credit information and credit registry system, risk measurement and risk management systems.

3.1.2 Capital Flows

Attracting capital flows at competitive rates is one of the major common challenges faced by the many OIC Member States. In this regard, COMCEC will support to ease the capital flows within the member countries through contributing to the removal of institutional and regulatory barriers and developing relevant platforms. The Strategy envisages the following expected outcomes:

- Enhanced access to capital at competitive rates,
- Diversified portfolios,
- Increased investment opportunities.

3.1.3 Visibility of Financial Markets

Financial visibility is an important criterion for attracting more FDI and capital flows as well as the deepening of the markets. In this regard, COMCEC will help to enhance the visibility of financial markets in the member countries. As for the Visibility of Financial Markets, the expected outcomes introduced by the Strategy are as follows:

- Enhanced awareness on Islamic financial markets,
- Increased issuance and listing of securities,
- Attracted foreign investment.

3.1.4 Training, R&D Activities and Statistics

The lack of sound statistical capacity as well as the lack of diversified products, mainly because of the limited R&D activities are the main challenges for the OIC Member States. In this framework, COMCEC attaches great importance to training and R&D activities to improve human capital in its member countries for sustainable economic growth. COMCEC also assists the OIC Member States in monitoring their financial markets and financial institutions to ensure their efficiency and stability. The expected outcomes of the Strategy concerning this Output Area are:

- Enhanced diversification and variety of financial products,
- Developed platforms for payment and settlement systems and post trade services,
- Developed human resources and increased financial literacy,
- Reliable and consistent financial system database and creation of indicators of financially sound systems,
- Enhanced monitoring of financial institutions and markets.

3.2 Implementation of the Strategy

In line with its objectives and expected outcomes, the COMCEC Strategy brings well-identified operational instruments, i.e. the Working Groups and the COMCEC Project Funding Mechanism.

3.2.1 COMCEC Financial Cooperation Working Group

The COMCEC Financial Cooperation Working Group aims to bring the relevant finance experts from the OIC Member States regularly together and to serve as a regular platform for the Member Country experts to discuss their common issues in finance sector and share their knowledge, experiences and best practices, for disseminating knowledge, developing common understanding and approximating policies among Member Countries. The Working Group has held 20 meetings so far.

The proceedings of the above-mentioned Meetings and the presentations made during these Meetings are available on the COMCEC web page (www.comcec.org).

In its recent meetings, the Financial Cooperation Working Group has been focusing on different aspects of Islamic Finance, namely risk management, Islamic Finance strategies, financial architecture, diversification of instruments, Sukuk, Islamic fund management, public debt management, Islamic Insurances, Shariah governance and Entrepreneurs and SMEs financing. Additionally, in the last Meetings (19th-20th) of the Financial Cooperation Working Group the topic of "Improving Cooperation among Central Banks in Terms of Digital Currencies" were discussed. Furthermore, it will also elaborate on Improving Fintech: Digital Transformation in Payment Systems in OIC Member Countries in its future Meetings.

3.2.2 COMCEC Project Funding Mechanism

The other important instrument for the implementation of the COMCEC Strategy is the COMCEC Project Funding Mechanism. Through its Project Funding Mechanism, the CCO provides grants to the selected projects proposed by the relevant OIC institutions and Member States that have already registered with the Financial Cooperation Working Group.

In 2023, the project titled "Unleashing the Potential of Islamic Finance in Supporting MSMEs in the OIC Member Countries" is being implemented by SESRIC. The project aimed 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 virtual training namely "Leveraging Key Stakeholders towards Inclusive and Sustainable Development of MSMEs " on 17-19 October 2023 are being conducted. Also, a workshop on "Promoting Islamic Social Finance and Accelerating the Growth of Halal Value Chain Ecosystems" is being held in Kuala Lumpur on 20-21 September 2023 with the participation of 25 member countries.

3.3 Ongoing Activities under the COMCEC

3.3.1 OIC Member States Stock Exchanges Forum

COMCEC initiated the cooperation among Stock Exchanges of the Member States in 2005 and "OIC Member States Stock Exchanges Forum" was established in this regard. The Forum focuses on the harmonization of the rules and regulations governing market operations, as well as opening communication channels for the stock exchanges of the OIC Member Countries and relevant institutions.

The Forum provides a regular cooperation platform for the Stock Exchanges of the member countries to share their experiences and knowledge on harmonizing the rules and regulations governing market operations, as well as for increasing the amount of international portfolio investments flowing to the OIC Member States.

The Forum has convened seventeen times till now and its 17th Meeting was held on October, 31st 2023 in a virtual only format. Additionally, it has achieved remarkable progress in deepening cooperation among the Stock Exchanges of the Member States.

It has completed its work regarding the S&P OIC/COMCEC Index Fund. The Index, launched on 22 June 2012, in Istanbul, was designed to measure the performance of 50 leading companies from the 19 member states of OIC. As the next step, in line with the relevant resolutions of the COMCEC Ministerial Sessions, an important financial product, ‘‘a Fund’’ based on the Index, was developed and then issued in 2021. The Fund aims to enable investors to invest in a single product to enhance investments in OIC capital markets and provides investors with broad diversification, professional management, and transparency. Moreover, The Fund follows an investment process that has been approved by an independent Shariah committee. Measuring the performance of the 50 largest companies from OIC member states by float-adjusted market capitalization, subject to certain eligibility criteria and country limits. It targets to track as closely as possible the returns of the Index and therefore invests in shares of companies in the same proportions as their weightings in the Index.

As of October 31st, 2023, the Index is composed of roughly 27.9 % financials, 16.4 % communication services, 12.3 % materials, 10.8 % consumer staples, 9.4 % energy, 6.3 % real estate, and 6 % industrials. Lastly, as of August 2, 2022, the Fund started to be traded on the Turkish Electronic Fund Trading Platform (TEFAS) and is now available to all investors in Turkey and abroad. Hence, it remains important to increase the size of the Fund and continue to bring it to the attention of investors. You can access information about it on the TEFAS website.

(https://www.tefas.gov.tr/FonAnaliz.aspx?FonKod=ZSF)

In line with the relevant resolutions of the COMCEC Sessions, the Forum has also been working on the COMCEC Gold Exchange project". The detailed information regarding the activities of the Forum is available on www.oicexchanges.org.

3.3.2 COMCEC Capital Markets Regulators Forum

In line with the relevant resolutions of the 25th and the 26th Sessions of the COMCEC calling for developing a cooperation mechanism for capital markets regulatory bodies of the Member States, the COMCEC Capital Markets Regulators Forum was established in 2011.

The Forum aims at increasing coordination and cooperation in regulatory and legal infrastructure with a view to achieving more harmonized policies and regulations among the OIC Member States, supporting market development and reinforcing the capabilities of regulatory authorities. The Forum has held eleven meetings so far and its 12th Meeting was held on 6-7 November 2023 in a virtual only format.

Under the Forum, GEFAS Platform (Real Estate based and Developing Financial Instruments Information System) has been launched and become operational on 16 September 2022 (https://gefas.gov.tr/). GEFAS aims to improve transparency and efficiency in capital markets by facilitating access to product, issuer and performance information on Lease Certificates, Real Estate Investment Company Shares and Real Estate Investment Funds traded in OIC Stock

Exchanges. For example, if someone want to inform about Real Estate Investment Company (REIC) Shares, then he/she can find out its last price, trading volume, market capitalization information, 3-month, 6-month, and 1-year return data, etc. from its website (https://gefas.gov.tr/). Currently, it has 12 members namely: Bangladesh, Iran, Kuwait, Lebanon, Malaysia, Maldives, Morocco, Palestine, Qatar, Egypt, Saudi Arabia, and Pakistan Stock Exchange. The details regarding the Forum activities are available on the Forum website. (www.comceccmr.org)

3.3.3 Cooperation among the Central Banks and Monetary Authorities

The 16th Meeting of the Central Banks and Monetary Authorities of the OIC Member States was held on September 23th-25th, 2018 in Antalya, Turkey. 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”. The Forum has held four meetings so far and its 5th Meeting was held on 24-25 September 2023 in İstanbul.

APPENDIX

OIC MEMBER COUNTRIES ACCORDING TO INCOME LEVELS GROUPING (2014-2021)								
Country	**'14**	**'15**	**'16**	**'17**	**'18**	**'19**	**'20**	**'21**
Afghanistan	L	L	L	L	L	L	L	L
Albania	UM	UM	UM	UM	UM	UM	UM	UM
Algeria	UM	UM	UM	UM	UM	LM	LM	LM
Azerbaijan	UM	UM	UM	UM	UM	UM	UM	UM
Bahrain	H	H	H	H	H	H	H	H
Bangladesh	LM	LM	LM	LM	LM	LM	LM	LM
Benin	L	L	L	L	L	LM	LM	LM
Brunei Darussalam	H	H	H	H	H	H	H	H
Burkina Faso	L	L	L	L	L	L	L	L
Cameroon	LM	LM	LM	LM	LM	LM	LM	LM
Chad	L	L	L	L	L	L	L	L
Comoros	L	L	L	L	LM	LM	LM	LM
Côte d'Ivoire	LM	LM	LM	LM	LM	LM	LM	LM
Djibouti	LM	LM	LM	LM	LM	LM	LM	LM
Egypt, Arab Rep.	LM	LM	LM	LM	LM	LM	LM	LM
Gabon	UM	UM	UM	UM	UM	UM	UM	UM
Gambia, The	L	L	L	L	L	L	L	L
Guinea	L	L	L	L	L	L	L	L
Guinea-Bissau	L	L	L	L	L	L	L	L
Guyana	LM	UM	UM	UM	UM	UM	UM	UM
Indonesia	LM	LM	LM	LM	LM	UM	LM	LM
Iran, Islamic Rep.	UM	UM	UM	UM	UM	UM	LM	LM
Iraq	UM	UM	UM	UM	UM	UM	UM	UM
Jordan	UM	UM	LM	UM	UM	UM	UM	UM
Kazakhstan	UM	UM	UM	UM	UM	UM	UM	UM
Kuwait	H	H	H	H	H	H	H	H
Kyrgyz Republic	LM	LM	LM	LM	LM	LM	LM	LM
Lebanon	UM	UM	UM	UM	UM	UM	UM	LM
Libya	UM	UM	UM	UM	UM	UM	UM	UM
Malaysia	UM	UM	UM	UM	UM	UM	UM	UM
Maldives	UM	UM	UM	UM	UM	UM	UM	UM
Mali	L	L	L	L	L	L	L	L
Mauritania	LM	LM	LM	LM	LM	LM	LM	LM

Morocco	LM	LM	LM	LM	LM	LM	LM	LM
Mozambique	L	L	L	L	L	L	L	L
Niger	L	L	L	L	L	L	L	L
Nigeria	LM	LM	LM	LM	LM	LM	LM	LM
Oman	H	H	H	H	H	H	H	H
Pakistan	LM	LM	LM	LM	LM	LM	LM	LM
Palestine	LM	LM	LM	LM	LM	LM	LM	LM
Qatar	H	H	H	H	H	H	H	H
Saudi Arabia	H	H	H	H	H	H	H	H
Senegal	LM	L	L	L	LM	LM	LM	LM
Sierra Leone	L	L	L	L	L	L	L	L
Somalia	L	L	L	L	L	L	L	L
Sudan	LM	LM	LM	LM	LM	L	L	L
Suriname	UM	UM	UM	UM	UM	UM	UM	UM
Tajikistan	LM	LM	LM	L	L	L	LM	LM
Togo	L	L	L	L	L	L	L	L
Tunisia	UM	LM	LM	LM	LM	LM	LM	LM
Turkey	UM	UM	UM	UM	UM	UM	UM	UM
Turkmenistan	UM	UM	UM	UM	UM	UM	UM	UM
Uganda	L	L	L	L	L	L	L	L
United Arab Emirates	H	H	H	H	H	H	H	H
Uzbekistan	LM	LM	LM	LM	LM	LM	LM	LM
Yemen, Rep.	LM	LM	LM	L	L	L	L	L

Thresholds (GNI/Per Capita/USD)								
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Low income (L)	<= 1,045	<= 1,025	<= 1,005	<= 995	<= 1,025	<= 1,035	<= 1,045	<= 1,085
Lower middle income (LM)	1,046-4,125	1,026-4,035	1,006-3,955	996-3,895	1,026-3,995	1,036 - 4,045	1,046 - 4,095	1,086 - 4,255
Upper middle income (UM)	4,126-12,735	4,036-12,475	3,956-12,235	3,896-12,055	3,996-12,375	4,046 - 12,535	4,096 - 12,695	4,256 - 13,205
High income (H)	> 12,735	> 12,475	> 12,235	> 12,055	> 12,375	> 12,535	> 12,695	> 13,205

Sources: Compiled from "New World Bank country classifications by income level: 2022-2023", https://blogs.worldbank.org/opendata/new-world-bank-country-classifications-income-level-2022-2023 and https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups, access date: 15 November 2022

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