



**GCC Engagement Note No. 2**  
**IMPROVING THE QUALITY OF FINANCIAL**  
**INTERMEDIATION IN THE GULF COOPERATION**  
**COUNCIL (GCC) COUNTRIES**

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# IMPROVING THE QUALITY OF FINANCIAL INTERMEDIATION IN THE COUNTRIES OF THE GULF COOPERATION COUNCIL

## I. Introduction

This Engagement Note provides a snapshot of financial development in the countries of the Gulf Cooperation Council (GCC) — Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE) — and identifies key areas of the financial sector reform agenda where the World Bank Group (WBG) through the Finance & Markets Global Practice (FMGP) can provide its support, in particular through the provision of analytical services and advisory (ASA).

A key challenge for GCC countries is to diversify their economic structures, increase the role of the private sector, improve the efficiency of the government and reform the educational system and the labor market. This is essential to create employment opportunities for a young and growing domestic population. In this context, the development of an efficient, stable and inclusive financial sector is a policy objective in itself and a necessary conduit to a more diversified and productive economic system.

The financial sector in the GCC, which remains dominated by banks, presents a degree of depth and intermediation capacity in line with the overall level of financial development and structural characteristics of its member countries. Yet it has not produced the expected inclusive growth-enhancing benefits, signaling a “quality gap” with respect to the rest of the world. Access to finance for small and medium enterprises (SMEs) is among the lowest in the world and the impact of the financial sector on long-term economic growth is weaker than in other regions.

Against this backdrop, this Engagement Note suggests that improving the quality of financial intermediation in GCC economies is a balancing act between enhancing access and preserving stability. Accordingly, it detects and discusses several areas of engagement for WBG which are consistent with the financial sector reform agenda of the region. In particular, based on the expertise and delivery capacity of WBG, particularly of FMGP, this Engagement Note suggests that WBG target ASA in the following areas: (i) financial infrastructure, particularly insolvency regimes, creditor rights and payment and settlement systems; (ii) banking competition; (iii) government debt capital market development, including *sukuk*; (iv) credit guarantee schemes for SMEs; and (v) macroprudential supervision.

## II. Regional context

The GCC economy as a whole comprises nearly 50 million inhabitants and produces an aggregate GDP of about \$1.6 trillion (2013 figures). Total GDP is equivalent to 85 percent of the total Canadian output. The oil and gas sector contributes more than one half of GDP in the GCC. Other contributing sectors, albeit much smaller, are construction, tourism and banking. Given the arid climate, agriculture is of negligible importance. Developments in nominal GDP and export values are closely related to energy prices, in accordance with the strong focus on oil and gas in the economy.

While displaying some significant differences in terms of size and population, GCC countries share a number of structural economic features. In terms of population and aggregate output, Saudi Arabia is the largest of the six countries, comprising about 29 million inhabitants (about three-fifth of the total GCC population) and accounting for more than half of total GCC GDP. The other five countries are considerably smaller: the second largest country, the UAE, is home to only 9.3 million people, or one-third of the Saudi population. The UAE produces roughly a quarter of total GCC GDP, slightly more than half that of Saudi Arabia. Key common features are a high dependency on hydrocarbons (as expressed in the share of oil and gas revenues in total fiscal and export revenues), a young and rapidly growing national labor force, and a heavy reliance on expatriate labor in the private sector.

These features also pose common structural policy challenges to GCC economies. The latter face three major challenges to economic development, namely (i) an increased need for diversification away from oil and gas; (ii) privatization, liberalization and efficiency-recovering initiatives in view of the large size of the government sector; and (iii) reforms to labor market and educational systems. The key issue behind these challenges is generating sustainable growth in the private non-oil sector that can provide employment opportunities for a young and rapidly growing population.

Against this background, the development of the financial sector has been a policy priority in many GCC countries over the past two decades. Financial sector development in the region has been closely associated with the policy objectives of economic diversification, privatization, and liberalization. Financial markets play a central role in these strategies: a thriving financial sector ensures resources are allocated efficiently toward growing enterprises and thus contributes to employment generation, productive investment and, through these channels, economic diversification. In this respect, aspirations to build financial centers to recycle global savings have been high in many GCC countries. More important, however, a competitive financial sector can help promote economic activity in other parts of the economy, most importantly through credit, equity, and debt financing of entrepreneurial activity, an efficient allocation of savings and investment assets, and reliable and cost-effective infrastructures for payments and securities transactions.

Promoting financial sector development in the GCC is particularly important given global economic events of recent years. On the one hand, the global financial crisis has cast a shadow on the financial services industry, sent shockwaves through private and public sectors in the region and has taken its toll on business sentiment and growth. Moreover, political uncertainty and instability has increased in the MENA vicinity. On the other hand, the significant drop in oil prices in recent months has introduced a new reality in GCC economies. Though the outlook for oil prices over the medium term remains uncertain, government spending will likely be constrained for a number of years. For example, the IMF estimates that the revenues of GCC countries will slip by \$300 billion in 2015 only. This means that the current growth model which is anchored in rising oil prices and government spending will no longer work. Instead, countries will need to further diversify their economies and enable the private sector to become a self-sufficient engine of growth and jobs.

### III. Financial sector in GCC countries

The financial sector in the GCC countries is bank-based and, with the exception of the UAE and Bahrain, have penetration rates well below that of advanced economies. At the end of 2013, the UAE and Bahrain (including the offshore sector) had the largest banking sectors. Total banking sector assets stood at 144 percent of GDP in the UAE and over five times GDP in Bahrain. By contrast, in Oman, with the smallest banking sector, total bank assets amounted to about 60 percent of GDP. Saudi Arabia's banking sector is also relatively small in the regional and international context.

The banking sector is largely domestically owned. This reflects entry barriers and licensing restrictions for foreign banks, including GCC banks. Except for Bahrain, all GCC countries have limits on foreign ownership. Therefore, the cross-border presence of GCC banks and other foreign banks is limited and is mostly in the form of branches, in many cases as single branches. Foreign bank presence is important in Bahrain and the UAE, with regulators opening up the financial sector to foreign banks on a reciprocal and selective basis.

Two additional structural features are common to the GCC's banking sectors: public ownership and concentration. Public and quasi public-sector ownership varies but ranges from 13 percent in Kuwait, to 30 percent and 35 percent in Oman and Saudi Arabia, respectively, and reaches over 52 percent in the UAE (data approximate). Oman and Saudi Arabia's relatively high public-sector ownership is mostly attributed to quasi government ownership, while in the UAE public ownership of domestic banking assets is mostly attributed to direct ownership by the government (42 percent). The GCC banking sector is also heavily concentrated, with a few banks dominating the market: in all countries, the three largest banks (all domestic banks) account for 50–90 percent of total banking sector assets. Bahrain, Kuwait, and Qatar are the most concentrated banking systems.

Nonbank financial institutions (NBFIs) have a limited presence in the GCC, with some exceptions. Investment funds have been growing rapidly in several countries, although they tend to remain largely focused on domestic equity and real estate. Most mutual investment funds are bank-owned; they are present, although on a limited basis, in Bahrain, Saudi Arabia, and the UAE. Kuwait has approximately 95 investment companies, equivalent to 75 percent of banking sector assets (2012 data). Their relatively large asset size and increasing reliance on the banking sector for financing has raised their systemic risk and possible spillover effects on the banking sector. The insurance sector remains small and is mainly focused on property/casualty risks. Contractual savings are underdeveloped and dominated by public pension systems, which are mainly defined-benefit, "pay-as-you-go" schemes. They contribute little to the accumulation of long-term resources for investment.

With regard to financial markets, GCC stock markets developed very dynamically over the last decade, reaching an average capitalization of 107 percent of GDP in 2007. After a major correction in 2008, average stock market capitalization was down to 44 percent in 2013. However, stock markets play a major role only in Kuwait and Saudi Arabia, the largest market which account for half of total volumes for the region as a whole. Listings remain concentrated in a very small number of sectors, especially basic industries and financial services. The GCC stock markets are dominated by domestic retail investors, who tend to be prone to less sophisticated investment behavior than

institutional investors. The dominance of domestic retail investors in GCC markets reflects restrictions on foreign participation in GCC stock markets.

Debt securities markets are the least developed financial segment in the GCC. Still, the market is on an upward trajectory, particularly the corporate bond market. Moreover, *sukuks* (Islamic bonds) play an increasingly important role in bond issuance in the GCC, given the dynamic growth—albeit from a relatively low basis—of Islamic finance in the region and increasing demand for Shariah-compliant investment products worldwide. The GCC is one of the largest Islamic banking markets with approximately \$300 billion in financial assets, about one third of the total global Islamic banking assets.

**Table 1: GCC financial sector – Key structural metrics**

Country	Year	Domestic Bank	Private Credit	Stock Market	Insurance	Total Bond
		Deposits / GDP	/ GDP	Capitalization	Premiums /	Issuance
		%	%	/ GDP *	GDP	Volume / GDP
				%	%	%
Bahrain	2005	54.44	43.68	108.74	1.56	6.13
	2009	78.28	71.44	73.82	2.01	5.59
	2013	70.55	69.10	52.91	1.76	6.67
Kuwait	2005	53.01	50.93	160.99	0.56	0.62
	2009	79.09	79.07	90.58	0.47	0.47
	2013	62.67	59.19	52.99	...	0.18
Oman	2005	26.82	30.83	49.41	0.98	...
	2009	39.05	46.68	35.86	1.28	...
	2013	35.16	42.62	25.68	0.94	1.06
Qatar	2005	46.91	33.72	196.08	0.96	5.31
	2009	58.83	51.73	89.83	0.97	15.79
	2013	60.36	39.11	66.53	...	3.13
Saudi Arabia	2005	39.42	35.42	196.71	0.31	0.36
	2009	59.08	45.63	74.29	0.45	0.65
	2013	50.56	40.12	50.87	0.44	1.73
United Arab Emirates	2005	46.21	43.76	64.20	1.11	3.70
	2009	75.54	84.46	31.47	1.60	13.78
	2013	68.11	64.39	17.70	1.29	3.94
OECD (median)	2005	77.51	100.07	79.96	5.60	14.60
	2009	89.47	110.75	59.98	5.36	23.46
	2013	93.10	114.21	61.99	4.49	15.33

\* Figures are for 2012.

Source: Finstats

#### IV. Trends and issues

##### *Sustained credit growth before the crisis followed by a substantial correction and uncertain outlook*

GCC economies saw a marked acceleration in credit growth to the private sector beginning in the middle of 2000s. Over the period 2003–08, Qatar and the UAE experienced significant private sector credit growth at around 45 percent and 35 percent, respectively, while Oman had the slowest rate in the region at around 20 percent. Albeit indirectly, credit to the private sector was spurred by the increase in international oil prices. Higher oil prices boosted government spending and non-

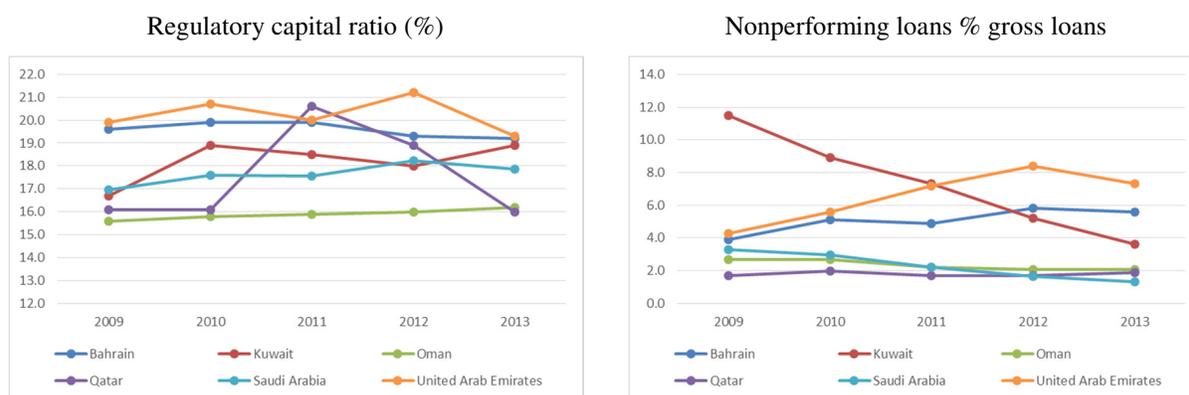
oil GDP growth and, as a result, strengthened business confidence and local and regional private sector activities and investments.

With the global chain of events unleashed by the Lehman Brothers’ failure in September 2008, the ensuing drying up of funds—both domestic and cross-border—contributed to an equally spectacular decline in the growth of credit. For example, after peaking at 26 percent in mid-2008, credit growth in Bahrain slowed down to just over 4 percent in 2010. More recently, although credit growth has been picking up from its post-crisis lows (at around 10 percent for the region), the recovery from the boom-bust cycle is still incomplete. Lower oil prices are likely to delay any significant rebound in credit provision given the negative impact that the latter have on government spending, which is a major driver of private consumption and corporate investment, and ultimately of economic growth.

### *Stable financial systems*

Notwithstanding the positive impact of increasing bank intermediation in the GCC on economic activity, as international experience shows, high rates of credit growth during an economic upturn almost invariably lead to high levels of credit defaults when economic activity slows. Yet the region proved fairly resilient to recent episodes of financial stress. True, authorities had to intervene directly to stem unintended consequences of the financial crisis, but systemic stability was never at risk. This is also true historically: GCC economies have a lower propensity to widespread instability when compared with other regions. With the only exception of Kuwait in the early 1980s, no GCC country has ever experienced a systemic financial crisis.

**Figure 1: GCC banking sector – Key financial metrics**



Source: Finstats

Banks are in general highly capitalized and liquid though they present high concentration ratios. Regulatory and supervisory frameworks are well developed and on par with OECD economies. In 2013, the ratio of capital to risk-weighted assets (capital adequacy) in the GCC ranged from 16.0 percent in Qatar to 19.2 percent in UAE. This is considerably more than the level required by the Bank for International Settlements (BIS) regulation (Basel III). Despite this prudent approach, GCC banks show healthy profitability, also partially owing to favorable tax regimes, and a low share of non-performing loans (NPL) in total loans, the only exception being UAE and Bahrain (7.3 percent and 5.6 percent respectively in 2013). Figure 1 presents some financial metrics for the banking sector in GCC.

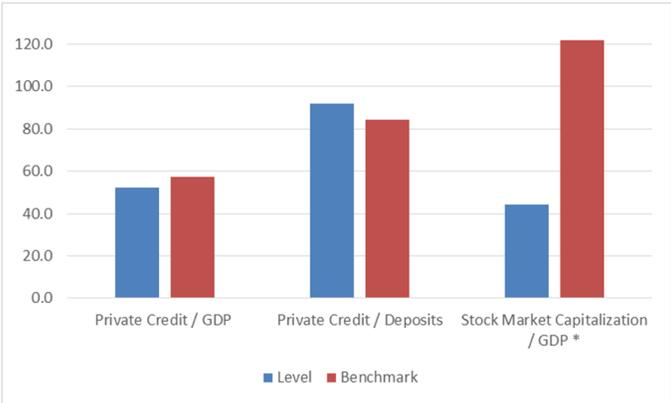
The impact of lower oil prices on banking systems is likely to be muted in the near term, but downside risks are likely to increase over time. Second-round effects of lower oil prices on economic activity could weaken asset quality, liquidity, and profitability, but the speed of adjustment is likely to vary across countries. GCC banking systems will be affected by the decline in oil prices, given the strong correlation between non-oil growth and government spending, but they should remain resilient owing to their high capital.

***Deep financial systems***

Despite the recent boom-bust cycle, GCC countries have experienced several decades of steady financial deepening—that is, increasing importance of the financial sector in the economy. As a result, the region stands out rather favorably compared with other regions. Using standard measures of financial depth—ratio of private sector credit to GDP and stock market capitalization—it appears that financial development is adequate in GCC economies, amply surpassing the averages seen in other emerging markets. When measured in relation to non-oil GDP, credit to the private sector and stock market capitalization in the GCC registers the highest rates among emerging market countries. In addition, the capacity to generate and intermediate deposits, as proxied by the ratio of private credit to deposits, is also significant.

That GCC economies on average display deep financial systems is confirmed not only by a comparison with other regions but also in relation to the structural characteristics of their economies. Recognizing that a country’s financial development may be partly explained by structural factors such as its income, population size and density, age distribution, natural resources endowment and offshore financial markets, WBG has produced financial structure benchmarks against which a country’s financial development can be compared across time. From this perspective, actual and predicted measures of financial depth for GCC countries are broadly aligned, the only notable exception being stock market capitalization, for which the level observed is about a third (half) of that predicted by their structural factors (see Figure 2).

**Figure 2: GCC financial sector – Actual levels vs. benchmark (percent, 2013)**



\* Figures are for 2012.  
Source: Finstats

### ***Quality gap in financial intermediation***

Despite its depth, the GCC financial sector has not produced the expected inclusive growth-enhancing benefits, signaling a “quality gap” with respect to the rest of the world. First, the region has fallen short in providing access to financial services for their population. All six countries have a smaller number of deposit and loan accounts, especially female accounts, than other high-income economies. The average share of SME lending in the region amounts to only 2 percent, and has not improved in recent years. SMEs perceive the lack of external financing as a serious obstacle to business expansion. Available credit tends to be heavily concentrated, favoring a few large and well-established firms, especially in the real estate and oil & gas sectors. GCC countries exhibit one of the world’s highest ratios of top 20 exposures to total equity (at about 180 percent).

Second, the impact of financial depth in GCC economies is weaker than in other regions. Put differently, the level of financial deepening in the region is less effective than in other regions when it comes to generating long-term economic growth. Although it is difficult to ascertain exactly why the same amount of credit in GCC pays a lower dividend than in other regions, it is plausible that limited access to financial services, and to credit in particular, is a key piece of the puzzle, as is low competition in the financials sector.

### **V. Areas of WBG engagement**

The “new normal” that GCC economies are now facing, characterized by lower oil prices, provides an opportunity to introduce far-reaching reforms in the financial sector to address the “quality gap”. Financial stability is not enough for GCC economies to reap the benefits of economic diversification and there is a dire need for inclusive financial development. A successful reform agenda for the coming years will necessarily be a balancing act. Enhancing access to the existing depth requires a combination of policies aimed at improving the environment for financial intermediation. At the same time, as financial services increase in size and breadth and the borrower pool expands beyond the traditional large and well-connected firms, credit risk is set to rise. Policymakers should then ensure that the benefits of reforms are not undone by excessive instability.

WBG through FMGP is well positioned to assist GCC countries in improving the quality of financial intermediation. FMGP’s mandate is to support client countries in the achievement of financial inclusion and stability as well as sustainable growth by delivering integrated public and private sector solutions tailored to country circumstances. The ultimate goal is to contribute to building deep, diversified, efficient, inclusive, and stable financial systems—which are critical enablers toward the achievement of the twin WBG goals of alleviating poverty and fostering shared prosperity. Support is typically provided by delivering a custom-made package—as opposed to stand alone projects—of finance, knowledge, advisory and convening services, in partnership with other Global Practices and agencies within the WBG.

In particular, WBG can assist GCC economies with ASA in the following areas, which have a direct or indirect impact on the quality of financial intermediation:

## *Strengthen financial infrastructure*

There is a need to modernize insolvency laws in GCC countries. In particular, reorganization procedures have to be made more effective and liquidation procedures more efficient and less formalistic and cumbersome. Laws need to be modernized, and the functioning of the judicial system needs to be improved. Specialized courts can be created to deal with insolvency cases. Recent experiences suggest that some jurisdictions in the GCC are ready to implement an out-of-court restructuring scheme. At the same time, there is also a need to strengthen creditor rights in GCC countries. The most appropriate way to do so is to regulate every aspect of the chain of secured lending through specific legislation, whereas in GCC economies the secured transactions system is still largely characterized by a fragmented legal framework, with scattered provisions on financing secured with movable property in different parts of the legislation, included mostly in the Civil and Commercial Codes. There is not a centralized electronic registry for security interests in movable property. In terms of both “Strength of Legal Rights” and “Strength of Insolvency” under the WBG Doing Business Indicators, GCC economies rank lowest in the world.<sup>1</sup>

GCC countries also need to make marginal improvements to their national payment and settlement systems. Although GCC economies have state-of-the-art national payment and settlement systems in place, there are some areas where reforms are needed. First is the legal and regulatory framework. The latter typically lacks an overarching framework and is spread across several pieces of legal measures, leading to ambiguity on several aspects, notably: lack of clear articulation on finality of settlement, oversight powers of the central bank and licensing norms for payment systems operators and payment service providers. Second is the oversight framework. All GCC countries have established dedicated departments/organizational units for payment systems within the central bank. There is a need to formulate a clear oversight framework and implementation roadmap and attention needs to be given to capacity building. Third is the area of innovative payment mechanisms. Though there has been a strong growth in electronic payment transactions in GCC countries as of late, checks remain the main form of payment. There is therefore a need to upgrade the legal and regulatory framework for innovative payment mechanisms, which is currently hampering entry of innovative services, including in the area of remittances services. Finally is regional integration. GCC countries are currently exploring integration of their payment and settlement systems. However, certain preconditions need to be in place for ensuring safety and reliability, notably the harmonization of the legal and regulatory framework; robust risk management framework; and active engagement of private sector players. In all the areas above, FMGP could mobilize technical expertise to assist GCC countries in their reform efforts.

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<sup>1</sup> WBG is currently supporting few GCC countries with ASA aimed at introducing expedited distressed debt workout procedures; adopting a new Enterprise and Liquidation Law; introducing a new Secured Transactions Law for movable property, including establishing a new modern electronic registry for recording security interests in movable assets; and promoting judicial specialization for commercial procedures and insolvency. WBG is also discussing with some GCC countries programmatic support to improve the overall business environment and the Doing Business ranking by providing diagnostic services; supporting reform of the legal and regulatory framework; communication and public awareness campaign; stakeholder training and capacity building; development of an out-of-court workout framework; and regulation of insolvency practitioners.

### ***Improve competition in the banking sector***

Understanding competitive dynamics in the banking sector is an essential ingredient of the financial sector reform agenda because competition matters for the efficiency of financial intermediation, access to financial services and systemic stability. There is overwhelming evidence that more competitive banking systems are associated with higher efficiency and financial inclusion, without undermining stability. GCC banking sectors exhibit the lowest degree of competition in the world. Lack of competition is primarily driven by stringent licensing requirements; low presence of non-bank financial institutions and relatively shallow capital markets; lack of foreign bank competition due to limits on foreign ownership; and the inability of banks to engage in non-traditional banking activities as a result of activity restrictions.

WBG is currently conducting a competition assessment of the SME credit markets in the region. The objective of the assessment is to screen laws, regulations and practices to identify unnecessary regulatory restrictions to competition and institutional inefficiencies, and propose changes to improve the regulatory and institutional environment, and ultimately increase access to financial services for SMEs while maintaining the stability of the banking sector. The assessment will also look into the institutional framework for competition policy in the banking market and benchmark it against international best practices. WBG could follow up with more in-depth country-level competition assessments, including in other segments of the financial markets.

### ***Improve the effectiveness of credit guarantee schemes for SMEs***

One common and increasingly used form of government intervention in SME credit markets around the world is represented by credit guarantee schemes (CGSs). Unlike other types of interventions, such as state-owned banks or directed lending arrangements, CGSs may generate fewer distortions in the credit markets and may lead to better credit allocation outcomes. Therefore, they are considered one of the most market-friendly types of government intervention.

Some GCC countries have already in place CGSs while others are considering to establish one. In both cases, it is essential that CGSs are designed in a way to maximize outreach and additionality while preserving financial sustainability. In this context, WBG is currently developing a set of internationally-agreed principles or best practices for the design and implementation of CGSs around the world in partnership with regional associations, including the Arab Monetary Fund. The principles would provide a blueprint for CGSs and guide WBG's policy advice in this area.<sup>2</sup>

### ***Develop government debt capital markets and sukuk***

The efficient development of capital markets, including debt markets, in GCC economies can contribute to increase competition in the financial sector while creating new markets and institutions, especially for the provision of long-term finance. Developing debt capital markets, including new instruments, requires country-specific strategies addressing weaknesses in each of the main building blocks. WBG support in this area is in general more effective when there is a clear strategic need/driving force (e.g. to support infrastructure funding gaps) and the scope of

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<sup>2</sup> In this area, WBG is currently helping some GCC countries introduce best practices in the design and delivery of credit guarantees for SMEs.

ASA is sufficiently broad to address the several building blocks in the market development agenda.<sup>3</sup>

Core activities that could be conducted by WBG in debt capital market development include: (i) reviewing and designing a broad debt market development road map, including legal and regulatory framework, investor base, primary bond market, money market, market infrastructure, secondary market, and derivatives; (ii) building benchmark yield curves based on government securities, including selection of instruments, maturities, issuance frequency, and regular calendar and supporting mechanisms; (iii) developing primary and secondary markets for conventional and non-conventional instruments, including examining prospects for development of fixed-income products, both conventional and *sukuk*, taking into account current demand and supply trends. Special attention is required for *sukuk* market instruments, being the latter highly structured products which require a high degree of standardization and enhanced regulatory/governance frameworks; and (iv) strengthening the regulation and the institutional capacity of capital market authorities and institutional investors, including through providing advice on high-level policy and supervisory strategy, developing training programs, developing procedure manuals, designing disclosure systems and improving the regulators' own governance regimes.

### ***Strengthen macroprudential supervision***

GCC countries are advised to strengthen macroprudential oversight. Several GCC countries are already using a variety of the macroprudential tools advocated in regulatory reform proposals, including limits on debt service coverage ratios, loan-to-value ratios and loan-to-deposit ratios. Given the undiversified nature of these economies and their heavy reliance on hydrocarbon revenues, which lead to sharp cycles, consideration could be given to complementing these initiatives with other steps aimed at improving supervision. For example, WBG could assist financial regulators in the region with macro-stress testing of the financial system, including an assessment of the factors contributing to systemic risk to determine the most appropriate potential policy responses. In this respect, support can be provided through a systematic assessment of the interconnectedness of the financial system and through the development of network models. Capacity building and knowledge transfer would be a key theme throughout the provision of such services. In addition, WBG could conduct, jointly with the financial sector authorities of GCC countries, crisis simulation exercises to identify where existing arrangements need to be strengthened and cooperation fostered. Such simulations typically gather key public decision makers to experience a plausible financial crisis scenario and identify areas where improvements are needed, such as availability of information and analytical frameworks to make decisions, public communication, or assessment of possible responses under tight time constraints.

Finally, there is also scope for addressing specific challenges of Islamic banks to strengthen their safety and efficiency. Some of those challenges are very similar to those of conventional finance; others are unique to Islamic finance. The most significant challenges are in the areas of regulation, supervision, and international harmonization; and risk management. Enhanced international harmonization and cooperation would facilitate faster growth of the Islamic financial industry. More international cooperation is needed by home and host regulators and standard setters. The

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<sup>3</sup> WBG is supporting some GCC countries in bond/sukuk market development. This assistance includes the development of a roadmap to develop sound domestic debt capital markets, drawing a detailed assessment of demand, supply, market infrastructure and regulatory issues.

legal and regulatory framework of Islamic finance needs further work to make it consistent with international practices while maintaining the unique features of Islamic finance. There needs to be an integrated crisis management framework to ensure that any emerging crisis in the Islamic financial system will be managed. In this context, WBG could assist financial sector authorities with diagnostic and capacity building activities aimed at strengthening the relevant legal, regulatory and supervisory framework.