

POLICY RECOMMENDATIONS OF THE 3RD COMCEC FINANCIAL COOPERATION WORKING GROUP MEETING

The COMCEC Financial Cooperation Working Group (FCWG) successfully held its 3rd Meeting on October 16th, 2014 in Ankara / Turkey with the theme of “Risk Management in Islamic Financial Instruments”. During the Meeting, the participants discussed some crucial policy issues in light of the main findings of the research report prepared specifically for the Meeting and the responses of the Member Countries to the policy questions as well as to the capacity inventory questionnaire that have already been sent to the Member States. Accordingly, the working group has come up with the policy Recommendations below.

Policy Recommendation 1. Developing Islamic Finance Strategies at National Level

Rationale: Countries around the world are taking necessary legal steps to improve their economic outlook and engage in international trade and other cooperation endeavors. A crucial part of this process includes the usage of various financial systems for funding projects and other initiatives that lead to improved infrastructure, social well-being and, ultimately, economic growth. Hence, Islamic finance plays a key role in this process, and in doing so, the advancement of the Islamic finance industry through the implementation of national strategies/plans that prioritize the role of Islamic financial institutions might be a key initiative among others. Development of Islamic Finance Strategies at national level will provide a roadmap and will facilitate the creation of legal, regulatory and supervisory frameworks for the Islamic Financial Services Industries (IFSI) and stimulate the efficiency and innovation in the Islamic Finance Industries of Member Countries.

Policy Recommendation 2. Developing Necessary Legal and Institutional Infrastructure for the Islamic Financial Services Industries (IFSI)

Rationale: Islamic finance can play an important role in promoting international economic growth and mitigating financial crisis. Having a well-functioning legal and institutional infrastructure is of particular importance in this respect. However, most of the member countries do not have necessary institutional infrastructure for IFSI. Member Countries need to promote development of key economic and legal institutional infrastructure in accordance with their own peculiarities to create an enabling environment for risk sharing financial systems such as Islamic Finance. To promote risk sharing products, Member Countries need to take necessary steps such as establishing credit registries, and business rating institutions as well as national credit bureaus, supporting research & development budget for research in Islamic Finance as well as constituting a well- Annex 9 to OIC/COMCEC/30-14/REP 176 formulated data collection system and key indicators to measure performance which are linked with international databases

Policy Recommendation 3. Diversification of Islamic Financial Instruments and Services

Rationale: Lack of efficient differentiated products and services is a major challenge not only for conventional financial instruments but also for Islamic Financial ones. Diversified Islamic Financial Instruments and services is a must to ensure sustainable growth and stability of Islamic Finance as well as for taking necessary measures against financial crisis with a powerful financial structure. Member countries need to encourage financial engineering and introduction of new instruments to meet the demands of IFSI.

Policy Recommendation 4. Increasing Financial Literacy and Awareness on Islamic Finance, and Developing Human Capacity

Rationale: Low financial literacy and lack of awareness on Islamic Finance are the major challenges in many member countries. Financial literacy is the main element that creates knowledge and demand for financial instruments. Furthermore, human capacity in Islamic Finance Industry in the Member Countries needs to be improved for increasing the competitiveness and reducing operational risks.

Policy Instruments The Member States may utilize the following instruments in acting on these policy recommendations.

COMCEC Project Cycle Management (PCM): Under the COMCEC PCM, the CCO provides grants for the member countries' projects in each cooperation area of the COMCEC Strategy. Accordingly, the member countries may submit their project proposal in the particular policy areas of COMCEC Strategy. As a regular basis, the CCO makes a project call each year in September.

FCWG: The working group itself is another instrument that the member countries may benefit through developing cooperation programs and projects. During the working group meetings, the member countries may exchange their views on issues pertaining to four policy issues mentioned in this document and come up with specific recommendations and/or cooperation projects to realize their implementation.

Capacity Building Programs: Capacity building programs may be organized in related to the policy areas with the CCO's resources and Member Countries' own resources. Here, the CCO would play a facilitating role through circulating the capacity building programs offers and matching them with the other member countries which expressed an interest to those offers.