



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

COMCEC FINANCIAL OUTLOOK 2018



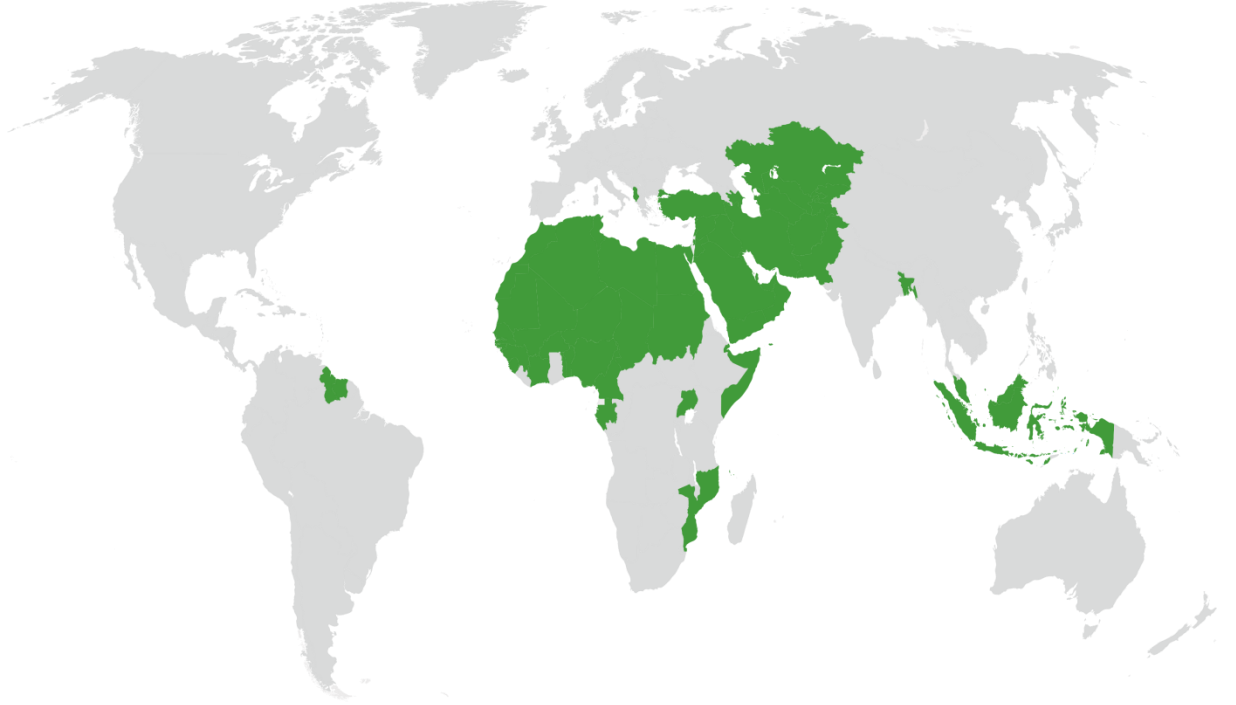
**COMCEC COORDINATION OFFICE
November 2018**



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PREFACE

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

The COMCEC Financial Outlook 2018 is prepared by Cezmi ONAT and Okan POLAT 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.

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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
IFSI	Islamic Financial Services Industry
MENA	Middle East and North Africa
NPL	Nonperforming Loans to Gross Loans
NPL	Non-Performing 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	Bank Return on Asset
ROE	Bank Return on Equity

INTRODUCTION

As a broad regional international organization, The COMCEC is one of the four standing committees of the OIC that is 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. In addition, the COMCEC Strategy identified financial cooperation as one of the major cooperation areas and envisaged the establishment of the Financial Cooperation Working Group as an important 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 endeavors in the field of 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.

Outlook is comprised of three main sections: The first section gives a general overview of the financial system of the OIC member countries. It outlines financial depth, financial access, financial efficiency and financial 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 on-going activities under the COMCEC in this field.

1. FINANCIAL OUTLOOK OF THE OIC MEMBER COUNTRIES

The liberalization of financial markets during the 1990s and 2000s has played an important role in shaping today's financial structure all over the world. The financial sector has a critical role in modern market economies. It can provide payment and transaction services, channeling households' savings to its best investment areas to the different sectors of the economy such as households, enterprises and governments. However, it can also be a source of fragility and crisis, as seen during the recent Global Financial Crisis as well as during numerous banking crises in emerging market and developing economies.

The financial sector performs various functions that facilitate the efficient functioning of the economy and promote economic growth. The functions of a financial system are identified as "the trading of risk, allocating capital, monitoring managers, mobilizing savings, and easing the trading of goods". For the financial sector to contribute to the growth and mitigate risks, the industry itself has to be resilient and be able to reduce its own vulnerabilities. Given the complexity and dynamism of modern financial products and markets, appropriate institutions are needed to reduce the risks and vulnerabilities that can potentially lead to harmful and costly economic downturns.²

It has been accepted that modern financial institutions and financial markets exert a powerful influence on economic development, poverty alleviation, and economic stability. For example, when banks screen borrowers and identify firms with the most promising prospects, this is a key step that helps allocate resources efficiently, expand economic opportunities, and foster growth. When banks and securities markets mobilize savings from households to invest in promising projects, this is another crucial step in fostering economic development. When financial institutions monitor the use of investments and scrutinize managerial performance, this is an additional ingredient in boosting the efficiency of corporations. Additionally equity, bond, and derivative markets enable the diversification of risk; this encourages investment in higher-return projects that might otherwise be shunned.³

The financial sector is critically connected to the overall institutional framework in a country. Given that the intertemporal of financial transactions makes it one of the most institution sensitive sector, a financial system can only thrive in an environment with effective institutions that reduce agency conflicts between contract parties. There might also be reverse influences from a thriving financial sector to institutional strengthening of a country.⁴

A financial system consists of institutional units and markets that interact for the purpose of mobilizing funds for investment and providing 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 financial system has significant effects for whole economic systems and a healthy financial system contributes to economic growth by easing access to finance, increasing financial literacy, and allocating resources efficiently.

² National and Global Islamic Financial Architecture, COMCEC Financial Working Group Report, 2016

³ Cihak, M., Demirgüç-Kunt, A., Feyen E., Levine, R., "Benchmarking Financial Systems around the World", World Bank Policy Research Working Paper 6175. Washington, D.C.: World Bank, 2012

⁴ Beck, Thorsten, "Finance, Institutions and Development: Literature Survey and Research Agenda", Cass Business School, City University and CEPR, August 2016

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 are able to successfully intermediate financial resources and to facilitate transactions. Finally, stability refers to low market volatility plus low institutional fragility. These characteristics of the market have been measured by using special indicators to compare financial systems across countries and over time.⁵

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

In this Financial Outlook, OIC Member Countries have been categorized in four major groups according to the World Bank Income Grouping Methodology (according to their GDP Per Capita levels). According to this categorization, 19 countries are in OIC-Low Income Group (OIC-LIG); 15 are in OIC Lower Middle Income Group (OIC-LMIG); 16 are in OIC-Upper Middle Income Group (OIC-UMIG), and 7 are in OIC-High Income Group (OIC-HIGH) as shown in the table below:

Table 1: Categorization of OIC Member States

CATEGORIES	COUNTRIES	NUMBER OF COUNTRIES
OIC-Low income group (995 USD or less)	Afghanistan, Benin, Burkina Faso, Chad, Comoros, Guinea, Guinea-Bissau, Mali, Mozambique, Niger, Senegal, Sierra Leone, Somalia, Syrian Arab Republic, Gambia The, Tajikistan, Togo, Uganda, Yemen	19
OIC-Lower middle income group (996 USD to 3,895 USD)	Bangladesh, Cameroon, Cote d'Ivoire, Djibouti, Arab Rep. of Egypt, Indonesia, Kyrgyz Republic, Mauritania, Morocco, Nigeria, Pakistan, Palestine, Sudan, Tunisia, Uzbekistan	15
OIC-Upper middle income (3,896 USD to 12,055 USD)	Albania, Algeria, Azerbaijan, Gabon, Guyana, Iran, Iraq, Jordan, Kazakhstan, Lebanon, Libya, Malaysia, Maldives, Suriname, Turkey, Turkmenistan	16
OIC-High income group (12,056 USD or more)	Bahrain, Brunei Darussalam, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates	7

Source: World Bank 2018

⁵ Cihak, M., Demirgüç-Kunt, A., Feyen E., Levine, R., 2012

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

- (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 region⁶.

Although the above referred study of the World Bank has developed a number of 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-2.

Table 2: Selected Financial Data on the OIC Member States

	Indicator Code	Name of the Indicator
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 (%)
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 (%)
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 nonperforming 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 2018

These four characteristics of financial institutions and markets are used to capture the features of financial systems and to provide the empirical shape of the financial development in the OIC countries. While a quite 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. The World Bank databases have been used to analyze the recent

⁶ Cihak, M., Demirgüç-Kunt, A., Feyen E., Levine, R., 2012

developments in the financial markets in this outlook. Data availability and accuracy is very important to come up with the meaningful analysis in the financial sector. For the OIC countries, lack of accurate and sufficient data for low income group countries of the OIC is the main challenge while gathering data.

1.1 Financial Depth

A reasonable level of financial depth is one of the crucial fundamentals for well-functioning financial markets and institutions in order to reach the desired role of finance in an economy to lead economic growth 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 in this regard is private credit relative to the gross domestic product (GDP). The 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 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.⁷

In order to measure the depth, private credit by deposit money banks to GDP, deposit money banks' assets to GDP, stock market capitalization to GDP, and stock market total value traded are used.

Private credit by deposit money banks 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.⁸

Since the role of the private sector in economic growth has been increasing all over the world, this indicator provides a useful measure on how the financial markets and institutions are used and affect the economy in terms of size. Recent empirical research has shown that economies with better-developed banking and credit system tend to grow faster over long periods of time (Demirgüç-Kunt, Levine 2008)⁹. In this regard, domestic credit to the private sector to GDP ratio is a significant indicator to measure the financial depth of any country.

As shown in the Figure below, OIC average of the private sector credit given by the domestic banks is lower than the world average. While there has been a slight improvement in recent years, the size of the private sector credit as a share of the GDP clearly indicates the under developed nature of the private sector in the OIC countries. OIC average in 2016 reached to

⁷ World Bank, <http://www.worldbank.org/en/publication/gfdr/background/financial-depth>

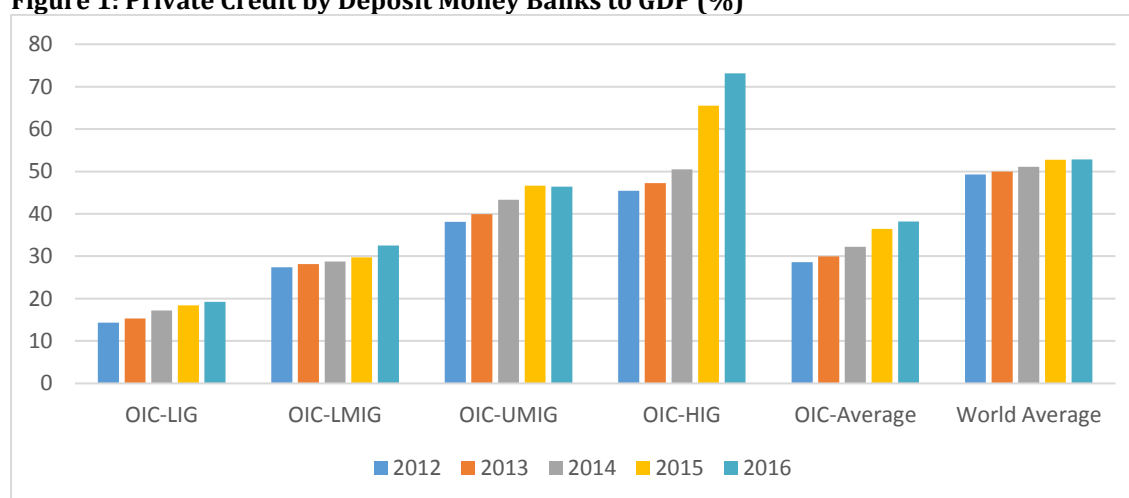
⁸ Private credit by deposit money banks and other financial institutions to GDP, calculated using the following deflation method: $\{[(0.5) * (F_t/P_{et} + F_{t-1}/P_{et-1})] / (GDP_t/P_{at})\}$ where F is credit to the private sector, P_e is end-of period CPI, and P_a is average annual CPI. Raw data are from the electronic version of the IMF's International Financial Statistics. Private credit by deposit money banks (IFS line 22d and FOSAOP); GDP in local currency (IFS line NGDP); end-of period CPI (IFS line PCPI); and average annual CPI is calculated using the monthly CPI values (IFS line PCPI).

⁹ Benchmarking Financial Systems Around The World 2012, World Bank

38.2% while the world average for the same period realized as 52.8%. Among the OIC countries, the rates have been differed significantly across different income groups. 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 countries have performed well improvement over the last 5 years. Especially the rate for the OIC-HIG countries have increased significantly over the years surpassing the world average and reached 73.2% in 2016.

As a result, it is found that there is a considerable gap between the World and OIC Member States average. This is a clear indication of the underdeveloped nature of the private sector and banking in these countries and this issue can be seen as an important obstacle for investment and economic growth of the OIC member countries.

Figure 1: Private Credit by Deposit Money Banks to GDP (%)

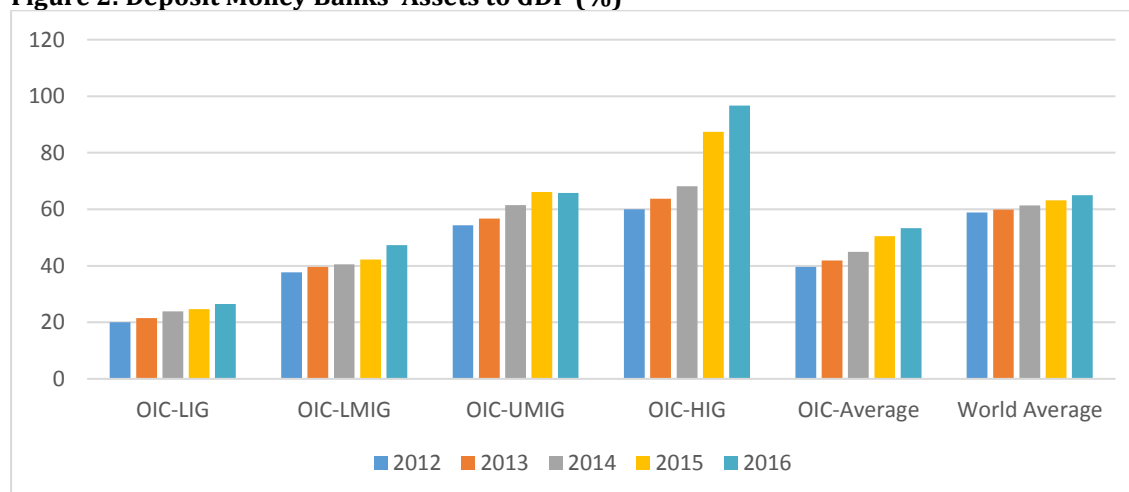


Source: Authors' calculation from the World Bank Database

Another indicator used to measure the depth of the financial institutions and markets is **Deposit money banks' assets as a share of GDP**. This measure refers to 'total assets held by deposit money banks as a share of GDP. Assets include claims on domestic real nonfinancial sector that includes central, state and local governments, nonfinancial public enterprises and the private sector. Deposit money banks comprise commercial banks and other financial institutions that accept transferable deposits, such as demand deposits'¹⁰.

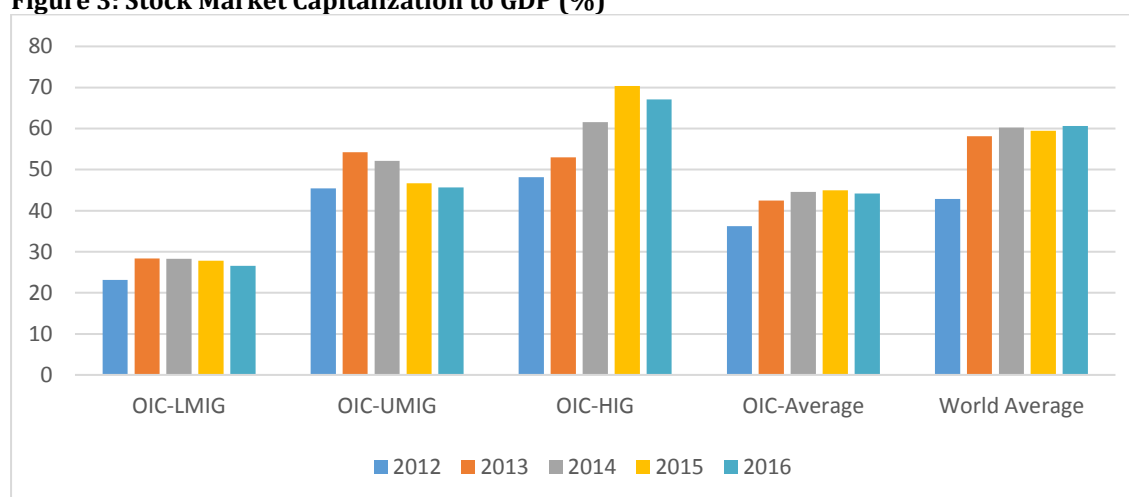
Compared to private credit, this indicator includes also credit to government and bank assets other than credit. The results for OIC average and for various income groups are similar as the previous indicator. As can be seen from the Figure below, OIC average increased regularly over the years and closed to the world averages. On the other hand, the results for the OIC-UMIG and OIC-HIG groups have surpassed the world averages in recent years. Since this indicator includes the claims of the banks on government, the results for these two groups clearly indicates the increasing role of the government to use financial markets more compared to the low income groups.

¹⁰ World Bank, Global Financial Development Report, June 2018.

Figure 2: Deposit Money Banks' Assets to GDP (%)

Source: Authors' calculation from the World Bank Database

In order to measure depth in the financial markets size of the 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 GDP¹¹. This indicator refers to the total value of all listed shares in a stock market as a percentage of GDP.

Figure 3: Stock Market Capitalization to GDP (%)

Source: Authors' calculation from the World Bank Database

Regarding this indicator, the low income group of OIC member countries does not have data; therefore, the analysis will be conducted on the rest of the country groups. The world average recorded as 60.6% in 2016. The OIC average increased continuously over the period and closed to the world averages recording as 44.2% in 2016. The rates for the high income group of OIC countries have been more than the world averages as the stock markets in these countries have

¹¹ Benchmarking Financial Systems Around the World 2012, World Bank

shown significant improvements during recent years which is highly correlated to the development of stock exchange markets as well as economic growth.

A well established, stable and functioning stock market will ease accumulation and attraction of long-term capital for a sustainable economic growth and development. The stock market has a key role in financial markets and smooth functioning stock market is accepted as a substantial condition for financial sector evolution. This is also considered a pre-requisite to the sustainable economic growth and development that makes the national economy to enhance more foreign investors. A well-functioning stock market plays an important 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 growth¹².

As a result, as also highlighted in the literature, macroeconomic and institutional factors play an important role in stock market development. The macroeconomic factors such as real income, developments in the banking sector, interest rate, 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 and trade openness etc. in 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 to 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.

In terms of financial depth, the OIC countries have shown significant fluctuations among various income groups over the selected period. While the high income group and upper-middle income group countries have performed better than the other groups as well as from the world averages, the averages of the indicator for other groups have been recorded worse than world averages. Over the years, for all indicators, there has been a trend of improvement that is a good sign of financial development in the OIC member countries.

1.2 Financial Access

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

Cihak, Demirgüç-Kunt (2012) highlights the importance of financial access of the different groups of economic units as follows: 'A well-functioning financial system allocates capital based

¹² Azam, M., Haseeb, M., Samsi, A.B., Raji, J., "Stock Market Development and Economic Growth: Evidences from Asia-4 Countries", International Journal of Economics and Financial Issues, Vol 6, Issue 3, 2016

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 rich individuals. Thus, to develop informative proxies of financial development, it is useful to move beyond financial depth and also include indicators of financial access—the degree to which the public can access financial services.’

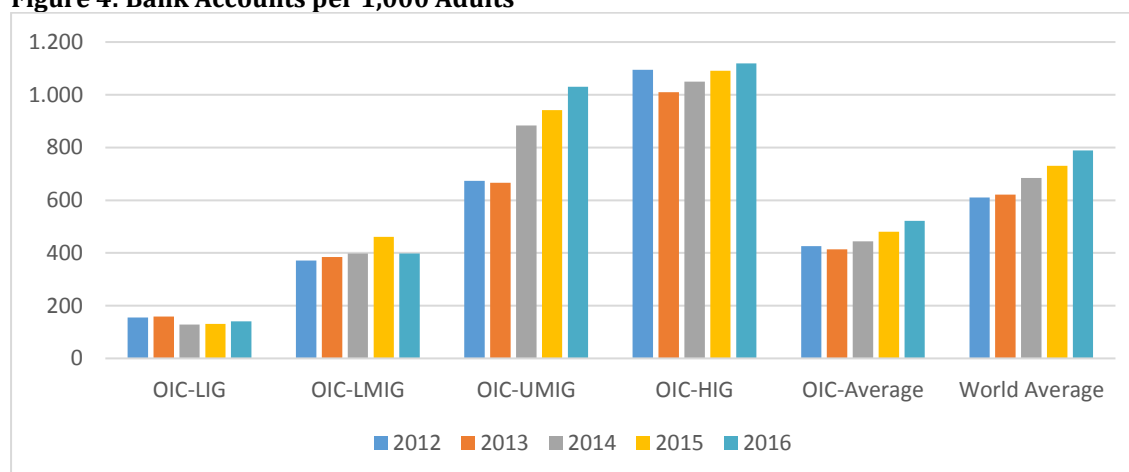
A common proxy variable of access to financial institutions is the number of bank accounts per 1,000 adults. Other variables in this category include the number of bank branches per 100,000 adults (commercial banks), the percentage of firms with a line of credit. When using these proxies, the following points should be kept in mind on their weaknesses:

The number of bank branches is becoming increasingly 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 for the fact that some bank clients have numerous accounts)¹³.

Bank account per 1,000 adults is one of the main indicators of access to financial services that 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 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 789 in 2016, the OIC-LIG was realized as 141 in the same year. The level of bank accounts opened by adults in OIC-HIG and OIC-UMIG countries, which have exceeded the world averages significantly, recorded as 1,120 and 1,031 respectively. This indicates that there is a close correlation between economic growth, income level and banking activities in a particular country.

Figure 4: Bank Accounts per 1,000 Adults



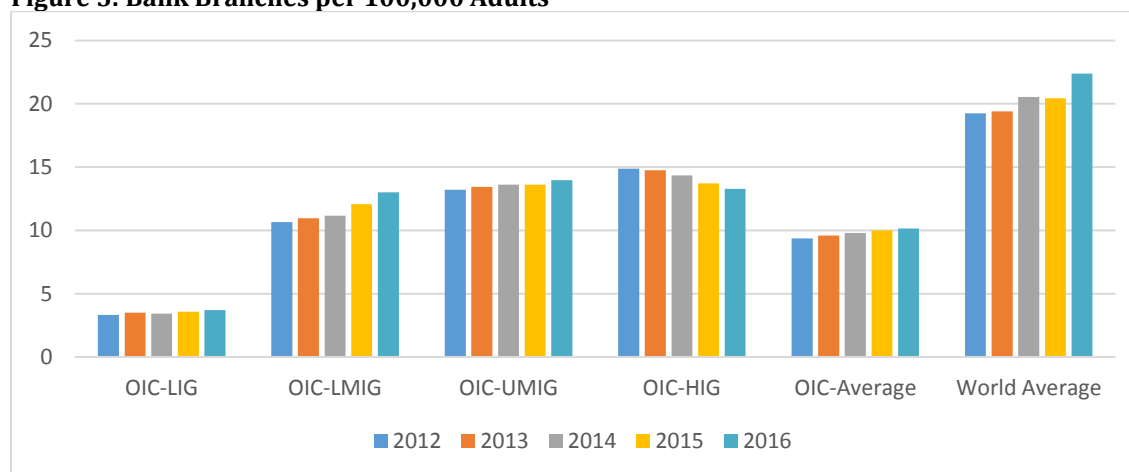
Source: Authors' calculation from the World Bank Database

¹³ Cihak, M., Demirgüç-Kunt, A. “Benchmarking Financial Systems Around The World 2012, World Bank”

These figures simply indicate that Low income group of OIC countries need to develop their markets to increase financial inclusion in order to support their economic growth and poverty reduction.

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

Figure 5: Bank Branches per 100,000 Adults



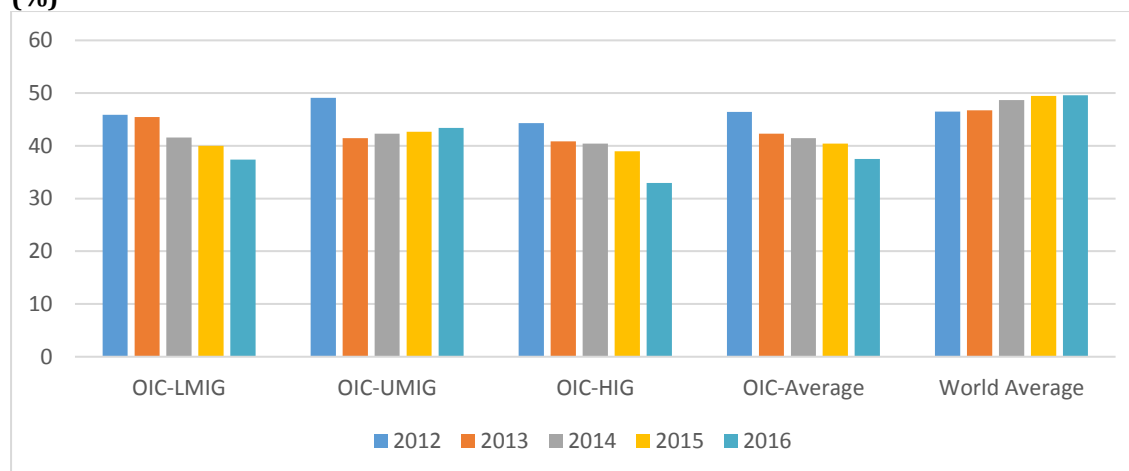
Source: Authors' calculation from the World Bank Database

The above Figure on the number of bank branches is consistent with the bank account as both clearly indicates a low level of financial access recorded for the low income group of OIC countries which reached to 3.7 branches per 100,000 adults in 2016 while the world average realized as 22.4 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. Over the period of 2012 to 2016, the rate has been realized around 14 branches for both OIC groups of UMIG and HIG. Although the financial markets and instruments have been recorded considerable growth and diversified significantly over the years, the branches have not increased in parallel. Among other factors, this fact can be explained by the widespread usage of branchless/internet banking.

As a result, the policymakers in the low income group countries should focus on enhancing the banking activities and access to financial markets by investing on branchless banking initiatives that have emerged as a cost effective option in recent years.

Data on access to financial markets are more limited. Especially for those countries with low income level and undeveloped stock exchange markets, the data is very scant. Measures of market concentration are utilized to have an idea on 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 of the ten largest companies to the total value of all listed shares'.

Figure 6: Market Capitalization Excluding Top 10 Companies to Total Market Capitalization (%)



Source: Authors' calculation from the World Bank Database

The world average just hovers around 50 percent over the years from 2012 to 2016. As for the OIC countries, the ratios for all groups are fluctuating around 38 percent during the same period. 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. Considering the fact that the data is available only for those countries that their 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.

As a result, in terms of financial efficiency, the OIC averages for the selected indicators have been found around the world averages over the selected years. 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 clearly signs that as the economies develop financial access increases in parallel. The high and upper middle income groups of OIC countries have performed much better than the other groups. 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.

1.3 Financial Efficiency

The structure and operation of the financial system have undergone remarkable changes in the past couple of decades due to the 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 a dynamic and sophisticated global financial markets and fostered economic growth; at the same time, however, specific problems and issues have plagued the financial system.¹⁴ In this regard, among other characteristics, the efficiency of the financial intermediaries and markets have emerged as an important tool to understand the financial system.

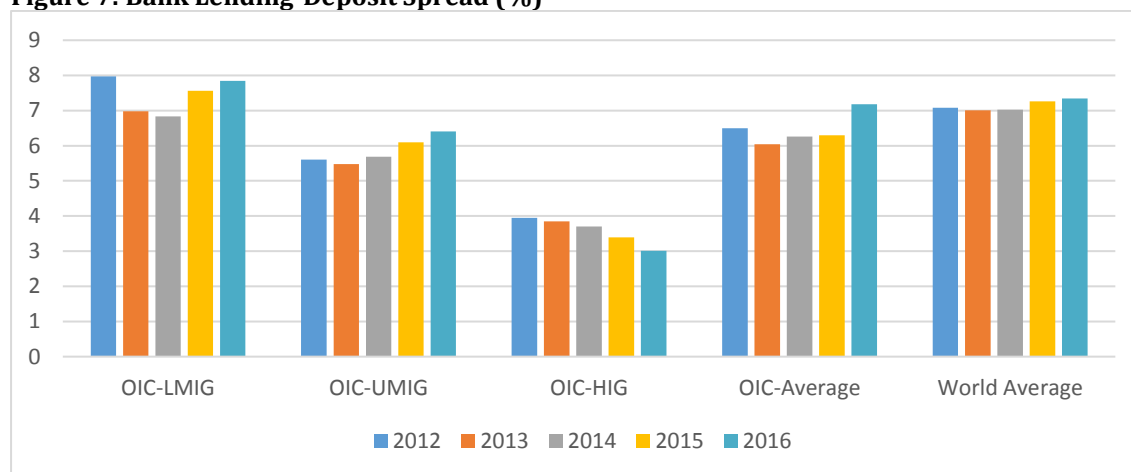
¹⁴ Policy Framework for Effective and Efficient Financial Regulation, OECD 2010

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 basic 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 market¹⁵.

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 lending rate and deposit rate. Lending rate is the rate charged by banks on loans to the private sector and deposit interest rate is the rate offered by commercial banks on three-month deposits.

Figure 7: Bank Lending-Deposit Spread (%)



Source: Authors' calculation from the World Bank Database

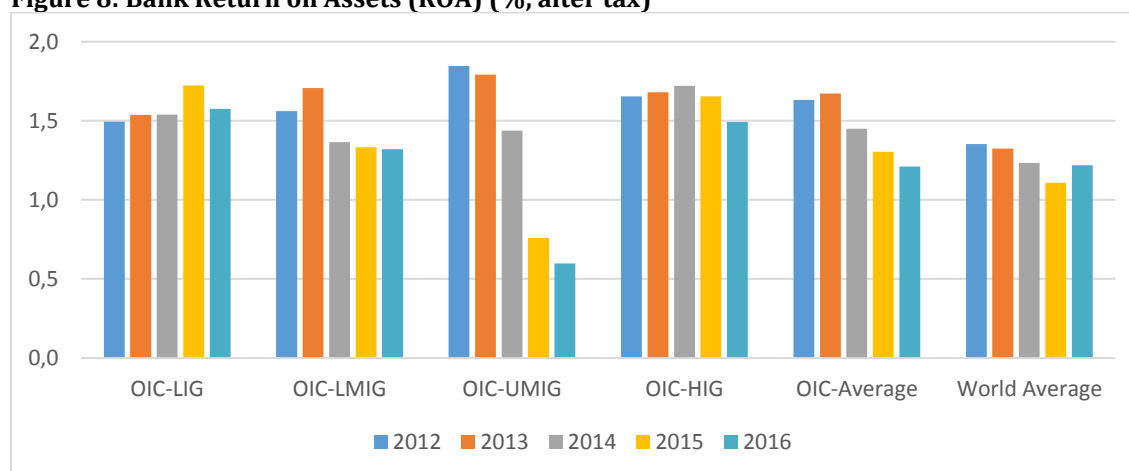
There is an indirect correlation between the level of economic development and interest rate spreads as shown in the above Figure as the advanced and high income economies tend to have lower spreads than the lower income groups. As the financial markets become more developed and institutional structure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

The above Figure shows that OIC-LIG and OIC-LMIG lending deposit spread which was around 12.1 and 7.8 percent respectively during the selected period were relatively higher than the OIC average rate. On the other hand, the spreads of OIC-UMIG and OIC-HIGH were quite lower than the world average and realized as around 6.4 percent and 3 percent respectively during the same period.

¹⁵ Cihak, M., Demirgüç-Kunt, A. "Benchmarking Financial Systems Around The World 2012, World Bank"

Bank Return on Asset (ROA) is another indicator used to measure the efficiency of the financial intermediaries. This 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 on 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.

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



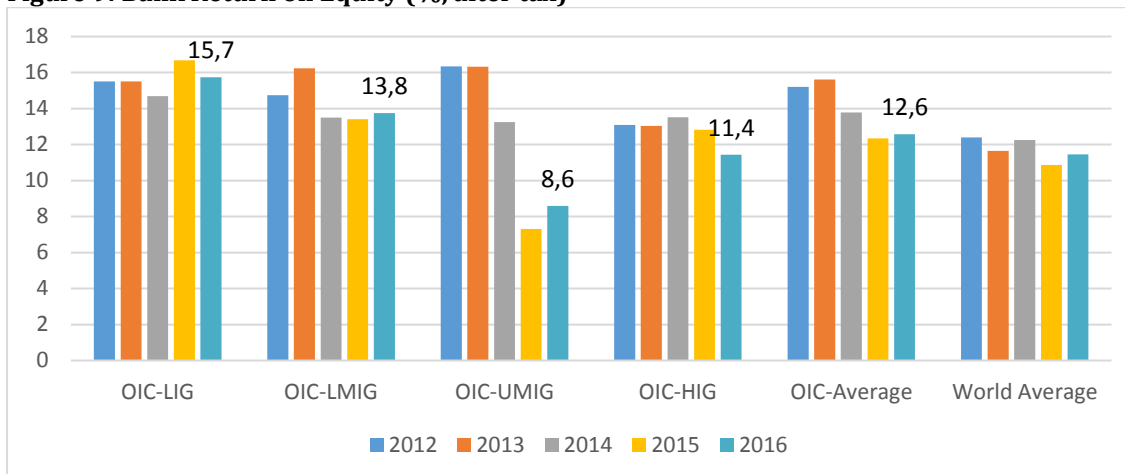
Source: Authors' calculation from the World Bank Database

As shown in the above Figure, OIC average ROA data is similar to the world average. Lower AOR data could be interpreted as the efficiency of economies. Also, this situation could also be explained by weak asset base of financial intermediaries, lack of competition and shallow structure of the market. The World average, which was realized as 1.4 percent in 2012, decreased over the selected period and reached 1.2 percent in 2016. During the same period, the OIC average decreased from 1.6 to 1.2 percent. ROA for OIC-HIG group performed better than all other countries and realized at 1.5 percent in 2016.

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.

The Figure below shows the ROE data for OIC income groups and the World average performance during 2012-2016, when the OIC group recorded a better performance than the world. World average increased to 11.5 percent in 2016. It was 10.5 percent in 2015. OIC-LIG countries had the highest rates across the OIC income groups. ROE for OIC-LIG countries accounted for 15.7 percent in 2016.

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



Source: Authors' calculation from the World Bank Database

As a result, in terms of the efficiency characteristic, the OIC average has performed slightly better than the world average for the selected indicators over the period between 2012 and 2016. It has been noted that the averages of the high and upper middle income group countries performed better than the world average which highlights the level of development of the financial markets and institutions in these countries. As for this characteristic, the low income segments of the countries should be targeted to increase financial efficiency in order to support further economic development.

1.4 Financial Stability

The importance of financial stability is highlighted by the World Bank as following: '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 having a disruptive effect on the real economy or on other financial systems. Financial stability is paramount for economic growth, as most transactions in the real economy are made through the financial system'¹⁶.

Financial stability is an important feature of a well-functioning financial sector. The recent rapid growth of the financial sector should be accompanied by proper risk management and regulation in order to refrain from systemic risks that can be a serious 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 been increased since it is closely connected with macroeconomic stability, economic growth, employment etc.

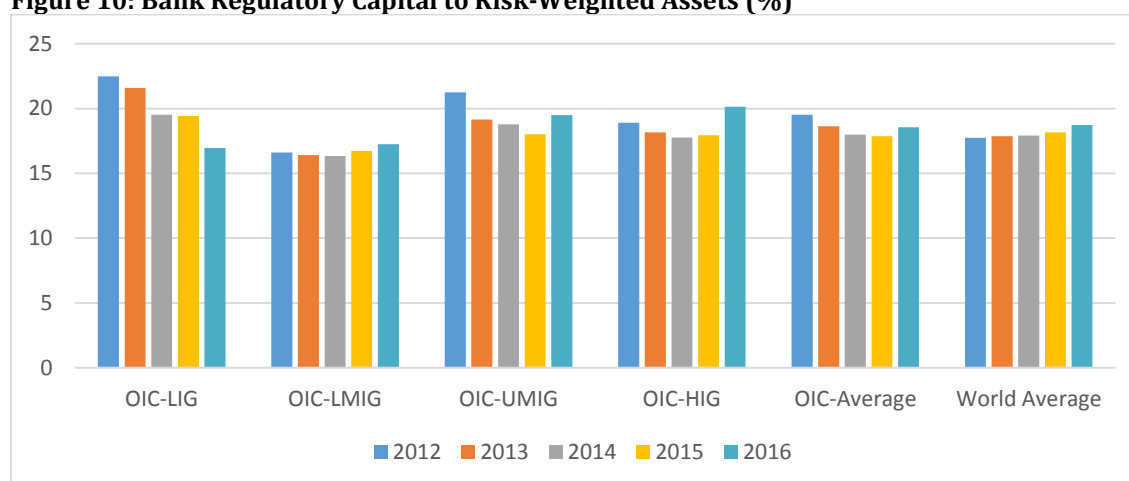
¹⁶ <http://www.worldbank.org/en/publication/gfdr/background/financial-stability>

In this part of the study, 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 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 important indicator to measure the robustness of the financial institutions during financial shocks. International 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.

As shown in the following figure, OIC-UMIG and OIC-HIG have 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 these groups.

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

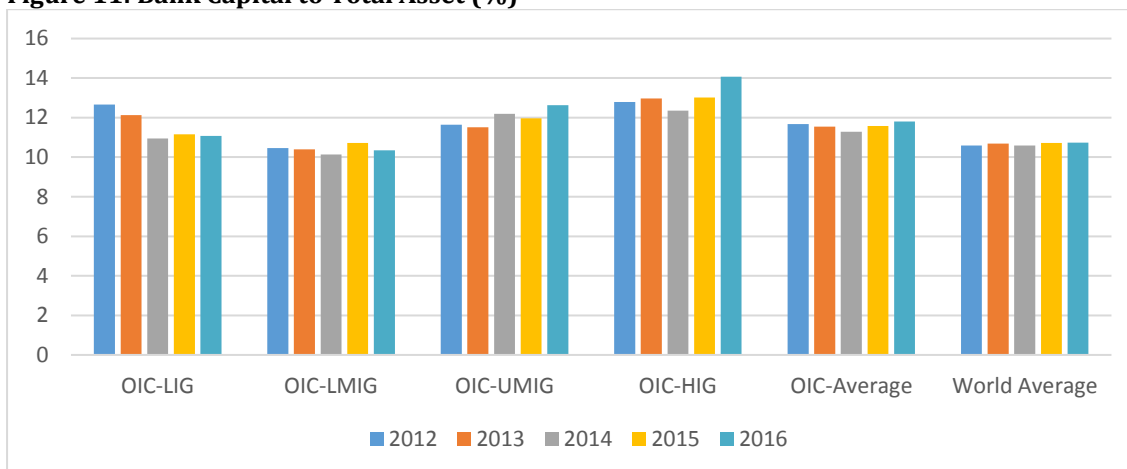


Source: Authors' calculation from the World Bank Database

Among the OIC income groups, OIC-LIG and OIC-LMIG have the lowest scores in regulatory capital to risk-weighted assets which realized as 17 and 17.2 percent respectively. Compared to the other groups and the world average, these results make these countries more vulnerable to financial stress.

Another indicator used to measure the stability of the 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. Average of the OIC-HIG countries shows better performance than any other OIC groups and the World average.

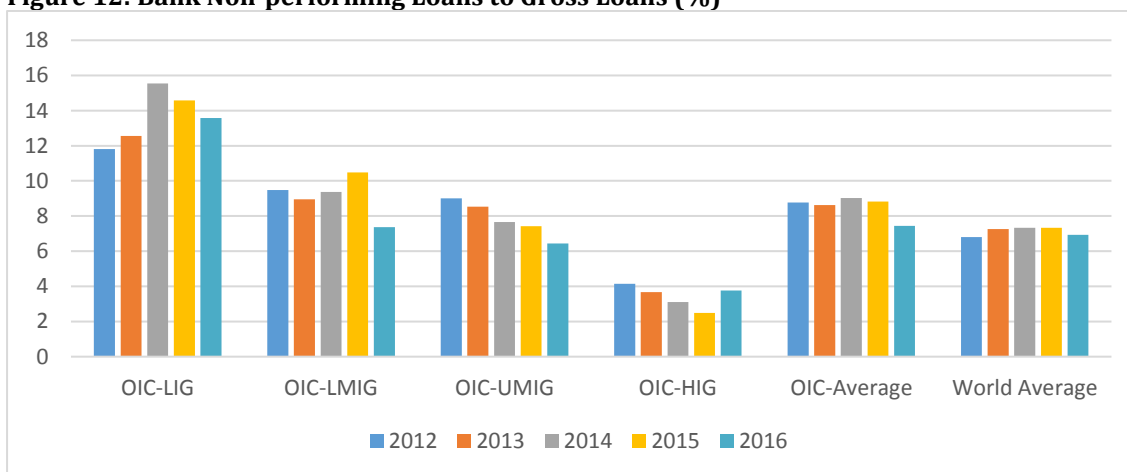
Figure 11: Bank Capital to Total Asset (%)



Source: Authors' calculation from the World Bank Database

The bank nonperforming 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 nonperforming includes the gross value of the loan as recorded on the balance sheet, not just the amount that is overdue. As this ratio increases, the possibility of insolvency in the banking sector also increases.

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



Source: Authors' calculation from the World Bank Database

The Figure shows that NPL ratios of OIC-LIG, OIC LMIG and OIC UMIG were higher than the OIC HIGH. OIC-LIG score, for example, increased significantly in 2014 and as accounted for 15.5 percent. The ratio for OIC-LIG has slightly decreased to 13.6 percent in 2016 but it was still higher than the OIC country groups and world average. The OIC-UMIG group performance improved since 2012 and dropped to 6.4 percent in 2016. OIC-HIG has shown a very good performance over the years and the ratio declined to 2.5 percent in 2015 and increased to 3.8 in 2016 that was much better than the world average as well.

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

2. ISLAMIC FINANCE

Islamic economics is the knowledge and application of injunctions and rules of the Shariah that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and to the society.

Islamic finance focuses on adhering to Shariah standards and providing Shariah compliant financial services and instruments. Islamic finance is becoming one of the most significant aspects of the modern global financial system. Despite the Islamic Finance industry has grown substantially it has mostly grown in a limited amount of regions. There is a great amount of opportunity for the industry to grow further by increasing public awareness.

Based on the Vision and with the guiding Core Principles of the COMCEC Strategy, finance especially Islamic finance has been an important 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 common understanding. In this context, the Financial Cooperation Working Group prepares analytical reports on the Islamic finance industry.

Furthermore, during the period 2018-2020 the Financial Cooperation Working group will elaborate on different aspects of the Islamic Finance.

2.1 Concept and the Brief Modern History of Islamic Finance

While the core concepts of Islamic finance date back to the birth of Islam, the modern Islamic finance has emerged as a modern phenomenon since the 1960s. 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 market and the development trend of the industry have been shaped by certain phenomena including deregulation, increased openness of the markets, technological change, global and regional socio-economic developments etc.

The Industry has gained a new momentum with the onset of the new millennia. The efforts have been coordinated by the global and regional communities 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. In order for this, 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 2009. Since the core pillars of Islamic finance require a ban on speculation, asset-backing principle, risk-sharing etc., the industry has proved its soundness and maturity against the 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.

Islamic finance has emerged as an effective tool for financing development worldwide, including in non-Muslim countries. Major financial markets are discovering solid 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 and total assets are estimated at roughly USD2 trillion, covering bank and non-bank financial institutions,

capital markets, money markets and insurance (“Takaful”). In many majority Muslim 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, 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.¹⁷

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

2.2 Islamic Finance Outlook

The asset size of the Islamic finance sector has grown steadily in 2017.¹⁸ The industry’s total worth is estimated at USD 2 trillion in 2017 that was USD 1.89 trillion in 2017 and USD 1.88 trillion in 2016. Islamic finance assets marked an 8.3% growth in US Dollar terms in 2017.

Table 3. Breakdown of IFSI by Sector and by Region (USD billion)

	Islamic Banking	Outstanding Sukuk	Islamic Funds Assets	Takaful Contributions	Total
Asia	232	239,5	24,8	3,3	499,6
Gulf Cooperation Council (GCC)	683	139,2	26,8	12,6	861,6
MENA (ex-GCC)	569	17,8	0,1	9,5	596,4
Africa (ex-North Africa)	27,1	2	1,6	0,7	31,4
Others	46,4	1,5	13,3	0	61,3
Total	1,557.5	399,9	66,7	26,1	2,050.2

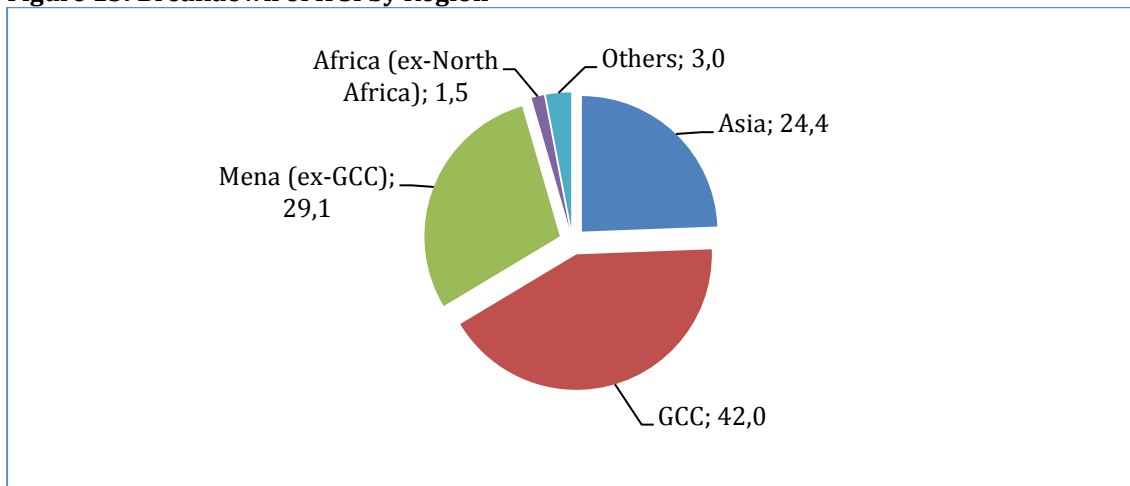
Source: IFSB 2018

In line with the improved asset, growth performance Islamic finance concentrated in a few jurisdictions. The GCC continues as the largest domicile for Islamic finance assets. In 2017, the market share of the region slightly decreased compared to 2016 (42.3%) and realized as 42%. The second largest share of Islamic finance industry is the Middle East and North Africa (MENA) (ex-GCC) which covers the 29.1% of the global Islamic financial assets. Asia has the most improved market share with expansions in key markets such as Malaysia, Indonesia, Pakistan and Bangladesh. The market share of Asia is 24.4%.

¹⁷ World Bank, Islamic Finance Brief

¹⁸ IFSB 2018 Report

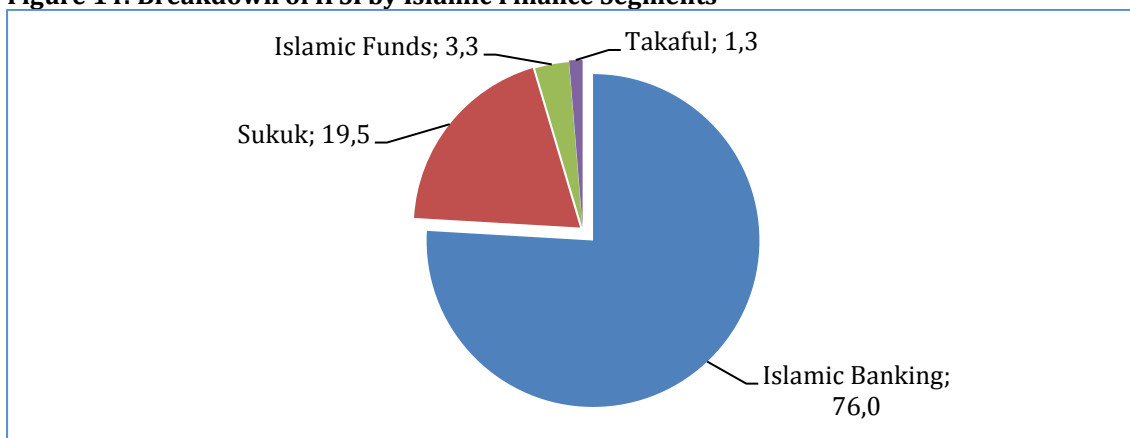
Figure 13: Breakdown of IFSI by Region



Source: IFSB 2018

Islamic banking has been the dominant segment of the industry with a 76% share of the industry's total assets. Sukuk market, Islamic funds and Takaful market represented 19.51%, 3.25% and 1.27% of the Islamic finance industry respectively in 2017.

Figure 14: Breakdown of IFSI by Islamic Finance Segments



Source: IFSB 2018

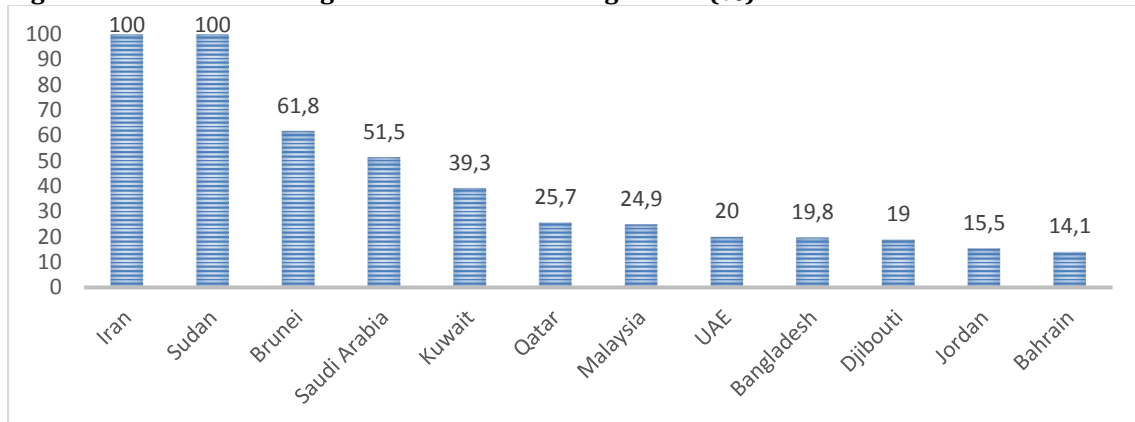
2.3 Islamic Banking

Islamic banking sector had 76% of the industry's total assets that valued at USD 1.56 trillion in 2017. Islamic banking assets increased in across all major regions, including the GCC, MENA (ex. GCC) and Asia.

In January 2018, Islamic banking was also introduced in South America, following the successful conversion of a conventional secondary bank in Suriname to a full-fledged Islamic bank. With this, Islamic banking products are now offered across all six habitable continents of the world.

In 12 member countries, which accounted for 92% of the global Islamic Banking assets, Islamic banking sector has reached systemic importance¹⁹ in the Financial Sector.

Figure 15: Islamic Banking Share in Total Banking Assets (%)



Source: IFSB 2018

2.4 Capital Market Sector

In addition to the recovery in global economic conditions, the capital market has been triggered since the beginning of 2017 with the reduction of global policy uncertainties. Optimistic global financial and liquidity environment that emerged this year led to an increase in the risk appetite of investors, strengthening of stock exchanges and a decrease in financial volatility.

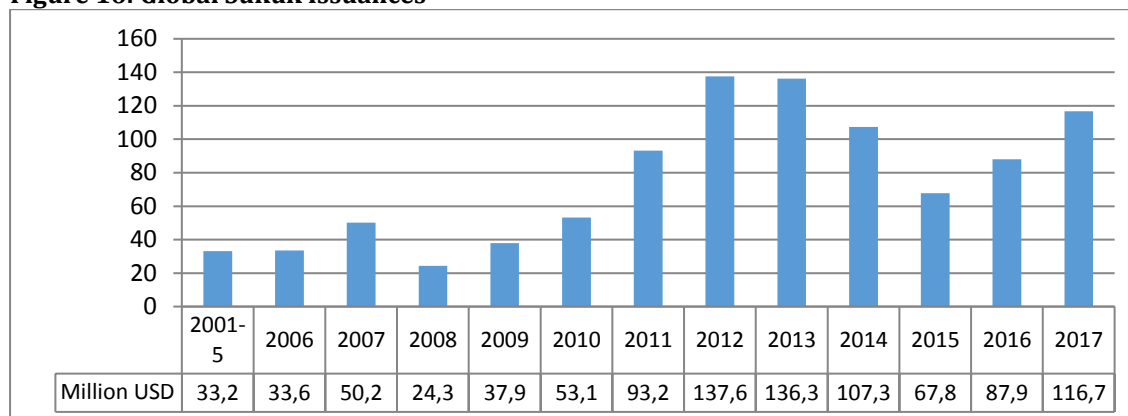
Sukuk Market

Sukuk remained attractive to issuers as well as a wide range of investors in various regions and financial hubs. Total global issuance has increased 32% in volume from USD 87.9 billion in 2016 to USD 116.7 billion in 2017.

In 2017, the increase in sukuk issuance was mainly driven by regular issuances in Saudi Arabia, Asia, GCC, Africa and some other regions. Malaysia continues to dominate the sukuk market. However, shares from countries such as Indonesia, United Arab Emirates (UAE) and Turkey are close behind in value of shares.

¹⁹ Share of Islamic Banking Sector in Total Banking sector >15%

Figure 16: Global Sukuk Issuances



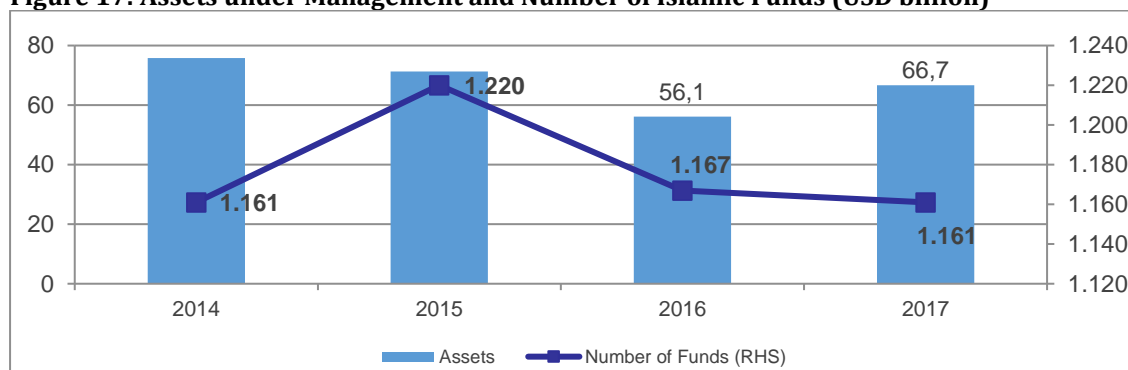
Source: IIFM

Islamic Funds

Islamic funds 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, Shariah private equity funds, Sukuk funds, Islamic equity funds etc.

Despite the decrease in the number of Islamic Funds in 2017 (1,161), assets under management (AuM) increased 19% and reached USD 67 billion²⁰. The top five jurisdictions accounted for 88% of the industry's AuM as at the end of 2017, i.e. Saudi Arabia (37.10%), Malaysia (31.66%), Ireland (8.62%), the US (5.25%) and Luxembourg (4.76%). This indicates that the operations of Islamic funds are still limited as key Islamic finance jurisdictions have deep-rooted Islamic banking sectors (e.g. the UAE, Pakistan, Indonesia, Kuwait and Qatar). The remaining 12% of AUM, with a USD 8.4 billion value, is distributed across 29 other jurisdictions (including offshore domiciles) (IFSB, 2018).

Figure 17: Assets under Management and Number of Islamic Funds (USD billion)



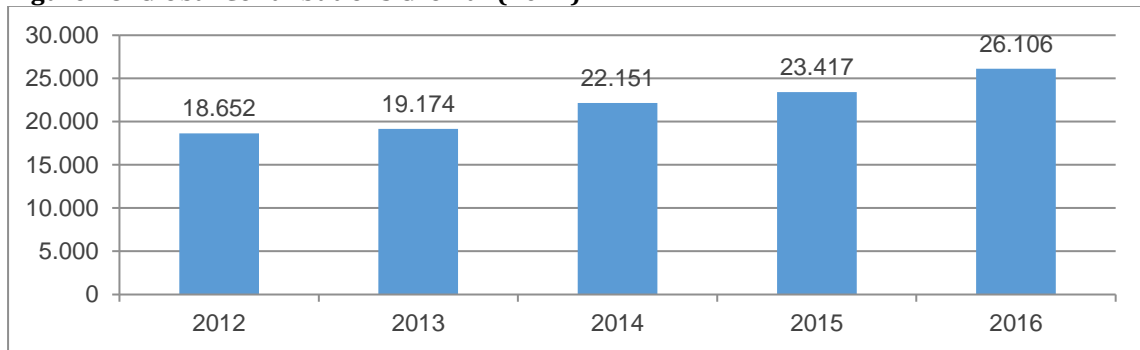
Source: IFSB 2018

²⁰ Ibid.

2.5 Takaful

Considering the relatively small share of the takaful industry, takaful sector is still a niche market in the global Islamic finance industry. In spite of its share, the takaful industry continued its upward trend in most countries. Population growth and robust regulatory environment present opportunities for takaful sector to expand. The Global takaful contributions reached USD 26 billion in 2016 and were mainly driven by the top four countries that are holding 85% of the total takaful contributions: Saudi Arabia (38%), Iran (34%), Malaysia (7%) and UAE (6%).

Figure 18: Global Contributions Growth (2017)



Source: IFSB 2018

3. FINANCIAL COOPERATION UNDER THE COMCEC

The financial cooperation area has a 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 a 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 the economic development. In this regard, financial cooperation has emerged 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 on-going 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 in 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 criteria 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 a 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 11 meetings so far.

The proceedings of the abovementioned 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 and Islamic fund management. Furthermore, it will also elaborate on infrastructure financing through Islamic Finance, takaful, Shariah governance, standardization, Entrepreneurs and SMEs financing and Islamic Social finance in its future Meetings.

3.2.2 COMCEC Project Funding Mechanism

The other important instrument for the implementation of the COMCEC Strategy is the new 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 2018, two financial cooperation projects are being supported under the COMCEC Project Funding. The owner of the first project titled “Training and Guidelines on Sukuk Issuance” is Nigeria and their partners are Gambia and Togo. Within the scope of the project, a training program and a workshop were organized in Nigeria. During the training program, key people from agencies related to the Sukuk was trained on the effective issuance of a Sukuk from the issuance to its resale on the secondary market. In addition, in the workshop, which held in Abuja with the participation of the representatives from issuing agencies, financial regulators, participants discussed the effective issuance of the Sukuk.

The project titled “Improving Financial Consumer Protection in the OIC Countries” was implemented by Turkey with the participation of 11 member countries. The project aims at achieving a better functioning financial consumer protection for the OIC countries by evaluating and standardizing best practices, administrative experiences and rising trends in financial consumer protection policy field. In this regard, an international workshop with the participation of the project partners was held in Istanbul, Turkey. During the workshop, participants focused on determining a comprehensive financial consumer protection strategy by evaluating and standardizing best practices, cross-border trade and dispute resolution, administrative experiences, joint/coordinated actions, and the other rising trends in the consumer protection policy field.

3.3 On-Going 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 twelve times till now and 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. The Index, launched on June 22nd, 2012, in Istanbul, was designed to measure the performance of 50 leading companies from the 19 member states of OIC. The official launching ceremony of the Index was held during the 28th Session of the COMCEC.

In line with the relevant resolutions of the COMCEC Sessions, the Forum has also been working on 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 capabilities of regulatory authorities. The Forum has held 7 meetings so far.

In line with the relevant resolutions of the COMCEC Sessions, the Forum has been working on COMCEC Real Estate Exchange project.

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 23-25, 2018 in Antalya, Turkey. In line with the relevant resolution of the 15th Meeting, two technical background papers in the following areas: Financial Inclusion and the OIC Economic Outlook were reported to the Meeting.

ANNEX

DEFINITIONS OF SELECTED FINANCIAL BENCHMARKING DATA²¹

Financial Access	
Bank Accounts per 1,000 Adults	Depositors with commercial banks are the reported number of deposit account holders at commercial banks and other resident banks functioning as commercial banks that are resident nonfinancial corporations (public and private) and households. For many countries data cover the total number of deposit accounts due to lack of information on account holders. The major types of deposits are checking accounts, savings accounts, and time deposits. For each country calculated as: 1,000* reported number of depositors/adult population in the reporting country.
Bank Branches per 100,000 Adults	Commercial bank branches are retail locations of resident commercial banks and other resident banks that function as commercial banks that provide financial services to customers and are physically separated from the main office but not organized as legally separated subsidiaries. For each country calculated as: 100,000* reported number of commercial bank branches/adult population in the reporting country.
Market capitalization excluding top 10 companies to total market capitalization (%)	Value of listed shares outside of the largest ten largest companies to total value of all listed shares.
Financial Depth	
Private credit by deposit money banks to GDP (%)	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.
Deposit money banks' assets to GDP (%)	Total assets held by deposit money banks as a share of GDP. Assets include claims on domestic real nonfinancial sector which includes central, state and local governments, nonfinancial public enterprises and private sector. Deposit money banks comprise commercial banks and other financial institutions that accept transferable deposits, such as demand deposits.
Stock market capitalization to GDP (%)	Market capitalization (also known as market value) is the share price times the number of shares outstanding (including their several classes) for listed domestic companies. Total value of all listed shares in a stock market as a percentage of GDP.

²¹ World Bank Global Financial Development Database

Financial Efficiency	
Bank lending-deposit spread	Difference between lending rate and deposit rate. Lending rate is the rate charged by banks on loans to the private sector and deposit interest rate is the rate offered by commercial banks on three-month deposits.
Bank return on assets (% , after tax)	Commercial banks' after-tax net income to yearly averaged equity.
Bank return on equity (% , after tax)	Commercial banks' after-tax net income to yearly averaged equity.
Stock market turnover ratio (%)	Total value of shares traded during the period divided by the average market capitalization for the period.
Financial Stability	
Bank non-performing loans to gross loans (%)	Ratio of 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 nonperforming includes the gross value of the loan as recorded on the balance sheet, not just the amount that is overdue.
Bank capital to total assets (%)	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.
Bank regulatory capital to risk-weighted assets (%)	The capital adequacy of deposit takers. It is a ratio of total regulatory capital to its assets held, weighted according to risk of those assets.

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