

# Review

## Economic Cooperation and Development

VOL.2 NO.2 SEPTEMBER 2009

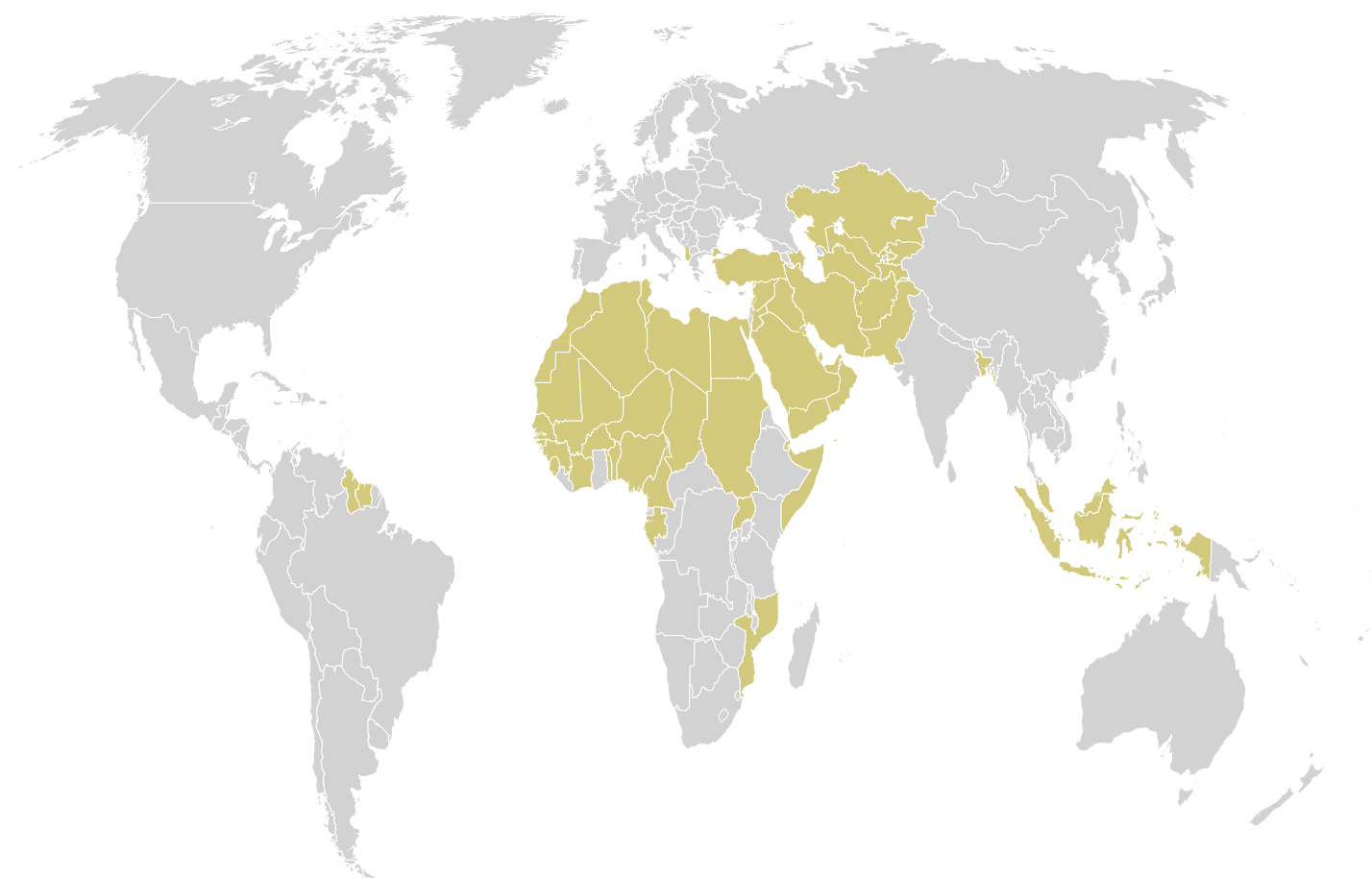


Organisation of the Islamic Conference

Statistical Economic and Social Research  
and Training Centre for Islamic Countries  
(SESRIC)

# Economic Cooperation and Development Review

VOL.2 NO.2 SEPTEMBER 2009



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## EDITOR-IN-CHIEF



*Savaş Alpay*  
*Director General, SESRIC*

Though it is still a new semi-annual periodical where the first issue was just appeared in September last year, the Economic Cooperation and Development Review, a recent initiative by SESRIC, has been very well received and highly appreciated at all levels and by all measures. The first two issues of the Review have been circulated widely within the OIC community and elsewhere, particularly at the highest levels of the governments of the OIC member countries, including heads of states, ministers, senior officials, and academicians. This encouraging feedback will no doubt foster our enthusiasm to further developing this periodical as an effective instrument for enhancing the Centre's efforts to provide the necessary and up-to-date information and knowledge that would make the member countries better informed of each other's capacities and needs as well as challenges and potentials.

The third issue of the Economic Cooperation and Development Review appears in a time where the OIC and its subsidiary, affiliated

and specialised institutions are celebrating the 40th anniversary of the OIC. In its capacity as an OIC subsidiary organ specialised in the areas of statistics, economic research, training and technical cooperation, the SESRIC has initiated new activities to be implemented during this year on the occasion of the 40th anniversary. In this context, our Centre has organised, in collaboration with the General Secretariat of the OIC and the Turkish International Cooperation and Development Agency (TIKA), the First Meeting of the Development and Cooperation Institutions (DCIs) of the OIC Member Countries in Istanbul on 13-14 May 2009. The delegates conducted very lively and rich discussions on new insights for supporting the efforts of the member countries towards achieving more progress in poverty alleviation and human capacity building. They also exchanged their experiences on effective development cooperation policies and practices and deliberated on different options for sound partnership. The Meeting was the first instrumental step towards establishing sustainable cooperation and collaboration mechanism among the development and cooperation institutions with a view to realising effective coordination in their operations and efforts towards achieving more significant and tangible results in the target member countries. SESRIC will organise this important meeting on an annual basis, and the second meeting of the DCIs of the OIC member countries will be hosted by the Abu Dhabi Fund for Development in the United Arab Emirates in 2010.

As another important contribution to the development efforts of our member countries, our Centre, in line with its mandate, has developed a comprehensive programme to address one of the most salient

developmental challenges of the OIC member countries: vocational education and training. The Vocational Education and Training Programme (OIC-VET) not only supports and supplements the activities of the OIC member countries, but also focuses on increasing accessibility and raising the quality of VET, and provides an opportunity for organizations involved in VET to build partnerships, exchange best practices, increase the expertise of their staff and develop their skills and competencies. The Programme will enhance the cooperation and collaboration among the OIC member countries to improve the quality and capacity of their vocational training systems, and develop innovative vocational training approaches. The OIC Vocational Education and Training Programme will begin with a two-year pilot application phase during which the proper implementation of the programme will be screened and examined by the Monitoring and Advisory Committee, and will be followed by a full implementation period.

The third issue of the Economic Cooperation and Development Review also appears in this time where many developed and developing countries are still suffering the negative impacts of the global economic and financial crisis in terms of continuous slowdown of economic growth and high unemployment rates. International, regional and national development organisations are still struggling to curb the adverse impacts of the global recession, and in particular, to reduce the burden of unemployment on the societies. In fact, during the early stages of the crisis, there was an almost international consensus on the dire need to work out measures for the transformation of the international financial architecture. Yet, although the need for restructuring the international financial system has been voiced by many world leaders, it seems that these voices have recently dwindled, and the momentum

towards transforming the financial system has been lost. Without any doubt, failure to introduce fundamental changes in the financial system, will lead to repetition of financial crises in the future, making them regular as opposed to exceptional phenomenon. This will be the biggest burden of the financial crisis, worse than all the loss in economic growth and employment, and should be avoided at all costs. In this context, we have started, since May 2009, preparing a series of monthly reports on the current global financial crisis and its impacts on developing countries including the OIC members. The SESRIC Monthly Reports on the Current Global Financial Crisis aim at monitoring the developments related to the current global financial crisis and highlight the actions taken at the global, regional and national levels to contain the negative impact of the crisis. In particular, these reports attempt to present potential alternatives for a sound international financial system that would prevent future generations from facing the catastrophic impacts of the crisis. Among these alternatives, a financial system based on Islamic principles (such as equity-based financing and real activity-based transactions), has attracted the attention of many. In such a financial system, the conventional financial instruments such as collateral debt obligations (CDOs) and credit default swaps (CDSs), which stand at the heart of the current crisis, are either not allowed or regulated very tightly, and many researchers come to argue that current global financial crisis could have been avoided if such a system had been in place.

In an effort to mitigate the adverse impacts of the global economic crisis on the member countries, the OIC Standing Committee for Economic and Commercial Cooperation (COMCEC) requested our Centre to undertake the task of preparing a comprehensive research project on

developing concrete, feasible and practical proposals for enhancing cooperation in trade and investment among the OIC member countries. The ultimate aim of the project is to activate and enrich the Agenda of COMCEC annual ministerial sessions with a view to enhancing economic and commercial cooperation among the OIC member countries. This timely and important research project has been carried out based on a methodology that includes relevant data analysis, findings of academic research, special questionnaires and interviews and a brainstorming workshop on the theme "Enrichment of the Agenda of the COMCEC". The final report will include concrete proposals for enhancing economic and commercial cooperation among the member countries, and will be submitted to the 25th Session of the COMCEC which will be held in Istanbul on 5-9 November, 2009 for consideration by the ministers of economy and trade of the OIC member countries. Moreover, our Centre will co-organise, in collaboration with the Central bank of the Republic of Turkey, a consultative meeting for the Central Banks of the OIC Member Countries to discuss possible means and ways of cooperation with a view to strengthening the economies of the member countries in the face of the global financial crisis. The meeting of Central Bank Governors will be held in Istanbul on October 3rd, 2009 parallel to the annual meetings of the World Bank and the IMF.

This issue of the Review includes four articles by eminent personalities on issues of immediate concern to the OIC member countries. The President of the Islamic Development Bank (IDB) Group, Dr. Ahmad Mohamed Ali, presents his very valuable views on "Impact of Global Financial and Economic Crisis on IDB Member Countries: IDB Group Response to the Crisis" whereas the Acting Governor of Bank Indonesia, Prof. Dr. Miranda S. Goeltom, presents her views on "The Impacts of Global Crisis on Indonesian Economy". Articles by the President of the World Water Council, Mr. Loïc Fauchon, titled "In Favour of Water Diplomacy" and by Dr. Ala Alwan, Assistant Director-General, World Health Organization (WHO) titled "Addressing Non-communicable Diseases and Injuries in OIC Member States: Uniting Public Health and Development Agendas" include key messages in these important areas.

I am confident that, with the continuous and encouraging contributions of eminent personalities, economists, policy-makers, government officials, academicians and researchers in the OIC community and elsewhere, the Economic Cooperation and Development Review will continue to significantly enhance the developmental efforts of the developing countries in general and the OIC members in particular. At the end, I would like to express my deep thanks and appreciation to all the contributors to the third issue of the Review.

Dr. Savaş Alpay  
Director General  
S E S R I C

## ECONOMIC COOPERATION AND DEVELOPMENT REVIEW

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## ARTICLES

**Dr. Ahmad Mohamed Ali**

*President, Islamic Development Bank*

Impact of Global Financial and Economic Crisis on IDB Member Countries: IDB Group Response to the Crisis



**Prof. Dr. Miranda S. Goeltom**

*Acting Governor, Bank Indonesia*

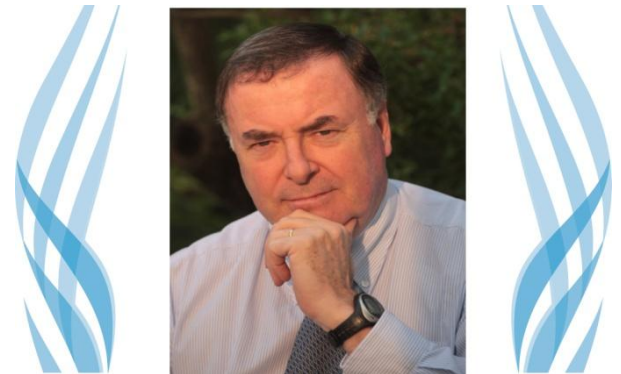
The Impacts of Global Crisis on Indonesian Economy



**Loïc Fauchon**

*President, World Water Council*

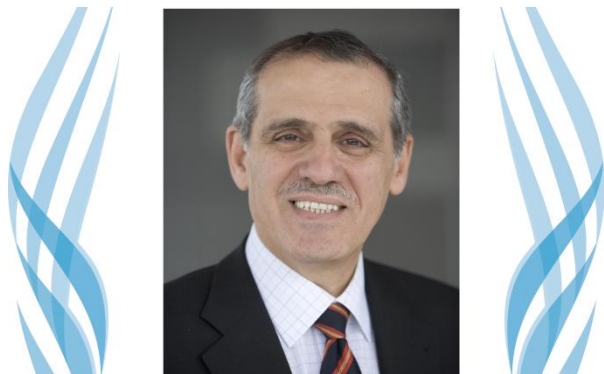
In Favour of Water Diplomacy



## **Dr. Ala Alwan**

*Assistant, Director-General, WHO*

Addressing Non-Communicable Diseases and Injuries in OIC Member States: Uniting Public Health and Development Agendas



## **SESRIC REPORTS**

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The Current Global Financial Crisis: The Deepest Since World War II

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Pharmaceutical Industry in the OIC Member Countries: Prospects and Challenges, Mazhar Hussain, SESRIC

Transportation Sector in the OIC Member Countries, Haytham Zeinelabdin, SESRIC

## **OIC NEWS**

## **COUNTRY NEWS**

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## **ECONOMIC AND FINANCIAL INDICATORS**

## **SESRIC CALENDAR**

03 October 2009 The Annual Meeting of the Central Banks of the OIC Member States  
Istanbul - Turkey

11 October 2009 - 15 October 2009 Workshop for the Arab Countries on Tourism Statistics and Tourism Satellite Account (TSA) Damascus - Syria

13 October 2009 - 15 October 2009 Islamic Conference of Culture Ministers Baku Azerbaijan

13 October 2009 - 16 October 2009 1st International Multidisciplinary Women's Congress Izmir - Turkey

19 October 2009 - 20 October 2009 Special Meeting of the Steering Committee on Health on Pandemic (H1N1) 2009 Virus Jeddah - Saudi Arabia

25 October 2009 31st Executive Committee and 23rd General Assembly Joint Meeting of OISA Beirut - Lebanon

27 October 2009 - 30 October 2009 3rd OECD World Forum on Statistics, Knowledge and Policy Busan - South Korea -

02 November 2009 - 04 November 2009 The 2nd Arab Statistical Conference Tripoli - Libya

05 November 2009 - 09 November 2009 25th Session of COMCEC Istanbul - Turkey

08 December 2009 - 11 December 2009 International Conference on eGovernment: Sharing Experiences (eGOVsharE2009) Antalya - Turkey

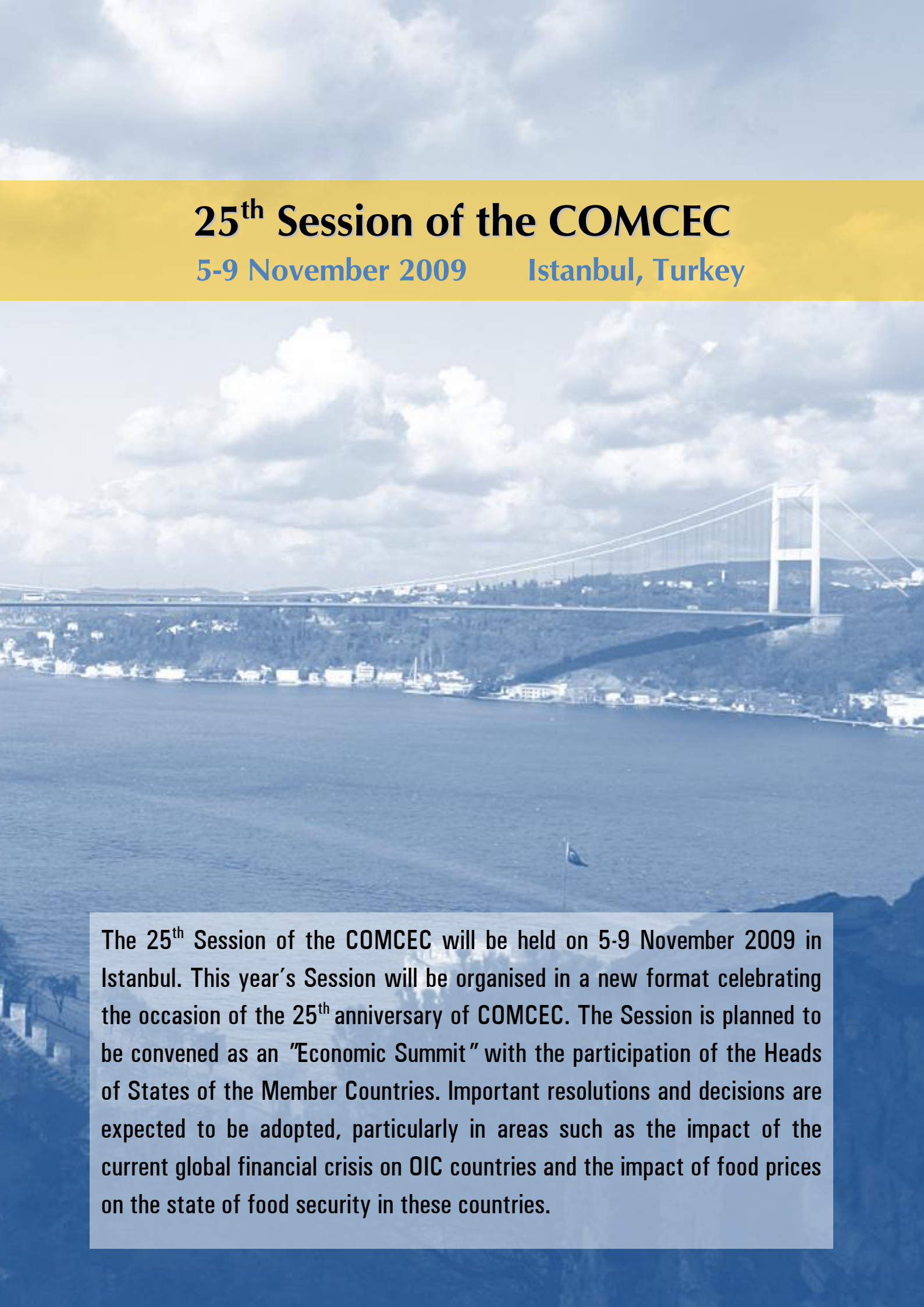
14 December 2009 - 17 December 2009 17th AS Conference Selangor - Malaysia



# 25<sup>th</sup> Session of the COMCEC

5-9 November 2009

Istanbul, Turkey



The 25<sup>th</sup> Session of the COMCEC will be held on 5-9 November 2009 in Istanbul. This year's Session will be organised in a new format celebrating the occasion of the 25<sup>th</sup> anniversary of COMCEC. The Session is planned to be convened as an "Economic Summit" with the participation of the Heads of States of the Member Countries. Important resolutions and decisions are expected to be adopted, particularly in areas such as the impact of the current global financial crisis on OIC countries and the impact of food prices on the state of food security in these countries.

# IMPACT OF GLOBAL FINANCIAL AND ECONOMIC CRISIS ON IDB MEMBER COUNTRIES: IDB GROUP RESPONSE TO THE CRISIS

Dr. Ahmad Mohamed Ali President Islamic Development Bank, Jeddah, Saudi Arabia

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Dr. Ahmad Mohamed Ali Al-Madani is the first President of the Islamic Development Bank (IsDB) since 1975. He was born in Almadinah Almunawarah, Saudi Arabia, in 1934, where he completed his early education. He holds a B.A. degree in Commerce as well as a degree in Law from Cairo University, Egypt. He earned M.A. and PhD degrees, both in Public Administration, from the University of Michigan, Ann Arbor, and, the State University of New York (SUNY), Albany, USA, respectively in 1962 and 1967. He is married with four children.

Dr. Ali began his career in education and manpower development with his appointment as the Director, Scientific and Islamic Institute, Aden, Yemen, during 1958-1959. Subsequently, he returned to Saudi Arabia and was appointed as the Acting Rector of King Abdulaziz University from 1967 to 1972. In 1972, he became the Deputy Minister of Education and served his country for three years.

Upon the initiative of the late King Faisal Bin Abdulaziz, when the member countries of the Organization of the Islamic Conference (OIC) decided to establish the Islamic Development Bank (IsDB), Dr. Ali was chosen as its first President. His qualifications, background and commitment to development of people have enabled him to take up the challenges of managing the IsDB and to widen the spectrum of its activities by addressing various development issues as reflected in the activities of the IsDB and demonstrated by the establishment of various entities within the IsDB Group namely Islamic Research and Training Institute (IRTI), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), the Islamic Corporation for the Development of the Private Sector (ICD), and the International Islamic Trade Finance Corporation (ITFC).

Dr Ali's views on development have been expressed in many articles, speeches, lectures and working papers on Islamic Economics, Banking and Education. He is a firm believer that Islamic principles and its applications in Economics and Banking has a lot to offer the world and thus contribute positively towards solving the current economic crisis. Dr. Ali sees development as a comprehensive and integrated phenomenon that has to be continuously reviewed and closely coordinated.

*The global financial and economic crisis is the most serious crisis after the Great Depression of the 1930s. Despite wide-ranging policy actions by G-20, International Monetary Fund, multilateral development banks, and fiscal stimulus packages by the national governments, financial strains still remain acute for the global economy as is evident from unprecedented decline in economic growth, foreign trade, and official and private capital flows. As a Shariah-compliant and the only South-South development bank – Islamic Development Bank – has largely remained unaffected by the financial crisis. However, like other developing countries, the impacts of the current economic crisis have been increasingly felt in its member countries in terms of decelerating economic growth, deteriorating current account balances, and weakening banking sector. Islamic banks and financial institutions have remained largely insulated from the first-order impact of the global financial crisis but there is a major downside risk to their growth and profitability that will inevitably heighten the risk and slowdown credit off-take by Islamic finance businesses across the member countries. The financial crisis is also causing rising unemployment and pushing more people into the poverty trap in these countries. These trends are indicating a setback for member countries in achieving the millennium development goals. In response to the financial crisis, the IDB Group has enhanced its development assistance to help member countries to mitigate its adverse impacts and enhance their socio-economic development.*

*However, economic recovery in member countries in the coming years will critically depend upon their policy actions to revive their economies through effective socio-economic reforms. More specifically, in the post-crisis era, member countries need to reconsider their growth strategies and learn how to cope with a dramatically transformed international financial landscape. Although, the global financial and economic crisis appears to have adverse impacts on exports of member countries, it has also created an opportunity for them to enhance their intra-trade and intra-investment through provision of greater access to their markets, and reducing tariff and non-tariff trade barriers.*

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## 1. Introduction

The current global financial and economic crisis is the most serious crisis after the Great Depression of the 1930s. In early 2008, the IDB anticipated that economic uncertainties created due to the second-order impact of turbulence in the credit markets in advanced economies and the steep fall in world-wide equity markets are likely to increase risks of further slowdown in global economic growth.<sup>1</sup> Despite wide-ranging policy actions at international, regional, and national levels, financial strains still remain acute. Multilateral financial institutions and developed and emerging economies have announced various programs and plans to address the adverse consequences of the financial turbulence in order to restore confidence in the financial markets and stimulate economic growth. For instance, economic and fiscal stimulus packages totaling \$5 trillion have been announced by the G-20 countries, to stem the falloff of aggregate demand, revive consumer confidence and to lay the foundations for turning recession to economic recovery. Further steps include supporting developing countries to face the consequences of global economic recession through expanding resources of the IMF (\$500 billion); strengthening capital adequacy of multilateral development banks for lending (\$300 billion including \$100 billion additional lending); and expanding officially supported trade financing facilities through export credit agencies and the World Bank Group (\$250 billion).<sup>2</sup>

Virtually no country, developing or developed, has escaped from the impact of global financial and economic crisis, although countries that were

relatively less integrated into the global economy have generally been less affected. Like the other developing countries, the impact of the crisis has also been increasingly felt in IDB member countries. A large number of these **countries had already been affected** by the high food and fuel prices and the current economic crisis has added to their economic strains and is posing serious threats to their growth and development. They are being affected both directly and indirectly, although the channels of transmission are different from those in relatively more developed countries.

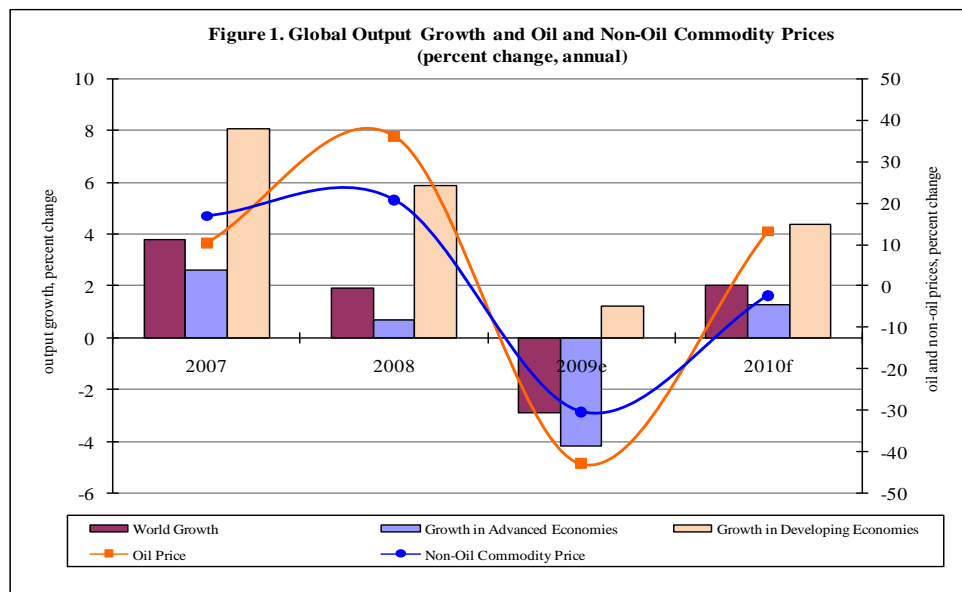
The longevity of global economic crisis is a source of concern for IDB Group because of the magnitude of its impact with varying degrees on the economies of many member countries and the lives of their citizens. In particular, it is likely to reverse the developmental gains achieved thus far in member countries. The human cost of the economic crisis has imperilled the social stability and future economic emancipation of the people. They are being affected by slowing down economic growth, deteriorating current account balances, shrinking remittances and development assistance, declining world trade, and rising unemployment and poverty. Consequently, the millennium development goals appear to suffer a serious setback as the decade-long gains achieved by member countries are under stress. Looking ahead, the prospects for global recovery are projected to occur during 2010 though major downside risks still persist.<sup>3</sup>

This paper describes the main channels of transmission in various regions of IDB member countries and provides a preliminary assessment of the impact of the global financial and economic crisis on the economic growth of these countries as well as their current account balance, and banking and social sectors. Finally, the response of the IDB Group to support economic recovery and address key challenges facing member countries is also highlighted.

## II. Main Channels of Transmissions of Global Economic Crisis

The world economy is facing an unprecedented decline in economic growth, foreign trade, and

official and private capital flows. According to the World Bank (June 2009), global output is likely to fall by 2.9 percent in 2009 - for the first time in 60 years - and world trade by nearly 10 percent; accompanied by plummeting private capital flows from \$707 billion in 2008 to an anticipated \$363 billion in 2009.<sup>4</sup> With the recovery expected to start from end-2009, the world output is estimated to achieve a growth of 2 percent in 2010. The most serious and immediate impact of the financial turmoil has been on the advanced economies, whose real output is estimated to decline from 0.7 percent in 2008 to negative 4.2 percent in 2009. The global economic downturn also resulted in the deceleration of growth in developing economies, which is estimated to drop from 5.9 percent in 2008 to 1.2 percent in 2009 (Figure 1).



Source: World Bank, Global Development Finance Report (June 2009).

The second key factor affecting growth prospects of member countries is the plunging prices of oil- and non-oil commodities. The oil price, which increased by 36.4 percent in 2008, is estimated to decline by 42.7 percent in 2009. Similarly, weakening global demand is depressing commodity prices and creating deflationary conditions around the globe. The non-oil commodity prices, which increased by 21 percent

in 2008, are expected to fall by 30.2 percent in 2009 (Figure 1).

## III. Impacts of Global Economic Crisis on IDB Member Countries

Due to declining prices of oil- and non-oil commodities, contraction in world output, and falling foreign trade and official and private capital flows, member countries of the Bank are likely to face more adverse impacts on their

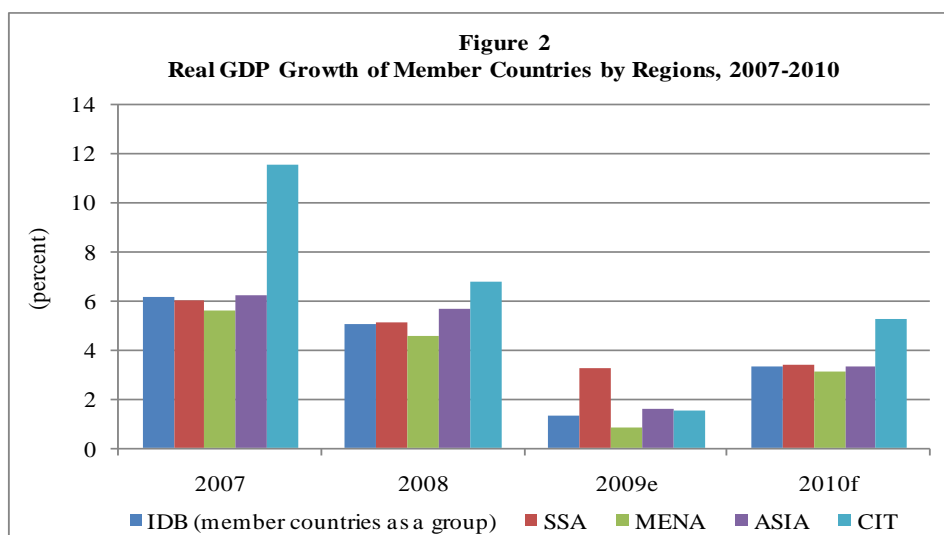
economic growth, current account balance, banking and social sectors in 2009.

However, the situation is expected to improve in 2010.

### A. Slow Down of Economic Growth

IDB member countries (as a group) had experienced impressive real GDP growth of above 5 percent during the last decade, which is unlikely to be sustained in the coming few years. According to IDB estimates (April 2009), the member countries registered a growth of 5.1

percent in 2008 which was, to a large extent, due to higher oil and non-oil commodity prices and strong domestic demand during the first half of the year. Due to spillovers from the global financial crisis, the real GDP growth in 2009 is likely to drop to 1.3 percent but with the recovery of global economy and positive trends in commodity prices, it is expected to pick up by 3.3 percent in 2010 (Figure 2). However, slowdown in economic growth will certainly cause a serious setback for these countries in their efforts towards achieving the millennium development goals (MDGs).



Source: Islamic Development Bank (April 2009).

Among various regions, economies of member countries in the Middle East and North Africa (MENA)<sup>5</sup> grew by 4.6 percent in 2008, which is likely to drop to 0.8 percent in 2009. However, a large number of member countries in the region are major exporters of oil and have substantial financial asset investments in the global financial system. They, therefore, constitute a vital economic bloc in the global economy. For instance, the net foreign asset holdings of the GCC countries is estimated to be between \$1.5 trillion and \$2 trillion, equivalent to 225 percent of their combined GDP. These investments are mainly in direct bank placements, stock markets, telecommunications, real estate, construction and infrastructure in various countries. With the deepening of the financial crisis, the values of

these investments have been depreciated significantly.<sup>6</sup> However, the GCC governments have demonstrated strong commitment to maintain high levels of public investments by drawing from their previous surpluses and Sovereign Wealth Funds. This will help in crowding-in private sector investment to stimulate economic growth, accompanied by the fiscal stimulus packages for economic recovery. It is noteworthy to point out that Saudi Arabia has announced, among the G20 countries, the highest fiscal stimulus packages estimated at 2.8 percent of GDP in 2008, 3.3 percent in 2009, and 3.5 percent in 2010. Besides helping to maintain growth momentum, such sustained fiscal stimulus over the three years will also have beneficial

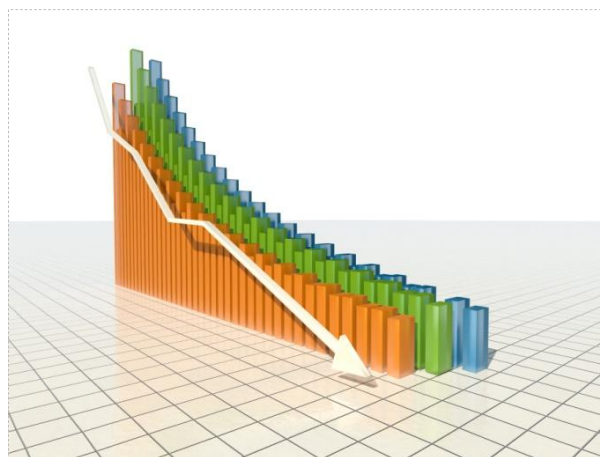
regional spillover effects through remittances channel.

The financial crisis had come at a time when a large number of member countries in the Sub-Saharan Africa (SSA)<sup>7</sup> region were enjoying high rates of economic growth. These countries are especially vulnerable to the global economic downturn because of their high dependence on official inflows, particularly ODA flows and imports by the rich countries that have been hit hard by the economic crisis. In 2008, the SSA region experienced an impressive growth of 5.1 percent. However, the on-going economic recession will have an adverse impact on the growth in the region, which is estimated to decline to 3.2 percent in 2009. In particular, the markets for exports of SSA region are expected to be adversely affected, which will have a dampening effect on their economic growth prospects.<sup>8</sup>

The economies of IDB member countries in the Asia region<sup>9</sup> and Countries in Transition (CIT)<sup>10</sup> have more or less common economic fundamentals. Economic growth of Asian member countries dropped from 6.2 percent in 2007 to 5.7 percent in 2008 and is estimated to further decline to 1.6 percent in 2009 with gradual recovery expected to start in 2010. However, some of the Asian member countries have reasonably strong economic fundamentals, which could help them withstand the financial and economic crisis. On the other hand, the impact of the crisis has been more severe on the member Countries in Transition which experienced a decline in their economic growth from 11.6 percent in 2007 to 6.8 percent in 2008. The growth estimates for these countries for 2009 are only 1.6 percent.

## B. Deteriorating Current Account Balance

As a group, the 56 member countries of the IDB experienced a remarkable surplus in their current account balances during the last decade. According to Bank's recent estimates (April 2009), the current account surplus of these countries was 8.8 percent of their GDP in 2008 but due to the weakening of the global economy, it is estimated to turn into deficit of 1 percent of



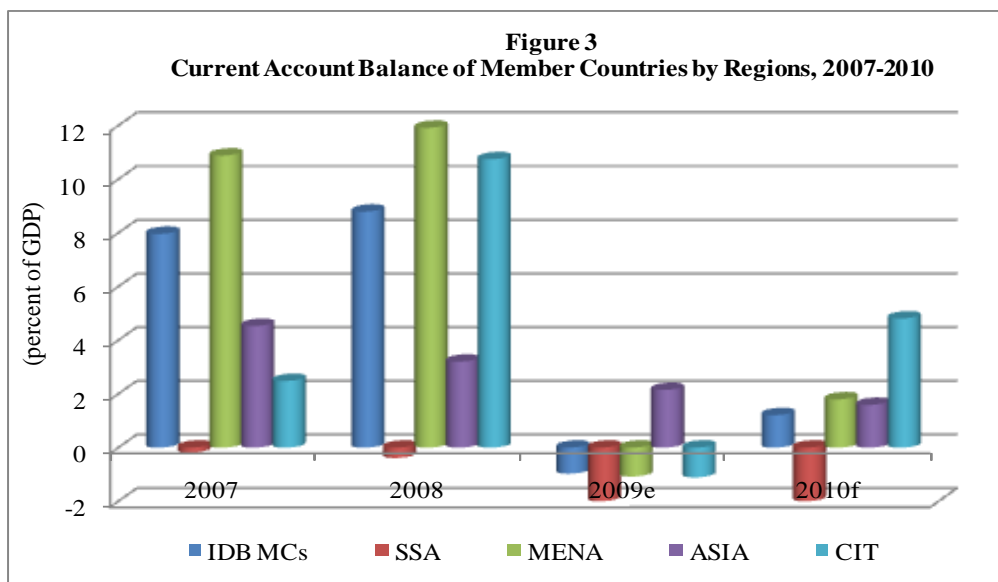
GDP in 2009. However, with the expected revival of the global economy, this deficit is likely to improve and turn into surplus in 2010.

Economies in the MENA region enjoyed a significant surplus in their current account. In 2008, the region's current account surplus was 11.9 percent of GDP owing to, mainly, higher oil price during the first half of the year. Since August 2008, the falling demand for crude oil, the main export commodity of member countries in the region, has seriously affected the current account balance and fiscal position of these countries. Crude oil prices have fallen from a record \$147 per barrel in July 2008 to around \$70 by end-June 2009, thereby exacerbating their current account vulnerabilities with projected deficit of 1.1 percent of GDP in 2009 – first deficit during the last decade.

Member countries of the Bank in the SSA region rely substantially on commodity exports as well as official development assistance (ODA) and remittance inflows for their economic development. Few oil and gas abundant economies among them continue to depend on oil revenues for supporting public expenditures. Due to global economic recession, current account deficit of SSA region is estimated to widen from 0.4 percent of GDP in 2008 to 8.5 percent of GDP in 2009. The region as a whole is likely to experience further economic hardships because of their falling commodity export earnings coupled with the expected decline of ODA and remittances. In particular, lower global economic growth and deterioration in terms of trade are likely to reduce the demand

for exports of goods and services in the SSA region, which will adversely affect their current account balance in the coming years. However, the increasing trade links with the European Union, China, India and other emerging markets are likely to help the SSA region in economic recovery and achieving sustainable growth.

The current account surplus in terms of GDP declined for member countries in the Asia region from 4.5 percent in 2007 to 3.2 percent in 2008 and 2.2 percent in 2009 while in the case of CIT region, this surplus, which was 10.7 percent of GDP in 2008, is estimated to turn into deficit of 1.1 percent of GDP in 2009.



Source: Islamic Development Bank (April 2009).

Although, the global financial and economic crisis appears to have adverse impacts on exports of member countries, it has also created an opportunity for them to reconsider their growth strategies and learn how to cope with a dramatically transformed international financial landscape. For instance, member countries need to enhance intra-trade through additional measures aimed at providing greater access to their markets. The OIC Ten-Year Programme, adopted in December 2005, called on member

countries to expand the scope of intra-trade in order to achieve greater economic integration by raising its level to 20 percent of the overall trade volume by 2015. The intra-trade performance of member countries (as a group) has improved overtime, reaching 17 percent in 2009 and the 20 percent intra-trade target can be achieved through strengthening and expanding the scope of OIC-Trade Preferential System (TPS) in its full spirit. The OIC-TPS has been signed so far by thirty-one member states but ratified by

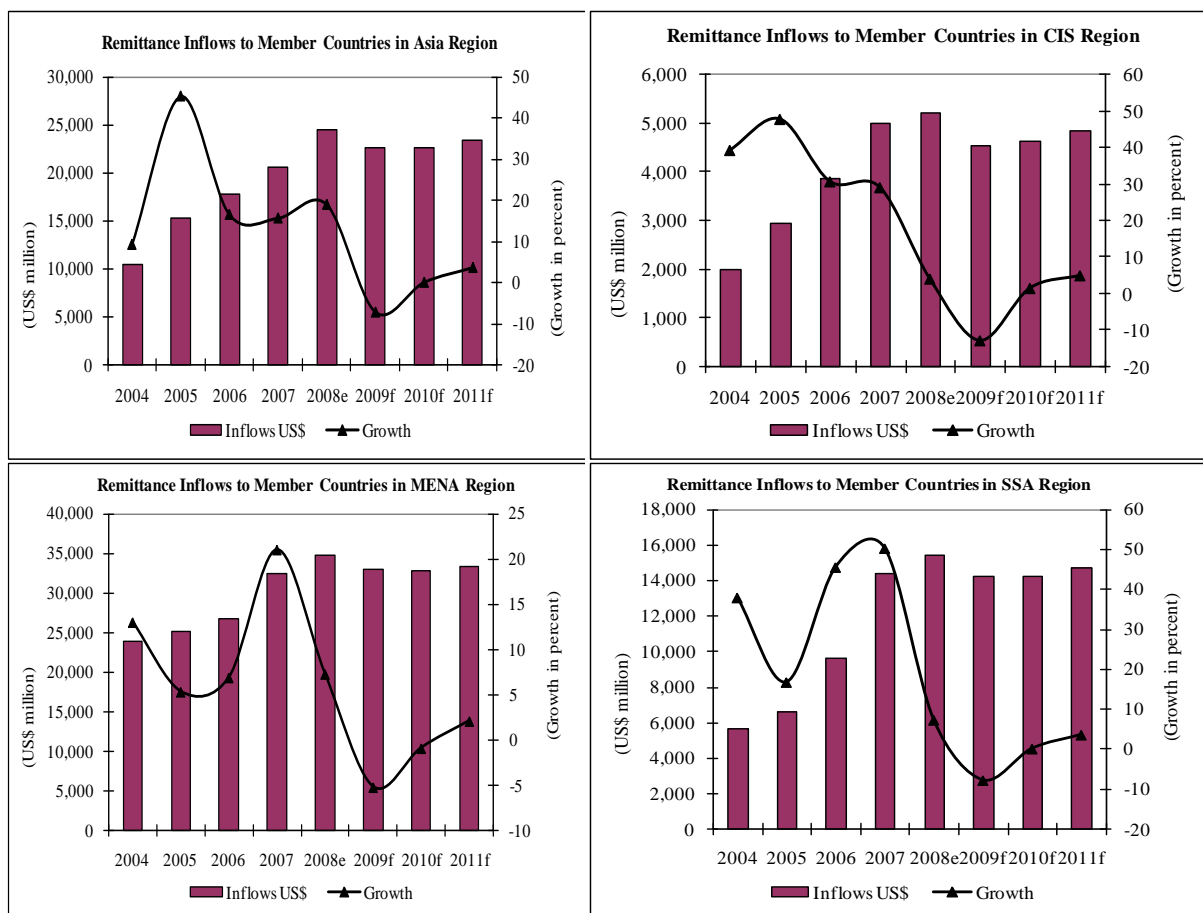
twenty-two members, having the required number of ratifications for its enforcement.<sup>11</sup> Another opportunity is in the area of encouraging investments by the Sovereign Wealth Funds in long-term infrastructure projects in member countries with adequate and competitive risk-return profile.

### C. Sharp Decline in Workers' Remittances

Although, global economic crisis has adversely affected various components of private capital flows such as remittances, FDI, and loans<sup>12</sup>, remittances were affected the most.<sup>13</sup> In many IDB member countries, remittances are the major source of foreign exchange earnings. The dependence of these countries on remittances has sharply increased over the past decade. For

instance, among various regions, MENA received \$34.9 billion, Asia \$24.5 billion, SSA \$15.5 billion and CIT \$5.2 billion in 2008. According to IDB estimates, as a result of the weakening of global economic environment, remittances flows will decline by 12.7 percent in member countries in transition (CIT), 7.9 percent in SSA, 7.4 percent in Asia, and 5.2 percent in MENA in 2009. However, beyond 2009, with the recovery of the world economy, remittances inflows are likely to remain steady (Figure 4). The decline in remittance flows to IDB member countries will have adverse effects on their economies, in particular, on the lives of poor recipient families.

Figure 4. Workers' Remittances Inflows by Regions, 2004-2011



Source: IDB (May 2009), Issue Paper on Shaping the Post-Crisis World: Regional Implications and Coordinated Responses by Member Countries”.



#### D. Weakening Banking Sector

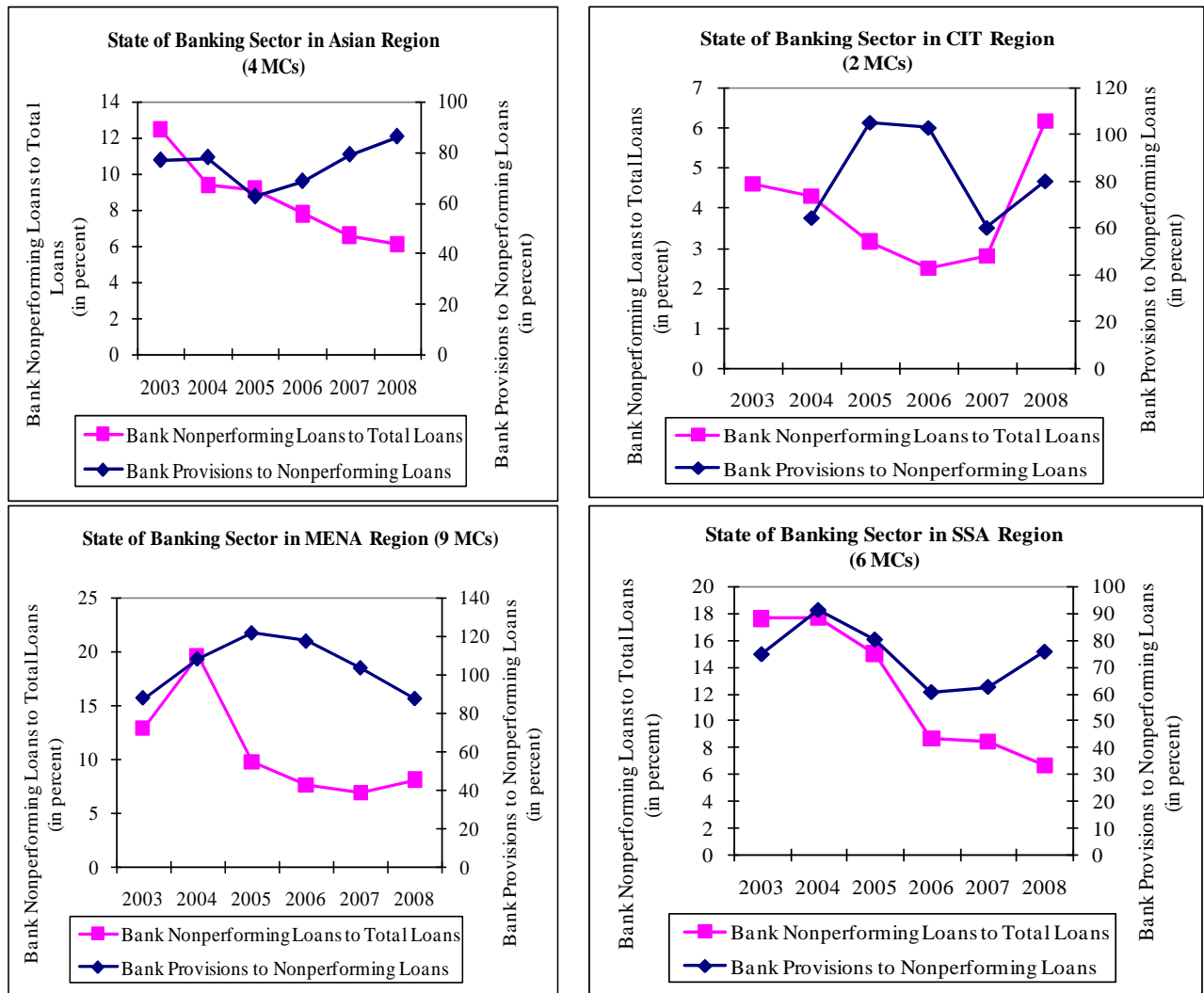
The first round effects of the financial turbulence on the banking sector were felt in almost all countries around the globe, although its extent varied. In many member countries, financial sector reforms and widespread absence of capital account convertibility, except the GCC states, appear to have contributed to the resilience of the domestic banking. In this paper, two key indicators: ratios of bank non-performing loans to total loans and bank provisions to non-performing loans are taken to determine the state of health of the banking sector in various regions of IDB member countries (Figure 5).

Financial institutions in the MENA region appear to be well-positioned and have remained largely insulated from the first-order impact of the global financial crisis as is evident from the declining share of the bank non-performing to total loans from 19.6 percent in 2004 to 8.1 percent in 2008. In particular, the banking sector in member countries has been cushioned by their governments' support and proactive

measures by the central banks. However, GCC member states, one of the biggest markets in the region having an estimated \$1.5-2 trillion net foreign assets, have placed massive funds in the international financial system by way of direct investments in banking sector, stock exchange markets, telecoms, real estate, construction and infrastructure in the USA, Europe, Asia, and the Arab region.<sup>14</sup> Evidently, in the wake of ongoing crisis, the GCC countries are concerned about the depreciation in the values of their assets. Although, the commercial banks in the GCC region have strong assets of \$1.3 trillion, the seizing of global credit market, lower oil prices, falling stock markets, and incipient outflows from banks' deposits have created unexpected challenges for the GCC banking sector in terms of their business growth, profitability, asset quality and liquidity. The economic slowdown and tighter liquidity in the region's financial markets are likely to dampen the performance of GCC banks in the coming years.



Figure 5. State of Banking Sector by Regions, 2004-2011



Source: IDB (May 2009), Issue Paper on Shaping the Post-Crisis World: Regional Implications and Coordinated Responses by Member

Extensive banking sector reforms taken after the Asian financial crisis have well positioned the regional banks in the wake of financial crisis. For instance, the share of non-performing loans declined from 12.4 percent in 2003 to 6.1 percent in 2008 and banks provisions to non-performing loans were increased from 76.6 percent to 85.9 percent during the same period. Similarly, after a period of sustained reforms, banking sector in SSA region has strong fundamentals as reflected in terms of declining share of non-performing loans from 17.7 percent in 2003 to 6.7 percent in 2008. Limited foreign ownership of financial institutions, along with non-exposure to risks arising from complex derivative instruments, also contributed to the minimal effect of the

global financial crisis on the banking sector of SSA member countries. Due to the shrinking credit line, it is becoming difficult to raise funds for new development projects in the region.

In contrast to other regions of IDB member countries, banking sector in the member Countries in Transition appears to be more vulnerable as is evident from the rising share of non-performing loans from the minimum level of 2.5 percent in 2006 to 6.2 percent in 2008. Further, the banking sectors of some countries in this group are also likely to remain vulnerable due to their heavy reliance on non-local currency deposits.

### E. Challenges to Islamic Financial Institutions

Islamic banks and financial institutions have remained largely insulated from the first-order impact of the global financial crisis. This is mainly because of their insulation from 'toxic' financial assets; prohibition of speculative activities; and linking of financial sector to the real economy. However, a major downside risk to growth and profitability prospects of Islamic banks arises from the global economic recession that will inevitably heighten the risk and slowdown credit off-take by Islamic finance businesses across the member countries.

During the last decade, the Islamic financial services industry had grown rapidly with annual growth ranging between 10 percent and 20 percent, while the number of Islamic financial institutions reached 300 in over 75 countries in 2008.<sup>15</sup> The scope of Islamic finance business had also expanded to more sophisticated Shariah-compliant financial products. Clearly, the global financial meltdown has created challenges as well as opportunities for the industry. Shariah-compliant assets worldwide were estimated to have reached \$800 billion by the end of 2007, a phenomenal growth in just seven years from \$140 billion in 2000. According to a recent report by McKinsey & Co<sup>16</sup>, Shariah-compliant assets are projected to reach \$1 trillion by 2010.<sup>17</sup> For the same period, the assets of the Islamic banks in the GCC region grew by 47.5 percent over 2007 to reach \$262.7 billion in November 2008, while in the Asia region they grew by 32.3 percent to reach \$67.1 billion during the same period.<sup>18</sup>

The global exposure of Islamic financial industry to financial services and real estate sector is estimated at over 40 percent.<sup>19</sup> In the current global economic environment, such a high level of sectoral concentration will naturally affect the growth prospects of non-bank segments of the Islamic financial industry. For instance, total issuance of Sukuk stood at around \$14.6 billion in 2008, less than half of nearly \$33 billion

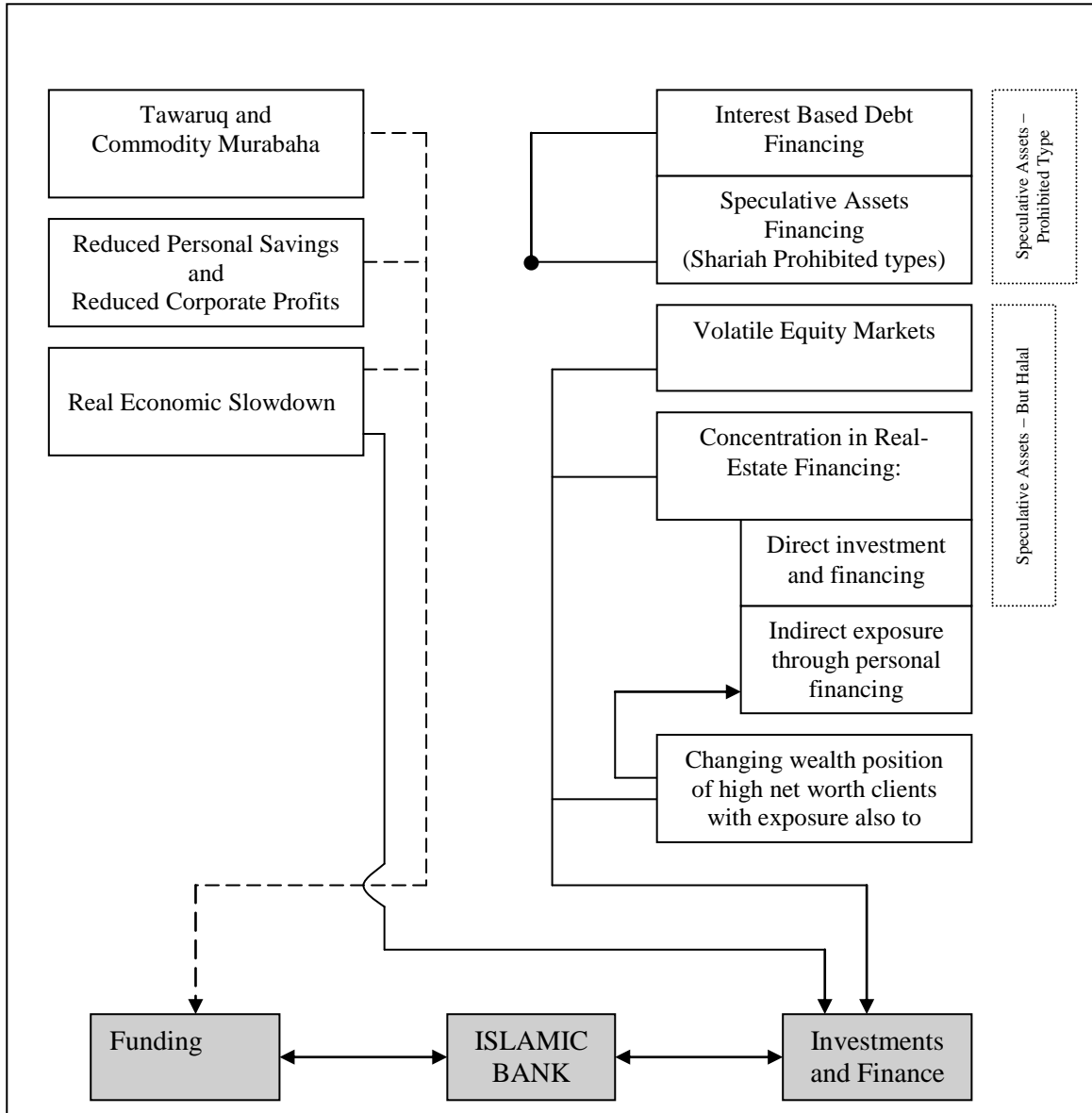
recorded in 2007.<sup>20</sup> The sharp decline in Sukuk issuance was witnessed in the fourth quarter of 2008. This was caused mainly by factors related to global financial crisis such as drying up of liquidity and widening of credit spreads even for prime borrowers. For instance, the weighted average credit spread over LIBOR on Sukuk US Dollar Bond went up by more than four times (i.e. from 296 basis points on first September 2008 to reach at the maximum level of 1,234 basis points on 12 February 2009, and later declined to 715 basis points by end-May 2009).

The global financial crisis, which has now become a global economic crisis, has started to affect Islamic banks and financial institutions in an indirect manner. The business model of many Islamic banks that relied on Murabaha financing and predominantly invested in the real estate sector and in the previously growing equity markets, are now facing higher risks. Figure 6 describes major channels through which the funding and the financing sides of Islamic banks may get affected due to the economic recession and the banks' exposure to a small number of economic sectors. Although, Islamic banks were not affected by the evaporation of values of derivative products, in some regions, they face risk on their financing and investment side of the balance sheet due to the crisis-induced volatility of equity markets where these banks have large positions. Down-turn in the real estate markets where these banks have large direct and indirect exposures is also another source of risk. Similarly, the changing wealth position of their high net worth clients who also hold financial exposure in the hard hit conventional financial sector of the West and therefore are now putting aside any investment plans. The relative importance of each of these factors varies by the region. For example, banks in the GCC region, particularly in UAE, are more exposed to real estate market risk, followed by risk of international equity markets. For the banks in Asia, their investments in domestic and international equity markets are a

source of concern that are showing higher volatility. In some of these countries, the existing fiscal imbalance, which has widened

after the crisis, is also a factor in the increased volatility of the markets.

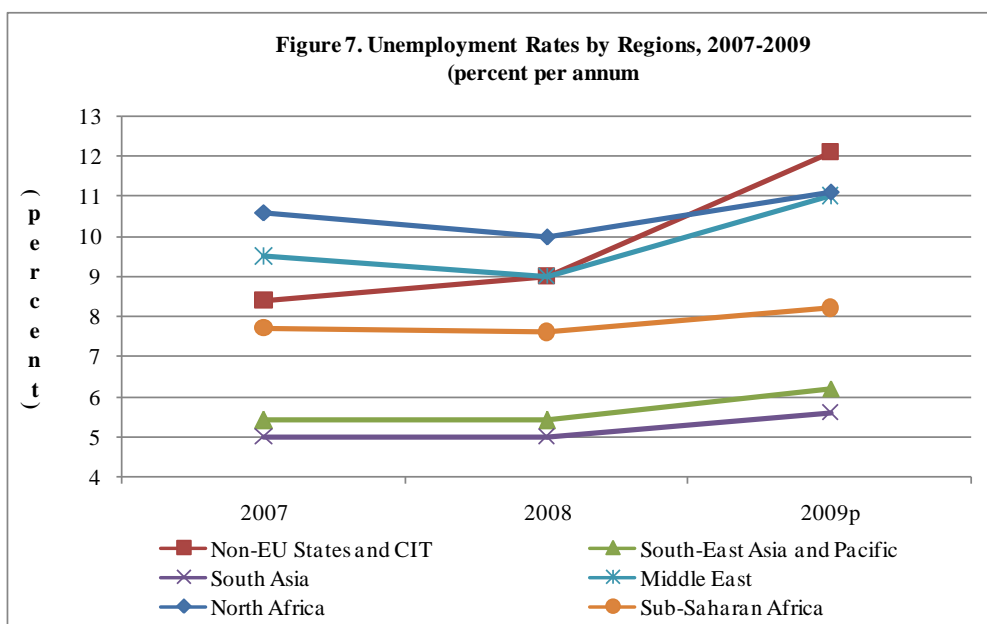
**Figure 6. Channels of Impact of Financial Crisis on Islamic Babnks**



**F. Worsening Social Indicators**  
*Increasing Unemployment*

The latest estimates by the ILO (May 2009)<sup>21</sup> indicate that the global financial and economic crisis could increase the number of unemployed by 59 million from 2007 to 2009. All regions are projected to experience higher unemployment rates in 2009 compared to 2007. Region-wise unemployment trends show that non-EU States

and Countries in Transition are projected to experience the highest increase in unemployment rate from 8.4 percent in 2007 to 12.1 percent in 2009, followed by the Middle East from 9.5 percent to 11 percent; North Africa from 10.6 percent to 11.1 percent; Sub-Saharan Africa from 7.7 percent to 8.2 percent; Southeast Asia and Pacific from 5.4 percent to 6.2 percent and South Asia from 5 percent to 5.6 percent during the same period (Figure 7).



Source: ILO (May 2009), Global Employment Trends Update.

While most IDB member countries were already facing the negative effects of food and fuel crises, the economic recession further compounded their socio-economic problems; in particular, it made the unemployment situation more serious. However, there is no easy solution to this problem. Creation of jobs requires new investment, the pre-requisites of which include political and economic stability, existence of proper legal and regulatory framework, appropriate policy environment, existence of basic infrastructure, and adequate economic incentives.

The IDB is fully aware of the seriousness of the issue and under its various initiatives is trying to assist member countries in reducing poverty through creating more job opportunities, especially for the poor. On the part of the member countries, there is an urgent need to develop, strengthen, and effectively implement strategies aimed at giving young people a chance to make the most of their potential by providing them decent employment opportunities. Further, creating equal opportunities for both youth male and female members of the labour force also remains a major challenge in member countries. It is extremely important that

women's participation in the labour market continues to grow in such a way that they find themselves productive and are able to contribute to the overall economic wellbeing.

### *Rising Poverty*

The global economic slowdown threatens to reverse the gains made in terms of poverty and human development indicators. Recent estimates suggest that the food crisis has caused 130-155 million people to fall back into poverty and global financial and economic crisis will trap 53 million more people in poverty in developing countries, which will need an additional \$38 billion to lift the incomes of the poor to the poverty line.<sup>22</sup>



The sharp slowdown in economic growth in 2009 will substantially expand the resource requirements to put hard hit member countries back on track. According to the latest estimates by the UN (May 2009), between 73 and 103 million more people would fall into poverty due to financial crisis. Most of this setback will be felt in East and South Asia, with between 56 million and 80 million likely to be affected. The crisis could keep 12 million to 16 million more people in poverty in Africa, another 4 million in Latin America and the Caribbean, and about one million more in Economies in Transition. If the ongoing economic crisis transforms into human crisis in the developing world, it will have severe impact on the poor people in various regions of IDB member countries.

#### IV. IDB Group Response to the Crisis

As far as the IDB Group is concerned, its investment operations are conducted according to Islamic Shariah and its funds are invested in secure Islamic portfolios, which remained unaffected by the financial crisis. The IDB having strong financial position also maintained its highest ratings of “AAA” assigned by Standard & Poors’, Moody’s, and Fitch for the seventh consecutive year. The Bank has continued to improve its institutional capacities and is repositioning itself to face the challenges and become a world class institution.



As in the case of other MDBs, the IDB Group is playing a critical and vigorous role through supporting economic recovery and poverty reduction efforts and programs in its member countries. The IDB Group responded through various initiatives and activities at global, regional, national, and Bank levels to help its member countries to mitigate the adverse impacts of global financial and economic crisis. For instance, soon after the outbreak of global financial crisis in September 2008, the IDB Group invited leaders, scholars and experts from the Islamic financial industry for a Forum on ‘Global Financial Crisis and its Impact on the Islamic Financial Industry’, which was held at IDB Headquarters on 25 October 2008. Following the recommendations of the Forum, IDB, after consultations with key stakeholders, established a Task Force on “Islamic Finance and Global Financial Stability”, chaired by the Governor, Bank Negara Malaysia, whose work is aimed at contributing to the reform process of the global financial system with a view to enhancing its resilience and preventing future recurrence.

Given the enormity of the challenges facing the member countries, the Bank has taken some important decisions to help them in mitigating the adverse effects of financial crisis and enhancing their socio-economic development. Foremost of these decisions is to increase the Bank’s annual financing by 30 percent over the next 3 years or providing additional financing of \$2.5 billion. In this context, the Bank plans to issue \$6 billion worth of Sukuk over the next five years in order to finance its programs in member countries. Further, in order to meet the growing demands of the Corporation and to strengthen its role in developing the private sector in member countries, authorized capital of Islamic Corporation for the Development of the Private Sector, an entity of the IDB Group, was increased from \$1 billion to \$2 billion and capital open for subscription from \$500 million to \$1 billion.<sup>23</sup>

At the international level, three members of the Bank (Indonesia, Saudi Arabia, and Turkey), along with their fellow nations, played a significant role in setting out comprehensive G-20 reform agenda for the global financial system. The IDB Group welcome the

commitments of G20 countries for augmenting the resources of the IMF and other MDBs along with other measures to help restoring confidence in the financial markets and stimulating the economic growth, offsetting drop in the financing for international trade, mitigating the tightening of access to international finance and counteracting reduced remittances and ODA flows. The IDB Group recognizes that mainstreaming the G20 reform agenda for the global financial system will entail implementation challenges for national authorities and standard setting bodies at the regional level. The Bank also called upon the IMF and other MDBs, including the IDB Group, to coordinate their support for capacity building aimed at further strengthening of domestic and regional financial sector.<sup>24</sup>

On the part of member countries, in the post-crisis era, they need to reconsider their growth strategies and learn how to cope with a dramatically transformed international financial landscape. The IDB believes that the economies of many of its member countries have the required economic fundamentals to weather the current global economic downturn, but in addition to other steps they also need to adopt appropriate counter-cyclical fiscal policies. A number of member countries with sufficient fiscal space, particularly GCC states, have already demonstrated strong commitments to continue with their planned growth in public investments,



20th IDB Annual Symposium on "Shaping the Post-Crisis World: Regional Implications and Coordinated Responses by Member Countries" held on 2nd June 2009 during the Annual Meeting of the IDB Board of Governors, Ashgabat, Turkmenistan.

need to focus on key areas with high multiplier effects. To achieve this, the value-adding chain of public and private sector investments arising from the fiscal stimulus must ensure strong productive links between various sectors of the economy. It requires consolidation of activities of real

sectors to strengthen the linkages between production and consumption in domestic economies and among economies of member countries. Member countries with fiscal constraints need to improve fiscal efficiency by directing available resources to sectors with high-multipliers as a measure of reducing fiscal strain. There could be spillover effects of such policies, which would trickle down only if the enabling environment exists through fiscal efficiency and effective targeting of investment in infrastructure developments. Expansionary effects resulting from such policies/strategies will create much needed additional employment opportunities which will lead to reduction in poverty through sustainable and inclusive growth. In short, public expenditure of member countries needs to focus on human development and improvement in infrastructural facilities. At the same time, expansion in real sector activities will create opportunities for learning-by-doing and innovation-driven technological progress to provide the basis for sustainable economic growth. Another important lesson that emerges from the crisis is the importance of keeping a tight link between financial sector and real economy. In this context, Islamic finance has many intrinsic features that help in maintaining this link. With this perspective, member countries need to focus on developing a genuine and vibrant Islamic financial sector.

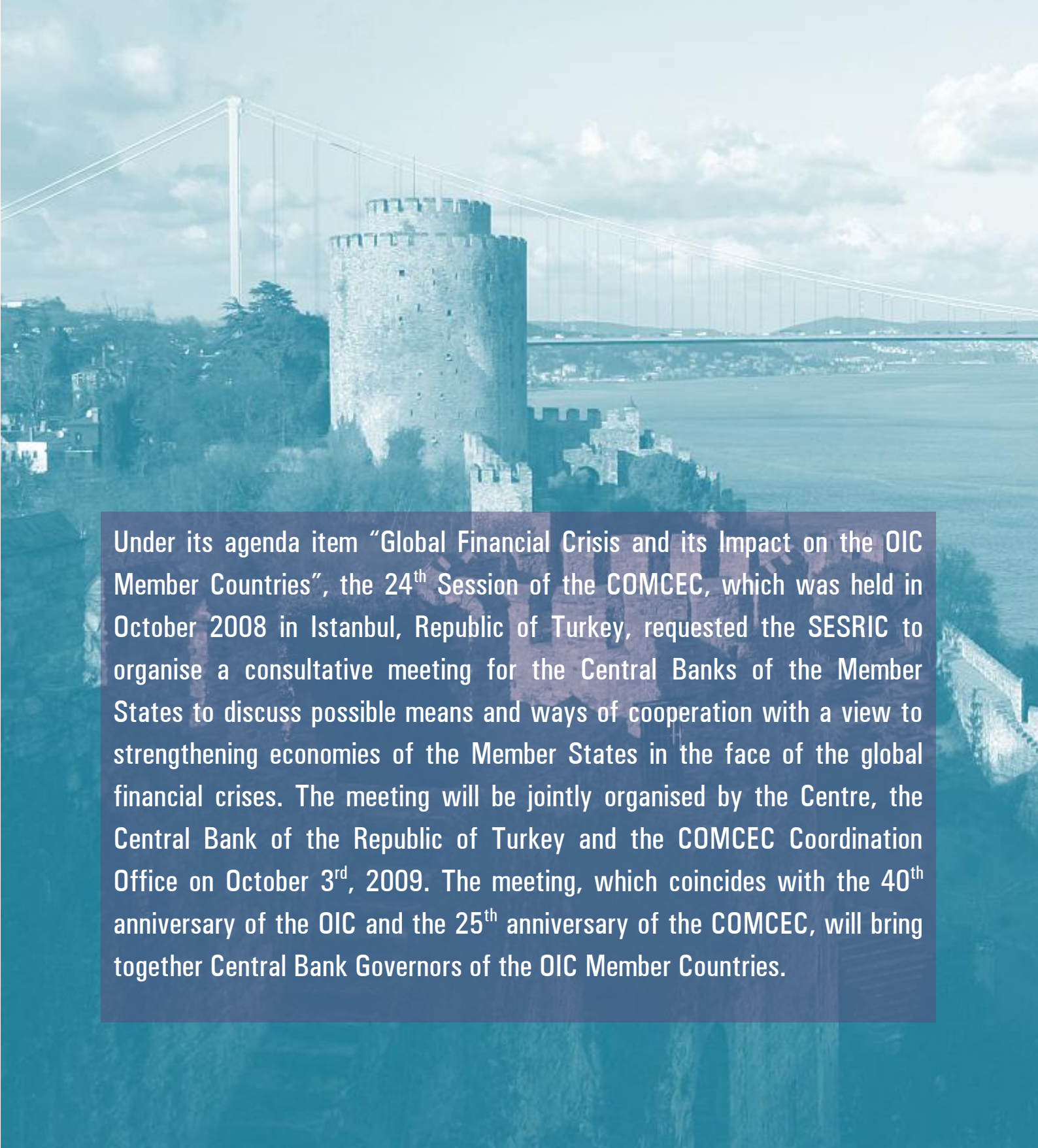
- <sup>1</sup> IDB Annual Report 1428H (2007-2008), Chapter One.
- <sup>2</sup> IDB (May 2009), Issue Paper on “Shaping the Post-Crisis World: Regional Implications and Coordinated Responses by Member Countries”.
- <sup>3</sup> Press Conference by the President, IDB Group, held on 24 June 2009, at IDB Headquarters, Jeddah.
- <sup>4</sup> World Bank, Global Development Finance Report (June 2009).
- <sup>5</sup> MENA region includes Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Syria, Tunisia, Turkey, UAE, and Yemen.
- <sup>6</sup> According to preliminary estimates by Arab Chambers of Commerce, Industry, and Agriculture (April 2009), the global economic crisis had cost the Arab region’s investors \$2.5 trillion.
- <sup>7</sup> SSA region includes Benin, Burkina Faso, Cameroon, Chad, Comoros, Côte d’Ivoire, Djibouti, Gabon, Gambia, Guinea, Guinea Bissau, Mali, Mauritania, Mozambique, Niger, Nigeria, Senegal, Sierra Leone, Somalia, Sudan, Togo, and Uganda.
- <sup>8</sup> According to the World Bank (2009) estimates, a 1 percentage point decline in growth in (and export demand from) trading partners reduces GDP growth in Sub-Saharan Africa by about 0.5 percentage point, in addition to any effects from commodity price changes.
- <sup>9</sup> Asia region includes Afghanistan, Bangladesh, Brunei, Indonesia, Malaysia, Maldives, Pakistan, and Suriname.
- <sup>10</sup> CIT region includes Albania, Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.
- <sup>11</sup> Report on “Twenty Fifth Meeting of the Follow-up Committee of the COMCEC, 12-14 May 2009.
- <sup>12</sup> According to the World Bank, Global Development Finance (2009), net private capital inflows to developing countries fell to \$707 billion in 2008, a sharp drop from a peak of \$1.2 trillion in 2007 and are projected to fall further in 2009 to \$363 billion.
- <sup>13</sup> According to the World Bank, Migration and Development Brief (November 2008), workers’ remittances in developing countries are projected to decline from \$283 billion in 2008 to \$267 billion in 2009, down by 5.7 percent.
- <sup>14</sup> Report by Institute for International Finance (IIF), Washington, (Saudi Gazette, 1<sup>st</sup> November 2008).
- <sup>15</sup> Islamic Finance: Opportunities and Challenges’, published by Gulf One Investment Bank Research Bulletin, Vol. 1, No. 12, December 2008.
- <sup>16</sup> McKinsey & Co (2007), The World Islamic Banking Competitiveness Report 2007/08: Capturing the Trillion Dollar Opportunity.
- <sup>17</sup> According to Moody’s projections, Shariah-compliant assets worldwide are expected to reach \$4 trillion by 2015.
- <sup>18</sup> ‘Top-500 Islamic Financial Institutions’, Supplement published by The Banker magazine, November 2008.
- <sup>19</sup> ‘Islamic Finance: Opportunities and Challenges’, *ibid*.
- <sup>20</sup> ‘Islamic Finance: Opportunities and Challenges’, *ibid*.
- <sup>21</sup> ILO (May 2009), Global Employment Trends Update.
- <sup>22</sup> World Bank, Global Economic Prospects, 2009.
- <sup>23</sup> Closing Statement of the President, IDB Group, at 34<sup>th</sup> Annual Meeting of the Board of Governors held on 2-3 June 2009 in Ashgabat, Turkmenistan.
- <sup>24</sup> Communiqué of the Board of Governors for IDB Group in the Context of Mitigating the Impact of the Global Economic Crisis on Member Countries, issued at the end of 34<sup>th</sup> Annual Meeting held on 2-3 June 2009 in Ashgabat, Turkmenistan.



# Meeting of the Central Bank Governors of the OIC Member Countries

3 October 2009

Istanbul, Turkey



Under its agenda item “Global Financial Crisis and its Impact on the OIC Member Countries”, the 24<sup>th</sup> Session of the COMCEC, which was held in October 2008 in Istanbul, Republic of Turkey, requested the SESRIC to organise a consultative meeting for the Central Banks of the Member States to discuss possible means and ways of cooperation with a view to strengthening economies of the Member States in the face of the global financial crises. The meeting will be jointly organised by the Centre, the Central Bank of the Republic of Turkey and the COMCEC Coordination Office on October 3<sup>rd</sup>, 2009. The meeting, which coincides with the 40<sup>th</sup> anniversary of the OIC and the 25<sup>th</sup> anniversary of the COMCEC, will bring together Central Bank Governors of the OIC Member Countries.

# THE IMPACTS OF GLOBAL CRISIS ON INDONESIAN ECONOMY

Prof. Dr. Miranda S. Goeltom  
Acting Governor of Bank Indonesia



**Prof. Miranda Swaray Goeltom Ph.D, is the Senior Deputy Governor and the Acting Governor of Bank of Indonesia.** She's been actively involved in various Fora such as G-20 meetings, BIS, WTO, APEC Finance and Central Bank meetings, EMEAP, SEACEN, SEANZA, and ASEAN Central Bank Forum. She obtained a Bachelor's Degree in Economics from University of Indonesia, Jakarta, a Master's Degree and a PhD Degree in Economics from the Graduate School of Economics at Boston University, Massachusetts, USA. Her articles were published in various international and domestic journals. A revised version of her dissertation, "Indonesia's financial Liberalization: An Empirical Analysis of 1981-1988 Panel Data" was published in June 1995 by ISEAS-Singapore. In 2007, her second book: "Essays in Macroeconomic Policy: The Indonesian Experience" was published by Gramedia-Jakarta. In 2008, she published her book on Knowledge Management : "Mencairkan Gunung Es".

Her forthcoming book entitled "From Crisis to Crisis: A Central Banker's Perspective" will be published soon at the end of her tenure in Bank Indonesia in July 2009.

*The impacts of global financial crisis on Indonesian economy have been transmitted more through the trade channels rather than the financial channel. Economic contraction is mainly driven by contraction in tradable sector, which is also the largest provider of employment. The wave of job losses in this sector has started which in turn will diminish the labour share of income in the total national income. The sizeable impact of the crisis through the trade channel is explained by a dominant role of primary commodities and limited diversification of export destinations in Indonesia's exports. Meanwhile, the relatively less exposure of domestic bank and financial institutions to toxic assets in the global financial markets, which is also partly a result of Bank Indonesia regulations, explains the relatively resilience of domestic and financial institutions to global financial turmoil.*

## 1. Introduction

The world financial crisis has spread to Indonesia by the end of 2008, in which the early impacts was reflected in capital market and money market turmoil. In December 2008, the Indonesian Composite Index (ICI) closed at 1,355.4, having tumbled to just over half the previous high at 2,627.3 in early 2008. This dramatic change was accompanied by falling market capitalisation and volume of share trading. Capital continued to storm out of Indonesia from funds held by foreigners in stocks, Government Securities (SUN) and Bank Indonesia Certificates (SBIs). By the end of December 2008, foreign ownership of Government Securities was only Rp 87.4 trillion,

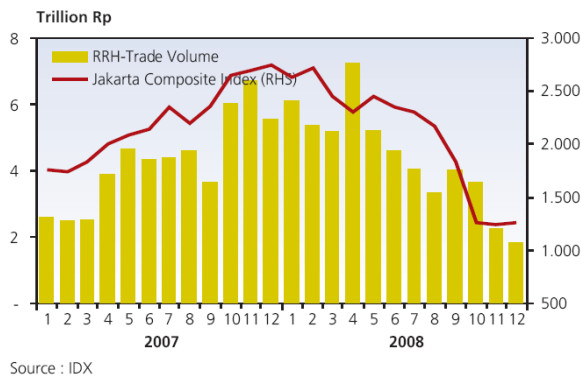
went down from Rp 104.3 trillion in September 2008.

Meanwhile, foreign holdings of SBIs fell sharply to only Rp 8.4 trillion from the August 2008 position of Rp 68.4 trillion. During that period, the rupiah also sustained heavy correction, reached Rp 10,900 per USD in December 2008. This development was in line with the worsening balance of payments performance since Q3/2008, as reflected by a rising current account deficit together with a looming financial account deficit. The rising in current account deficit resulted primarily from falling exports as global economy contracted and export commodity prices fell. Meanwhile, the flight to quality triggered by the

global liquidity crunch and increasing risk aversion among foreign investors bore down on performance in the capital and financial account. With exports under significant pressure, business began to be affected by the crisis, leading to a new wave of job losses in export oriented manufacturing such as wood-based industry, textiles and processed fish.

Against this background, the question is to what extent the crisis will affect Indonesian economy. This article aimed at assessing the impacts of global financial crisis on Indonesian economy. Section 2 analyzes the impacts of the crisis through financial channel. Section 3 analyzes the impacts of the crisis through trade channel.

**Figure 1. Average on Daily Stock Trade**



In stock market, pressure bore down on the trading volume and the composite index (Figure 1), forcing the IDX authority to suspend trading in October 2008. The IDX Composite plunged drastically from 2,830 early in the year to 1,355 at the end of 2008 (Figure 1). The rapid spillover from the global crisis into the domestic financial markets was partly supported by the level of integration of domestic financial markets into the global market. In addition, another key factor in the recent stock market turmoil was the fact that foreigners play substantial role in domestic stock market (Figure 2). The wave of losses in the global financial markets resulted in liquidity problem for many foreign investors, forcing them to deleverage or pull their money out of

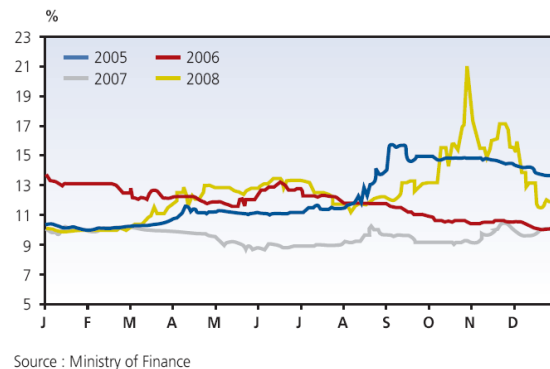
This article concludes with section 4.

## 2. The Impacts of the Global Crisis Through Financial Channel

### a. Financial Channel: Direct Impact

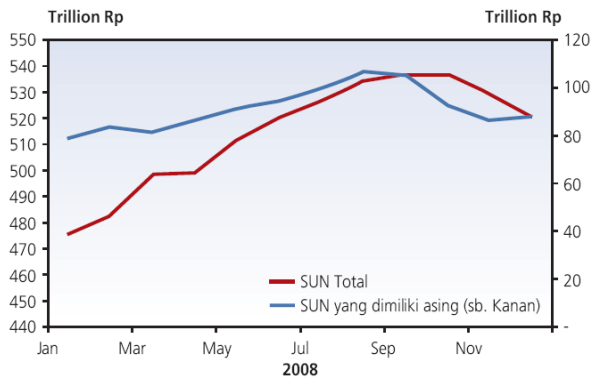
The escalation of the global financial crisis around end-Q3/2008 after the Lehman Brothers collapse has put pressures on domestic financial stability. One indicator of this mounting pressure was the Financial Stability Index (FSI),<sup>25</sup> which surged beyond the maximum indicative limit of 2 to a high of 2.43 in November 2008.<sup>26</sup> The high FSI during the last two months is primarily explained by the tumbling stock and Government Securities prices in Indonesia.

**Figure 2. Foreign Share in Value of Stock Capitalization**



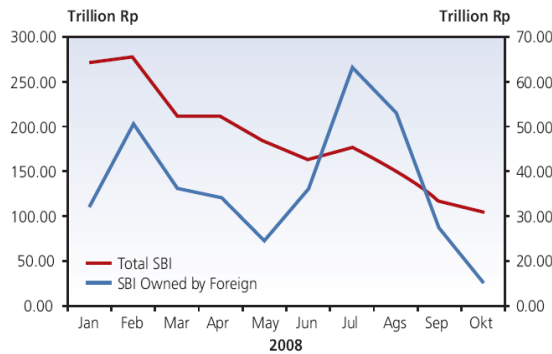
Indonesia. Other than the liquidity crunch that led to deleveraging, stock market slump was also triggered by investor's risk aversion that subsequently led to flight to quality, away from perceived risky assets to more secure assets. A similar condition was also experienced by government securities, in which there were a massive selling particularly by foreign investors. As a result, yield on SUN for all tenors mounted steadily, and a significant price correction took place particularly in Government securities owned largely by foreign investors (Figure 3). Foreigners not only offloaded stocks and government securities, but a major selloff was also recorded for SBIs (Figure 4).

**Figure 3. SUN Total and Owned by Foreign Parties Value**



Source : Ministry of Finance

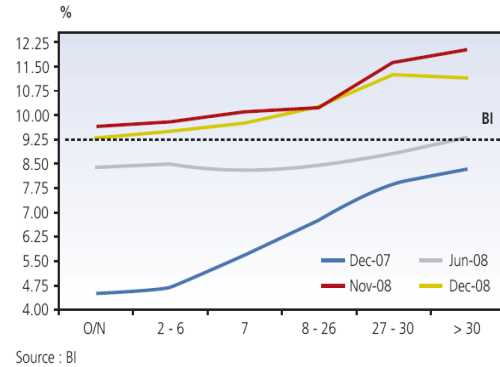
**Figure 4. SBI Total and Owned by Foreign Parties Value**



Source: BI

In the inter-bank money market, uncertainty combined with domestic market segmentation created perceptions of a liquidity crunch and prompted banks to hold on to their stock of liquidity. This was visible through the decline in the volume of overnight interbank money market transactions, especially in October and November 2008. In line with this trend, interbank rates mounted, particularly in lending beyond the overnight tenor (Figure 5).

**Figure 5. Interest Rate and Interbank Money Market O/N Volume**

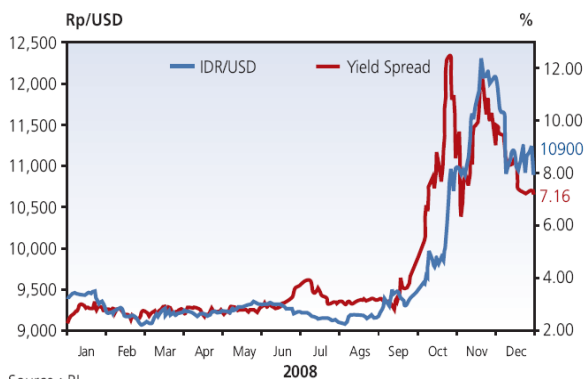


Source : BI

Money market conditions also led to a sharp depreciation in the rupiah exchange rate in October 2008, triggered by flight to quality by foreign investors as described above and a rush by domestic investors to convert their portfolio in rupiah into the US dollar denominated assets.

Strong perceptions of risk in rupiah assets were reflected in sharp increased of yield spread between Indonesian Government Bonds and US T-Notes in October and November 2008 (Figure 6).

**Figure 6. Yield Spread and Exchange Rate**



Source : BI

Escalating liquidity risk, reflected in the interbank money market, also put pressure on the banking system. This liquidity pressure emerged not only from the spillover effects of the global crisis, but also from a high credit expansion until October 2008. Much of this expansion had been funded by *secondary reserves* rather than growth in deposit funds. Furthermore, the weakening of the rupiah exacerbated risks in the banking system.

Despite considerable downward pressure, the banking industry as a whole had maintained quite solid performance. This condition was reflected by a strong capital adequacy ratio (CAR) across the banking system, reached 16.2%. Moreover, banking system was also able to maintain good asset quality, as reflected in the relatively low NPLs ratios: 3.8% (gross) and 1.5% (net). Solid banking performance also supported by a series of policies launched by the Government and Bank Indonesia in response to the global crisis, including an increase in the maximum amount of funds guaranteed by the Indonesian Deposit Insurance Corporation, from Rp 100 million to Rp 2 billion, and amendment of the Statutory Reserve Requirement. These policy responses succeeded in calming the turbulence in the financial markets, as reflected in the progressive decline in the Financial Stability Index, reaching 2.06 in January 2009.<sup>27</sup>

Economic condition until the end of December 2008 showed that direct impacts of the global crisis on Indonesia through the financial channel were transmitted more through risk aversion that triggered flight to quality, in addition to deleveraging by foreign investors due to the global liquidity crunch. However, losses from direct exposure to toxic securities in global markets were relatively limited due to the minimum level of exposures held by Indonesian banks and financial institutions to such instruments. This development was in part also related to regulations issued by Bank Indonesia, including the prohibition of banks to invest in stock markets and/or securities linked to stock.<sup>28</sup> In addition, banking activities in foreign currencies were restricted by a requirement to maintain a certain level of net open position.<sup>29</sup> The limited bank activity in foreign currency asset placements with foreign residents is also shown by the data on International Investment Position (Table 1). This table shows a declining trend in foreign currency placements by banks, especially during the past two years.

**Table 1. Banking Asset Investment Position in Foreign Currency**

Asset	2002	2003	2004	2005	2006*	2007**
Total posisi (million USD)	17694	20294	20295	27652	30803	36929
o/w Banks	10483	9190	7334	12105	10454	7618

\*) preliminary figures

\*\*) very preliminary figures

Source : International Investment Position February 2009, processed

Although the direct impact of the crisis tended to be limited, financial sector is still facing a number of risks such as exchange rate depreciation, fluctuating SUN prices and risk of non-performing loans. Nevertheless, Bank Indonesia stress test on 15 largest banks, accounting for 70% of total banking assets, showed that the banking industry was strong enough to absorb exchange rate risk, changes in SUN prices, credit risk and interest rate risk.<sup>30</sup>

#### **b. Financial Channel: Indirect Impact**

Through financial channel, transmission of the global crisis may operate indirectly with

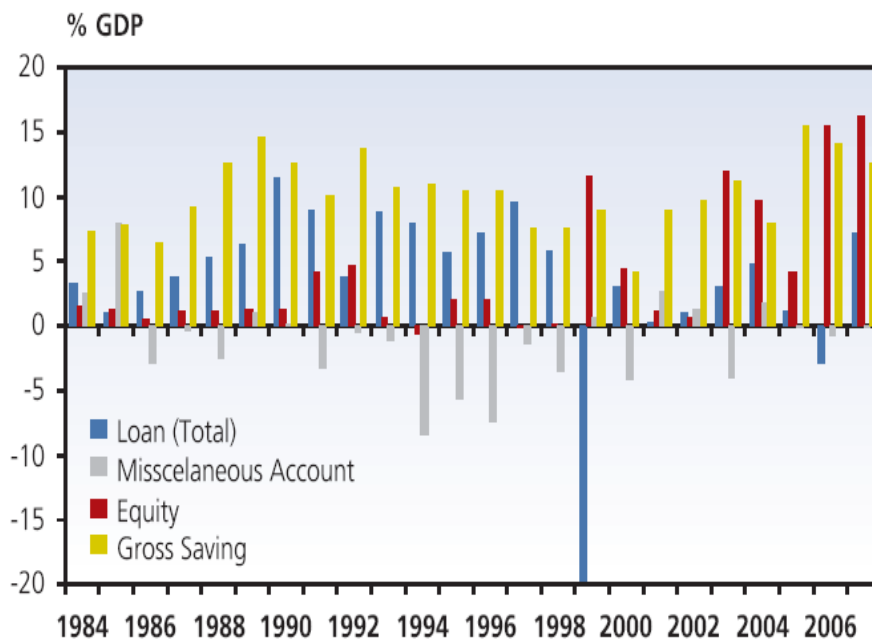
the presence of impediments to financing from the banking system, other financial institutions and other sources of funds. Traditionally, financing is provided by the banking system, in line with its role as intermediary. Nevertheless, a study by Bank Indonesia based on flows of funds data during 1984-2007 indicates that there was a shift in the sources of business financing before and after the Asian crisis in 1997. In the post-1997 crisis period, the role of banks and other financial institutions in business financing has declined significantly compared to the role in the pre-crisis period. This finding is

consistent with a relatively lower bank credit expansion after the 1997 crisis (Figure 7). One characteristic of financing sources in the post-crisis period is the emergence of self-financing from corporate savings, which has become a prominent financing resource for the business sector. This fact is supported by findings in Juda et al (2000), Mochtar et al (2005) and Nugroho et al (2008).<sup>31</sup>

Another important source of funds for business in the post-crisis period, besides corporate savings, is equity placement. In 2003, the role of bank lending in business financing was in fact displaced by equity placement. This expansion in equity financing was in part in line with vigorous stock market performance in 2003. Nevertheless, the rise in Indonesian stock index cannot always be taken as a measurement of business financing, given that

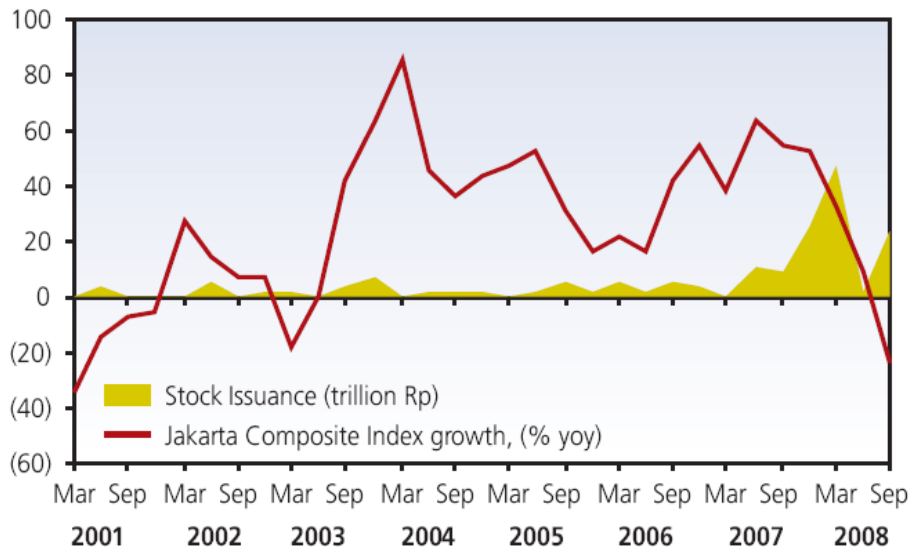
the index is calculated based on market capitalisation, and therefore it does not always reflect flow of new funds for the business sector. A more precise measurement of this flow of funds is IPO value. In Prastowo's et al (2008) study, the dynamics of new stock issues in IPOs and right issues are not always consistent with the movements in the IDX index (Figure 8).<sup>32</sup> These data support the hypothesis that the expansion in business financing is related more to equity placement activities among economic actors, which is not booked in stock exchange or bond transactions (Table 2). Such placements include private placements, venture capital, and mergers and acquisitions. Furthermore, data on fund placements by businesses indicate that they are quite actively engage in equity placements, and this activity seems to increase during 2006-2007.

Figure 7. Fund Sources of Business Sector



Source: Statistics Indonesia, Flow of Funds, processed

Figure 8. Stock Issue (IPO, Right Issue) and Jakarta Composite Index



source:IDX

Table 2. Financing on Business Sector in Stocks and Equities

Rp trillion

Year	Stocks and Equities <sup>*)</sup>	IPO <sup>**)</sup>	Right Issue <sup>**)</sup>	Euqities <sup>***)</sup>
	(1)	(2)	(3)	(1)-{(2)+(3)}
2003	241.25	7.51	2.46	231.29
2004	222.58	2.19	4.34	216.05
2005	113.26	3.52	6.63	103.11
2006	519.38	3.01	9.76	506.61
2007	641.94	17.18	29.80	594.96

<sup>\*)</sup> source: Flow of Funds – Statistics Indonesia

<sup>\*\*)</sup> source: IDX

<sup>\*\*\*)</sup> including private placement, merger and acquisition or other forms of non-listed equities

Meanwhile, the role of external sector in economic financing, which was quite dominant before the 1997 crisis, has diminished in the post-crisis period. In the flow of funds data, this shift is reflected by net external borrowing position, in which during the post-crisis period mostly recorded a deficit.

Based on the findings above, the magnitude of indirect impact of crisis through financial channel depends on the extent to which the

crisis affects the capacity of economic sectors to finance the economy. In banking sector, its solid performance is expected to bolster capacity in absorbing various risks, including exchange rate, interest rate and SUN pricing risks. Nevertheless, the impact of the crisis on the real sector may escalate credit risk, which in turn affects banks' lending. In the business sector, the disruption of real sector performance due to the global crisis will eventually constrain the ability of businesses to expand. Given the fact that

savings (internal funding) has been one of the main sources of business financing, the disruption in company performance will lessen the ability of the companies to finance themselves. In addition, the sources of financing through stocks or equity placement is expected to slow, given the disruption to the real sector and heightened risk perception due to increased uncertainty.

Meanwhile, the role of external sector in economic financing, which has essentially diminished in the aftermath of the Asian crisis, will retreat even further due to the squeeze in external financing, both loans and foreign direct investment.

### 3. Impact through Trade Channel

The intensity of the crisis impact through the trade channel has borne down on the Indonesian balance of payments. Positive developments in the balance of payments during the first half of 2008 underwent significant reversal in the second half of 2008, especially in the last quarter. Pressure on the balance of payments was fuelled in part by the worsening of current account, triggered by a decline in export performance due to the weakening of global demand and the fall in world commodity prices. The susceptibility

of Indonesian exports to these external shocks is related to the characteristics of Indonesia's export commodities.

#### a. Structure of Exports

Some issues related to export structure that could potentially exacerbate the impact of the crisis through the trade channel include dependence on primary commodities, lack of export commodity diversification and high import content of exports. The primary sector accounts for a substantial portion in Indonesia's export. During the 2005-2008 period, in average, primary commodities accounted for 50% of total Indonesia's exports.<sup>33</sup> Oil and natural gas represented the largest part of primary commodity exports, followed by mining and agricultural commodities.

Compared with other emerging market countries, Indonesia is highly dependent on exports of primary commodities, but at a level slightly lower than those of Brazil and Vietnam (Table 3). Studies by Cashin and McDermott (2002) and Cashin, McDermott, Scott (1999) demonstrate that countries heavily depend on the primary sectors are more susceptible to external shocks arising from the boom and bust cycle in international commodity prices.<sup>34,35</sup>

**Table 3. Emerging Economies Export Share of Primary Commodities (% of Total Export)**

Country	(% Total Export)									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average
Indonesia	42.6	43.3	45.4	47.7	44.1	52.9	55.3	57.1	49.9	48.7
Brazil	39.8	43.8	45.4	46.8	45.4	45.6	47.9	50.1	46.5	45.7
China	11.6	11.2	9.9	9.2	8.4	7.9	7.3	6.6	8.1	8.9
Malaysia	18.8	18.9	19.2	22.2	23.1	23.9	24.8	27.5	23.0	22.4
Vietnam	54.1	52.3	49.5	46.4	47.3	49.7	48.4	n.a.	49.2	49.6

Source : COMTRADE, processed

The correlation between Indonesian exports and export prices is not only reflected in export turnover, but also in exports volume, as reflected by the comovements in the value and volume of primary export commodities (Figure 9). This fact

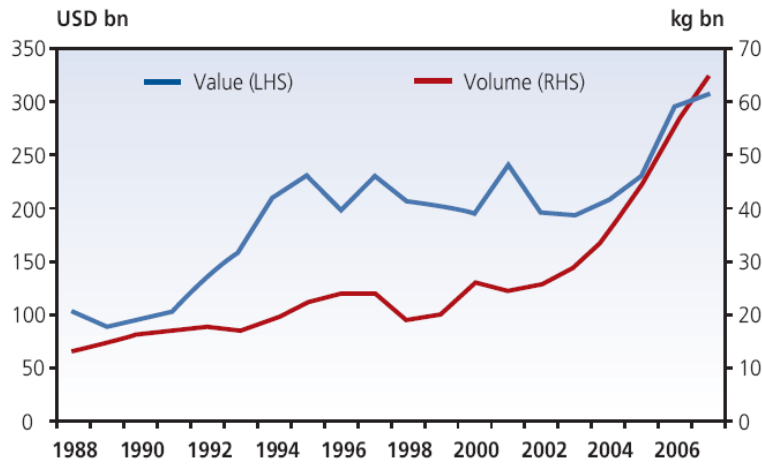
shows that the pricing factor played an important role in explaining changes in export volume. This is supported by empirical study by Kurniati et al (2007),<sup>36</sup> in which higher international prices have significant positive effects on the volume of



Indonesia's leading export commodities. Most affected commodities are primary commodities and some manufactured products, such as wood-

based products, CPO, rubber and rubber products and aluminium.

**Figure 9. Value and Volume of Indonesia's Primary Commodity Export**



Source: Indonesia's Balance of Payments

Not only do Indonesian exports reflect a structural dependence on primary commodities, but these exports are also dominated by crude oil, natural gas and textiles (Table 4). The structure

slightly changed compared with the structure before the 1997's crisis, but since 2000 the structure has been relatively constant.

**Table 4. Indonesian Export of Primary Commodities**

No.	Products	Average Share 00-07	Cummulative Share
1	Petroleum, Petroleum Products, and Related Materials	12%	12%
2	Gas, Natural and Manufactured	9%	21%
3	Textile Yarn, Fabrics, Made-Up Articles	7%	27%
4	Fixed Vegetables Fats and Oils	5%	32%
5	Textile Yarn, Fabrics, Made-Up Articles	5%	37%
6	Metalliferous Ores and Metal Scarp	5%	42%
7	Telecommunication	4%	46%
8	Electrical Machineries, Apparatus and Appliances	4%	50%
9	Coal, Coke, and Briquettes	4%	55%
10	Cork and Wood Manufactures	4%	59%
11	Office Machine and Automatic Data Processing Machine	3%	62%
12	Paper, Paperboard, and Articles	3%	65%
13	Crude Rubber Including Synthetic and Reclaimed	3%	68%
14	Nonferrous Metals	2%	70%
15	Fish, Crustaceans, Molluscs, and Preparations	2%	73%
16	Furniture	2%	75%
17	Organic Chemicals	2%	77%
18	Footwear	2%	79%
19	Miscellaneous Manufactured Articles	2%	81%
20	Coffee, Tea, Cocoa, Spices	2%	83%

\*Source : COMTRADE data, processed

Other than less diversified, import content of Indonesian exports is also relatively high. This condition makes Indonesia's exports susceptible to exchange rate depreciation. Yanuarti et al. (2008) show that import content of Indonesia's export commodities reaches 20%.<sup>37</sup> The highest import content is found in downstream primary industry products, such as petroleum products from the mining and refining sector. In manufacturing sector, the highest level of import content is found in chemicals, automotive components, machinery and electrical equipment industries. These measurements are consistent with OECD calculations of import content of exports in a number of countries. An OECD study showed that compared to other emerging market countries, import content of Indonesian manufacturing sector is relatively high.<sup>38</sup>

## b. Export Destinations

Indonesia's major export destinations tend to be

concentrated in a few countries. More than half of Indonesia's exports are shipped to only five countries. During 2000-2007, Indonesia's major trading partners were Japan, the US, Singapore, Korea and China. Nevertheless, in the past four years, there is a shift in the main country destination, in which the share of the top two trading partners, Japan and the US, has begun to decline, while China accounts for a steadily expanding share. In 2007, position of China as Indonesian export destination has become the third largest, overtaking Singapore and Korea. Kurniati's et al (2008) study shows that Indonesia's exports are most sensitive to the economic growth of Singapore, followed by the US, Japan and China.<sup>39</sup> Compare with other emerging markets, diversification of Indonesia's export destinations tends to be lower (Table 5). For example, in Thailand, Brazil and India, more than half of their total exports are shipped to at least six countries.

Table 5. Primary Trade Partner of Emerging Economies

Country	Trade Partner (Export)	Cumulative Share (%)	Trade Partner Country (Total)
Malaysia	US, Singapore, Japan, China, and Thailand	53.11	5
China	US, China, Hong Kong, Japan, Korea, and Germany	51.27	6
Korea	China, US, Japan, Hong Kong, Singapore, and Germany	52.87	6
Singapore	Malaysia, China, US, Australia, Korea, India, Other Asia, and Netherlands	51.88	8
India	US, Uni Arab Emirates, China, Singapore, UK, Hong Kong, Germany, Belgium, and Italy	51.50	9
Brazil	US, Argentina, China, Netherlands, Germany, Italy, Japan, Chili, and Mexico	52.20	9
Thailand	US, Japan, China, Singapore, Hong Kong, and Malaysia	51.11	6

\* Source: COMTRADE data, processed

Given this characteristics of exports, the crisis is expected to have significant impact on Indonesian export performance. Sectors hit by the global crisis are tradable sectors that depend

on external demand, such as manufacturing, agriculture and mining. These three sectors contribute to more than 50 percent of Indonesia's GDP and provide employment to

over 60 percent of Indonesia's work force. A worsening performance in these sectors will inevitably lead to a wave of layoff. According to the data published by Indonesia's Ministry of Manpower and Transmigration for December 2008, a total of 10,306 workers have been temporarily laid off.

An analysis of the Indonesia's Input Output Table for 2005 shows that for each 1% decline in Indonesian exports resulted in 0.42% reduction in industrial employment. Besides having spillover effects on industry, the slide in exports will also impact employment in other sectors, especially agriculture. Overall, the decline in manufacturing exports will lead to job losses by 0.17% (Table 6).

**Table 6 Impact of Export Declining on Labor Absorption**

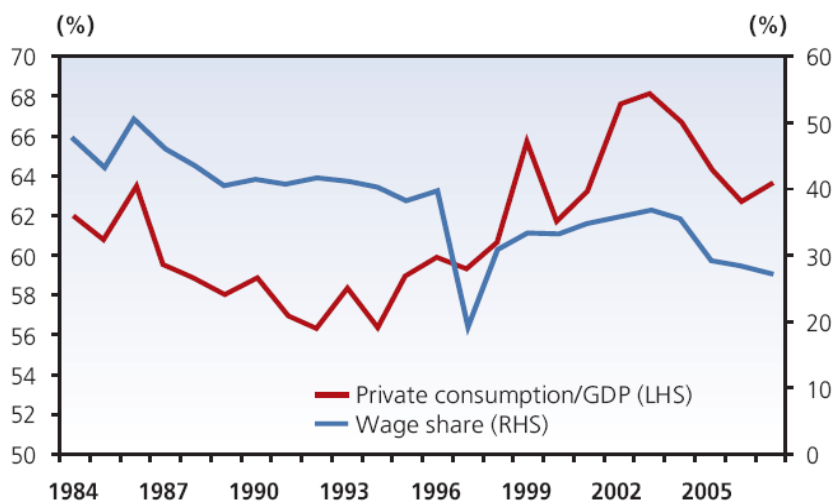
Scenario	Labor Absorption (%)	
	All Sectors	Industrial Sector
Export total decreased by 1%	-0.166	-0.416
Agricultural export decreased by 1%	-0.009	-0.001
Mining export decreased by 1%	-0.005	-0.002
Manufacture export decreased by 1	-0.091	-0.400

Source: Input Output table, processed

Waves of layoff will in turn diminish the labor share of national income. This condition in turn will lower aggregate private consumption, given that consumption has traditionally moved in tandem with the labour share in the national income (Figure 10). The domestic market contraction will in turn feed back into the business sector through smaller profit margin for owners of capital. The adverse impact on the

real sector will in turn influence the capacity of economic sectors to finance economic activities. The economic stagnation may increase credit risk for the banking system that will reduce banks' lending. For businesses relying on internal funds as a source of business financing, falling profits will discourage business expansion, a condition that over time may undermine economic growth.

**Figure 10. Private Consumption Share to GDP and Labor Income**



Source: Statistics Indonesia (BPS), processed

### 3.4 Conclusions

This article analyzes the impacts of global financial crisis on Indonesia's economy. The impacts of global financial crisis on Indonesia have been transmitted more through the trade or macroeconomic channels rather than the financial channel. The less pronounced direct impact of the crisis through the financial channel is explained by the low exposure of domestic banks or financial institutions to toxic assets in the global financial markets, which is also partly a result of Bank Indonesia restrictions on some activities conducted by banks. The spill-over effects through the trade channel potentially have negative effects on the national economy. The sizeable impact of the crisis through the trade channel is explained by a dominant role of primary commodities and limited diversification of export destinations in Indonesia's exports.

In the analysis by sector, economic contractions become immediately visible in the tradable sector,

which is also the largest provider of employment. The wave of job losses in this sector has started, and is predicted to rise further, which in turn will diminish the labour share of income in the total national income. The national income distribution shows an indication of a strong correlation between labour share in national income and the movement in private consumption. If the present wave of job losses continues, a reduction in private consumption may soon come into effect. The disruption to the real sector in turn can escalate the intensity of crisis transmission indirectly through the financial channel. For the banking system, a worsening business performance and the proliferation of worker layoffs potentially lead to higher non-performing loans that in turn slow the growth of bank lending. The deteriorating performance of the economy could also erode profits in the real sector, which is one of the main sources for business financing. This will in turn discourage business expansion and reduce economic growth.

<sup>1</sup> Details of the methodology and approach used to calculate the Financial Stability Index are presented in Financial Stability Review No. 9, September 2007.

<sup>2</sup> The full review of financial stability in Indonesia is presented in Financial Stability Review No. 12, March 2009.

<sup>3</sup> A complete review of financial sector stability is published in Financial Stability Review No. 12, March 2009.

<sup>4</sup> Bank Indonesia Regulation No. 7/2/PBI/2005 concerning Asset Quality Rating for Commercial Banks.

<sup>5</sup> Bank Indonesia Regulation No. 7/37/PBI/2005 concerning Second Amendment to Bank Indonesia Regulation No. 5/31/PBI/2003 concerning the Net Open Position for Commercial Banks.

<sup>6</sup> Full details are presented in Financial Stability Review No. 12, March 2009.

<sup>7</sup> Juda et.al. (2000) found that 56% of respondents in the post-crisis period relied on internal funding, compared to only 24% who obtained bank loans. Nugroho et.al. (2005) identified an almost identical finding, with only 25% of respondent companies making use of bank credit.

<sup>8</sup> Prastowo, Nugroho et.al: "Impact of Financial Deepening on Monetary Policy Implementation in Indonesia", BI Research Report, December 2008.

<sup>9</sup> In calculations, CPO is categorised a primary commodity, in view of strong linkage with the raw materials for this product.

<sup>10</sup> Cashin, P. and McDermott, J.: "The Long-Run Behavior of Commodity Prices: Small Trends and Big Variability," IMF Staff Papers (2002).

<sup>11</sup> Cashin, P. and McDermott, J. and Scott, A.: "Booms and Slumps in World Commodity Prices," IMF Working Papers (1999).

<sup>12</sup> Kurniati Y., Sahminan and Cadarajat Y.: "Sensitivity of Main Export and Import Commodities to International Prices and the Rupiah Exchange Rate," Research Notes, Bank Indonesia (2008).

<sup>13</sup> Yanuarti, T. et.al: "Identification of Indonesia's Export Structure (Based on Input-Output Table for 2005 and Industry Statistics for 2001-2005)," BI Research Notes (2008).

<sup>14</sup> Ibid, p.16

<sup>15</sup> Kurniati Y., Cadarajat Y. and Yanfitri: "Sensitivity of Mainstay Export Commodities to Slowing Trading Partner Growth and Changing International Prices," BI Research Notes, October 2008.

# International Conference on E-government: Sharing Experiences

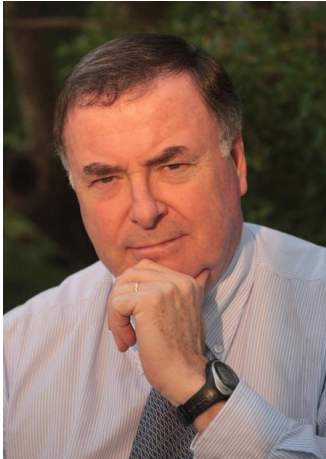
8-11 December 2009

Antalya, Turkey

The SESRIC will organise, in collaboration with the E-government Centre of the Public Administration Institute for Turkey and the Middle East (TODAIE) and the Turkish International Cooperation and Development Agency (TIKA), the “International Conference on E-government: Sharing Experiences” in Antalya, Turkey, on 8-11 December 2009. The Conference will bring together senior government officials, ICT representatives (regulatory bodies, NGOs, suppliers, etc.) and academicians from the OIC Member Countries and elsewhere to exchange their views and experiences on various issues related to e-government applications with a view to exploring the possible ways and means of cooperation among the OIC Member Countries in this important area.

## (IN FAVOR OF) WATER DIPLOMACY

Loïc Fauchon, President  
World Water Council



Hailing from Brittany, for more than forty years Loïc Fauchon has lived in the South of France. Earning a degree in 1970 from the Institut d'études politiques d'Aix-en-Provence, he then prepared his Doctorate in Economics and tourism law.

Initially he followed an eclectic path in public service. A path that led him from the Verdon Syndicate to the Regional Council of Provence-Alpes-Côte d'Azur, and then on to the general Council of Bouches-du-Rhône and the Secretariat General of the city of Marseilles and occupying the position of cabinet director of the Marseilles Mayor's Office.

This propensity for public service once again manifested itself by his becoming from 1989 to 1997, the Mayor of Trets, a commune in the Bouches-du-Rhône.

General Director of the Société des Eaux de Marseille (SEM), in 1991 he became the Managing Director thereof in 1997 heading a group of 16 companies employing 2 500 wage earners.

He understands the vital importance of water after undertaking several missions throughout the world, in particular in Sub Saharan Africa in the framework of "Trans Sahara", a humanitarian association he founded in 1977 to come to the aid of populations in emergency situations.

He developed even further this humanitarian dimension by creating within SEM of a structure called « Waterhelp » and by taking action in crisis situations and development endeavors.

This vocation at the service of the "cause for water", also showed at the international level through active participation in the actions of the World Water Council.

A genuine 'Voice of Water', the World Water Council, which he has chaired since January 2005 brings together nearly 350 member organizations of more than 70 countries with headquarters in Marseilles since in inception in 1995. In this respect, Loïc Fauchon has directly contributed to the organization of the World Water Forums of Marrakech (1997), The Hague (2000), Kyoto (2003), Mexico City (2006) and Istanbul (2009).

Married and father of three children, he was born on 20 June 1948.

How long has water been a key concern for humankind? Since the mists of time, undoubtedly. And closer to us, the genius of irrigation systems in Palmyre or Persepolis, the quality of Roman or Greek aqueducts or so many others, shows that throughout the centuries, mastering water has turned into an obsession. Because without water, there is little room for life and that is the reason why people have always fought over the possession of a well or of a spring.

Later, much later, this awareness started to become universal. And we had to wait until 1972

in Stockholm, and then 1977 in Mar del Plata to see the human community recognise the right for all people to access drinking water to satisfy their essential needs.

Since then, year after year, the UN, its general assembly, its agencies and a majority of States have expressed their will to see water and sanitation issues better taken into account.

This issue can be sum-up with two commonly stated figures: Such a large number of individuals

faced with such needs obviously call for a sustainable policy with specific objectives.

Working towards the adoption of a global water policy, it is the *raison d'être* of the World Water Council, created in 1996 : make people accept the idea that there is no human development without water and that decision makers of all sorts must consider its control and distribution as an absolute priority for the decades to come. And this is at the origin of the slogan “taps before guns” expressing this will in a particularly strong way.

The specific objectives were stated when Nations gathered at the Johannesburg Summit for sustainable development in 2002: reduce by half, as of 2015, the number of people who do not have access to drinking water and sanitation.

So much for the setting as it is defined by the leaders of this world: a real awareness, realities that are better



understood, identified solutions, but means that are as insufficient as they are unsuited.

In a fast and sometimes all too brutally changing world, we must strive to give a voice to all those who want to take

up the challenge of creating a world where man can live in harmony with nature In harmony with the air we breathe, in harmony with the energy we generate, in harmony with the water we drink.

All of us here do know that the road leading to water for all is a long one. It is long and winding, with breathtaking precipices and numerous pitfalls. Each of us has to know this. And it is our duty to make it known.

We live in a fast-changing world, sometimes all too sharply, and water is therefore impacted adversely by these changes.

However, every day we need more water to produce food to meet the demands of an additional one billion people every ten years. The world population is growing rapidly and it is settling and concentrating in a few dozen megacities. Many of these big cities are already or will be suffering from thirst during this century due to the lack of eventually imposed measures which must be adopted rapidly.

Every day we need more water to generate the energy needed for development.

Every day we need better-quality water to defuse the health threats induced by outright absent or inadequate sanitation requirements of a large number of mega cities.

Every day we must protect water in order to respect the biodiversity of ecosystems. The economic activity, mainly agriculture and industry, is at the origin of severe air and water pollution. This threatens the health of billions of human beings. But more important, this activity degrades the quality of the water resources.

And then it is the issue of climate evolution. With extreme media coverage, it is a cause of major anxiety for the populations who perceive a threat but do not always understand the real challenges.

In this field, I think we should both stay vigilant and have a responsible attitude. It is true that we have scientifically observed significant temperature variations during the 20<sup>th</sup> century with a noticeable acceleration over the last 25 years.

It is true that if we keep the same momentum and make a projection over the first years of the present century, there are of course reasons to worry and to begin to envisage solutions at the scale of the planet.

It is true that obviously the water reserves, their localisation and their state depend on these variations. But we should not mix up the notion of recharge and of overexploitation. Today the latter has a much more severe impact on human activity than the first. This is the case with the Beijing groundwater, which loses several meters each year, and also with overwatering in some regions of Spain.

It is thus clear that Man remains water's first enemy and that the climate should not be the scapegoat which can lead us to forget about our errors and our incapacity to make the permanent relationship between Man and water evolve.

Because we are responsible.

Responsible for the aggressions perpetrated against water, responsible for the current climate changes which come on top of the global changes, responsible for the tensions which reduce the availability of fresh water masses, so indispensable to the survival of humanity.

Because the problem we are faced with today, before being of the technical and financial order, is first and foremost cultural and political. Do we want the men and women who dwell on this earth to remain unequal when it comes to access to water and sanitation? Can we imagine promising our children a world in which they could not drink nor breathe at will?

Obviously not and we all agree and we will not accept this position to be challenged. And accordingly it is no longer a question of priority or urgency but rather a precondition.

Yes, access to water is a precondition. A precondition to life, a precondition to development, a precondition to prosperity, a precondition to happiness.

Air and water are the challenges of the modern world. Human kind will manage to solve the other



issues as long as it can survive to the two previous ones. Let's stop thinking about "exciting" wars over water which after being so broadly announced now only stir up the media. Let's prepare the battle for preconditions. A peaceful battle so that legislations, money, governance, knowledge, in short our capacities as much as our intelligence, be first dedicated to solve these preconditions.

How can we achieve this? The answer is obviously not simple.

At this very time in the history of water, we are faced with a major challenge: to use more water resources but at the same time to protect, enhance the value of and even reuse these waters.

Water uses are not confined to humans alone. Hence a harmonious, albeit rigorous, sharing of water must be reached and maintained.

This is an immense responsibility for policy makers and international decision-makers. Water claims their attention, but it does also need their respect and ongoing support.

This is why again and again in the future; they will be called upon to increase the volume of the water resources necessary for the world growth.

For a long time to come still, rivers, lakes and ground waters will be used more and more to quench the ever-increasing thirst of the planet.



The most recent innovations already introduce a new component in the geography of water. We will dig deeper for water while trying to prevent drying out the planet's womb. We will better protect the deep water resources than we have until now protected oil reserves.

We increasingly master the extraction of salt from water. Not only for seawater desalination but also for the millions of km<sup>2</sup> under which the groundwater is brackish. The use of inverse osmosis, the huge size of installations have contributed to considerably lower prices. And they will keep dropping to make the use of this technology accessible to a growing number of countries victim of the "hydric stress".

We will simply have to pay more attention to the future use of significant quantities of all kinds of salts which cannot be discharged in the natural medium without damaging the marine and river ecosystems.

We will transfer water from one region to another, over increasingly large distances. Algeria is undertaking a transfer of water over close to 800 km in the South of the country. China is thinking of a huge works of more than 3000 km in length to overcome the shortages hitting the North of the country.



We will know how to recycle treated water for use in agriculture or leisure activities. "Not one more drop of water to the sea" stated Hassan II, the late King of Morocco. It is still not yet entirely true, but for the near future we can already imagine a kind of new water "short cycle" which will slow down or

limit passing through the long cycle and ending up in the sea and then in the skies through evaporation and back on land to recharge the soils with rain and snow.

We will still for a long period of time have to store water, pump it, transfer it, desalinate it and recycle it, thanks to the technological progress secured by the human genius, and which we must more than ever before encourage and foster. But this will require more and more energy. This is why those which are renewable will be privileged. And in this field too, there's a lot of progress to be made. This will happen gradually, day after day. Solar, wind, and geothermal energy will be developed with better efficiency and lower costs because there is no doubt that Man will manage to better harness them. And water will be one of the first elements to benefit from that. Undoubtedly, access to water lies on the progresses made in the field of energy. The faith of both is tied and this is why both world councils of energy and water have decided to establish strong and sustainable work relations.

Several other spectacular innovations resulting from R&D efforts will substantially broaden the scope of technological solutions that can be implemented to allow for a better access to water.

But indefinitely increasing the water supply comes at a cost, which is much higher against the current background of climate change and financial crisis.

Increasing the water supply jeopardizes the natural environment, especially when human beings fail to strike a fair balance between the interests of meeting the essential needs and the "looting" of hydrological resources.

We are behaving more and more unreasonably and inconsequentially. Can we still continue to ask our governments to meet our demands in water, by continuing to create more equipment and infrastructures? Let's stop spending always more and more money to produce water and then waste it as we are doing.

Yes, we have to face it; the time of water come easy is over.

The era of extravagant consumption of water resources is over, at a time of social tariff setting to protect the poorest.

The times when leaks would remain unattended are over, particularly in this era of unacceptable water shortage.

The time to adopt the principle of virtual water has now come, for this is the only way to reduce our hydrological footprint.

It is only by changing our perception of and rethinking our relationship with water that we will be in a position to reconcile ourselves with it.

We must convince that, everywhere and for all uses, we need to consume less. Not only by taking a shower rather than a bath or by using water saving toilet flushing devices.

The real challenges aren't there. They are in water for agriculture, water for energy and water for industry. That is where the greatest savings lie that can have a substantial impact on the consumption chart. There's an enormous task of awareness-raising ahead of us in which the carrot is mixed with the stick. We will not escape from that and nor will our children or grandchildren. And the youngest among us will surely win this battle in our place.

But this isn't enough because this water needs to be better, much better managed. We must convince of the universal virtues of drop irrigation, detect leaks, prevent pollution; Man's genius is challenged to come up with new and bold solutions.

Only the pressure exerted by public opinion relayed by the media and driven by the fear of growing tensions with a view to the shortage of water, can give this issue the importance it deserves as a true planetary challenge.

At this stage, it is easy to understand that the issue of water is simultaneously drifting towards two new fields.

The first is that we are now faced with the problem of access and not of the presence of water: water exists but it is essential that, for the survival of humankind, it be there where and when it is needed.

The second is that there is change of emphasis from the hydro-technical to the hydro-political. The future of water does not only rest on technological progress, but also and mostly on political commitments.

Water like air belongs to the new scarcities and the notion of scarcity is before all an economical notion. Are these new scarcities a lasting phenomenon?

Yes, certainly for water and this leads to finding out how we can act on this scarceness and its durability.

The answer obviously lies in what we could call political accessibility and which lies on four factors:

We must provide the money indispensable for water and sanitation. The political leaders must accept the adoption of a facility for the payment of the energy necessary for water or decide on a moratorium on the increase of the price of energy for water. Let's also innovate in the field of financing. Let's give them local legitimacy, through microfinance initiatives and a solidarity - between the haves and the have-nots - in the form of decentralized cooperation activities. Entrepreneurs in the field just like local financial savings form an opportunity if water and sanitation public accounts are at the same time independent and transparent and if investing in this sector is profitable and morally acceptable.

Asserting clearly the right for each individual to have access to the resource. The right to water does not boil down to free water; it is the recognition of the precondition that we detailed here above. It is the assertion of a priority thanks to which each and everyone will be entitled to more dignity, simply

because dignity is not negotiable. This means the recognition of the right to water and to sanitation in the legislations of all countries. This also implies minimal water allocations for those most in need, drinking water supply for the populations living in unregulated housing districts, the compulsory creation of water supply points and of sanitary facilities in all public buildings and as a matter of priority to schools.

*Sharing the governance of water between the right institutional levels.*

The State and international organisations, to vote laws and enforce the truly strategic policies. The hydrographic basin level which provides a true coherence for the setting up of infrastructures aimed at protecting and enhancing the resource. The local level where people know better how the resource should be allocated and how to fight against pollution. An efficient water management needs institutions that are democratic and decentralized. Consensus-building is also a must, so as to reconcile citizens and users with water, thereby fostering transparency and skill development, so that we become responsible water users and advocates for ecowatch.

Transferring and adapting knowledge to the needs of the poorest countries and regions for a generalized mutualisation of knowledge to the service of water. R&D programmes can no longer be standardised at the service of a purely economical rational. We still need to invent hardy and less costly solutions, accepting the fact that the future water treatment plant in Bamako will not look like the one in Saragossa. This means concretely the provision of schools in the four corners of the world and the training of the technicians and the managers needed for



water and sanitation services. Several maintenance universities have been created since the Mexico Forum in 2006. There are still a dozen others to build and the political leaders must make their fair contribution by putting the transfer of knowledge at the service of water a visible priority.

For these measures, these simple solutions and at the contemporary' world's level to be implemented rapidly, the international community is surely lacking a dialogue tool and an organisation mode. No doubt that in the years to come, the types of development aids will evolve with the emergence of what we can call the countries of the Middle. Obviously, China and India but also Brazil, Morocco, Turkey, the Emirates, Indonesia and others, which are at the same time new international bankers and suppliers of ideas and technical and financial solutions, are making their appearance on this scene.

There is an urgent need for a water diplomacy which would agree on the balance of the great continental water reserves, the mitigation of potential conflicts over several trans-boundary basins and on the refinancing of the debt of the poorest countries in favour of water and sanitation. On this last point, the dialogue between bilateral and multilateral donors is essential so that the cancellation and reduction of the debt be granted under the condition that preferential reinvestments be made in the field of water.

The cause of water will only make progress through dialogue. And just like there are particle accelerators, this cause needs an "efficiency accelerator" allowing, at long last, for the elaboration of an international hydro-political strategy and the assertion of a true collective responsibility.

# ADDRESSING NON-COMMUNICABLE DISEASES AND INJURIES IN OIC MEMBER STATES: UNITING PUBLIC HEALTH AND DEVELOPMENT AGENDAS

Dr Ala Alwan, Assistant Director-General, World Health Organization

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Dr Ala Alwan is Assistant Director-General for Noncommunicable Diseases and Mental Health since 1 February 2008. Dr Alwan graduated in Medicine from the University of Alexandria. He practiced medicine in Scotland and obtained his postgraduate training and qualifications in the United Kingdom. Following his return to Iraq, his home country, he held several positions in clinical and academic medicine and public health. He was Professor and Dean of the Faculty of Medicine, Mustansiriyah University, Baghdad.

In 1992, he joined WHO as Regional Adviser for Noncommunicable Diseases in the Regional Office for the Eastern Mediterranean. He then served as WHO Representative in Oman, and Director, Division of Health Systems Development in the Eastern Mediterranean Region. In 1998, Dr Alwan was reassigned to WHO headquarters as Director for Noncommunicable Diseases Prevention and then Director of the Department of Noncommunicable Diseases Management. In 2001, he became WHO Representative in Jordan. From 2003 to 2005, he was Minister of Education and Minister of Health in the Government of Iraq. From 2005 to January 2008, he was Representative of the Director-General and Assistant Director-General for Health Action in Crises.

*Abstract: In all 57 Member States of the Organization of the Islamic Conference (OIC), and by any metric, non-communicable diseases and injuries now account for a large enough share of preventable deaths and disability to merit a concerted and coordinated policy response. Public policy makers in OIC Member States are increasingly challenged to formulate effective strategies to address non-communicable diseases and injuries. But requests for technical assistance from OIC's 50 low- and middle-income Member States remain unanswered by the international community because these problems are beyond those targeted by the Millennium Development Goals (MDGs). Discussions at the 2009 Substantive Session of the United Nations Economic and Social Council (ECOSOC), which took place in Geneva between 6-31 July 2009, provided an opportunity to discuss the non-communicable disease gap in global discussions on development and to propose solutions to move forward.*

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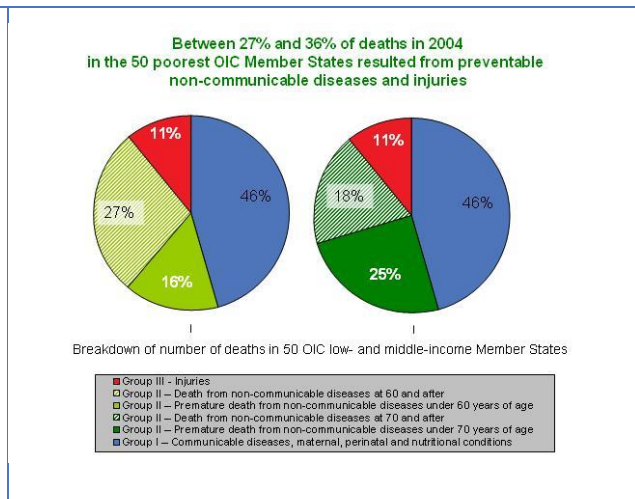
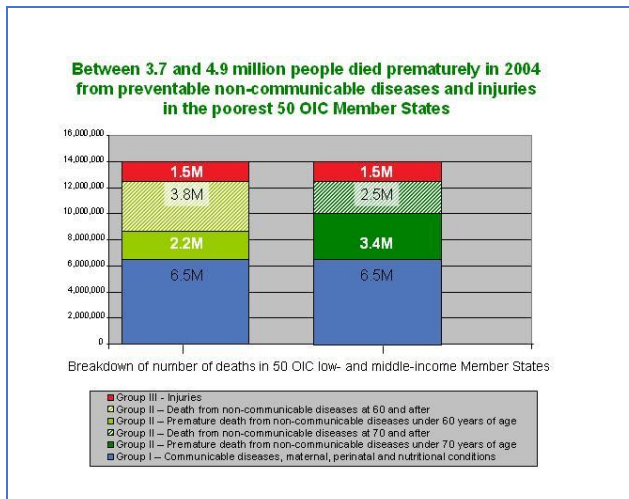
Infectious diseases still strike at millions in OIC's 50 low- and middle income Member States, but they are rapidly being over-taken by the epidemic of non-communicable diseases (cardiovascular diseases, cancers, diabetes, chronic respiratory diseases) and injuries caused by traffic crashes, burns, falls, drowning or violence). Every year, this epidemic causes almost 6 million deaths in the 50 poorest OIC Member States. Between 3.7 and 4.9 million of these deaths are premature.

While death is inevitable, it should neither be premature nor preceded by years of poor health. Every year, an estimated 2.2-3.4 million lives can be saved in these 50 countries eligible for Official Development Assistance (ODA) by preventing premature deaths from non-communicable diseases through (i) reducing the level of exposure of individuals and populations to tobacco use, unhealthy diets, physical inactivity and the harmful use of alcohol; and (ii) strengthening primary health care to enable services to respond more effectively and

equitably to the health-care needs of people with non-communicable diseases. In addition, almost 1.5 million lives can be saved each year in these 50 developing countries by preventing injuries through promoting road safety and enforcing road safety legislation to make roads safe for pedestrians, cyclists and motorcyclists, promoting injury and violence prevention, and strengthening trauma and emergency care

services. Millions more could be prevented from becoming disabled by non-communicable diseases and injuries.

If nothing is done, noncommunicable diseases will increase by 27% in Africa, 25% in the Middle-East, 21% in Asia and the Pacific, 17% in the Americas, and 4% in Europe between 2005 and 2015.



The relevance of noncommunicable diseases and injuries to the recent 2009 Substantive Session of ECOSOC, which focused on implementing the internationally agreed goals and commitments in regard to public health, arises from the linkages with poverty, the economic losses they impose on families, and the demands they place on national budgets. The 50 OIC low- and middle-income Member States can least afford the social and economic consequences these diseases will bring. These diseases are killing workers and wage earners in developing countries, turning a public health problem into an economic burden and a major challenge to development in the 21st century. Heart disease, stroke and diabetes alone are estimated to reduce gross domestic product (GDP) between 1 to 5 per cent in developing countries experiencing rapid economic growth, as many people in these countries die younger from non-communicable diseases, often in their most productive years. Similarly, most developing countries lose 1 to 2 per cent of their GDP in injury-related consequences from road traffic

crashes. Sufficient evidence is also emerging to prove that non-communicable diseases and injuries contribute to poverty at a household level. The poorest households spend often more than 10 per cent of their income on tobacco. The cost of caring for a family member with diabetes can be more than 20 per cent of low-income household incomes in developing countries, until households are impoverished by the cost of care and can no longer afford these health care services. Over 70 per cent of households report declines in income after the death of a family member from a road traffic crash.

But missing in the MDGs are explicit indicators that measure progress in reducing heart diseases, stroke, diabetes, cancers, chronic respiratory diseases and injuries. In the course of the discussion at ECOSOC, the serious omission of non-communicable diseases and injuries from the MDGs was highlighted by a various OIC Member States. Consensus over the lack of a common position among international

development cooperation agencies to include non-communicable diseases and injuries in global discussions on development -- because these problems are beyond those targeted by the MDGs -- were balanced with optimism that

proposals to move forward exist: many require the active involvement of OIC Member States at the upcoming 64<sup>th</sup> Session of the UN General Assembly starting in September 2009 in New York.



“Noncommunicable diseases and injuries must also be addressed if we want to put an end to poverty in 2015. Households could be lifted from extreme poverty and hunger by enacting tobacco control policies, encouraging healthy diets and physical activity, and enforcing road safety legislation to make roads safe for pedestrians, cyclists and motorcyclists. Under this year’s leadership by the Prime-Minister of Qatar, ECOSOC has given a high profile to the need to include non-communicable and injuries into global discussions on development. We need to continue this momentum.”

**H.R.H. Princess Muna Al-Hussein**  
**Hashemite Kingdom of Jordan**  
 at  
 ECOSOC High-level Segment  
 of the ECOSOC 2009 Substantive Session



“Non-communicable diseases are increasingly become more prevalent in our region. At the individual level, premature death and disability from non-communicable diseases and injuries bring not only emotional pain and suffering, but can also push families below the poverty line. The sick and disabled often lose their jobs and livelihoods, and family spending on healthcare becomes a priority. At the national and regional level, premature deaths, disability and the burden on health systems undermine development efforts and impact economic growth.”

**Mr Bader Omar Al-Dafa**  
**Under-Secretary-General of the United Nations and**  
**Executive-Secretary of the Economic and Social Commission for**  
**Western Asia**  
 at  
 ECOSOC High-level Segment  
 of the ECOSOC 2009 Substantive Session

On one side, there is a lack of a common position among international development cooperation agencies on the necessity of including non-communicable diseases and injuries in global discussions on development. Until date, only Australian Government Overseas Aid Program (AusAID) and New Zealand’s International Aid & Development Agency (NZ Aid) have provided bilateral and multilateral support to address non-communicable diseases and injuries. The World Bank has also started to provide limited support to this area. Other donor countries are largely absent in this area.

On the other side, developing countries face problems beyond those targeted by the MDGs. One-third of the poorest people die prematurely from preventable non-communicable diseases and

injuries, which are not included in the MDGs. Non-communicable diseases and injuries must therefore also be addressed if the overarching goal of the MDGs -- to put an end to poverty in 2015 -- is to be achieved. Policy makers in developing countries have pledged to address non-communicable diseases and injuries at many international forums. But unfortunately, less than 1 per cent of ODA is allocated by donors and international agencies to these areas. In May 2008, donor and partner country governments endorsed unanimously a call for action at the World Health Assembly to raise the priority accorded to non-communicable diseases in development work at global and national levels. This call was included in the Action Plan for the Global Strategy for the Prevention and Control of Non-communicable Diseases. Donor countries

and international agencies can, therefore, no longer afford to remain a bystander and "missing in action" and must start to respond to requests from developing countries to provide bilateral and multilateral support aimed at strengthening national capacities in these areas.

During the recent discussions at ECOSOC, the challenge to urgently identify proposals to overcome the current impasse and move forward was stressed by various OIC Member States. Proposals to move forward included: continuing the discussions the 64<sup>th</sup> Regular Session of the UN General Assembly; convening a special international conference under the patronage of the UN Secretary-General or a special session of the UN General Assembly devoted to non-communicable diseases and injuries; requesting adding indicators on deaths from non-communicable diseases and injuries under 'MDG 6: Combat HIV/AIDS, malaria and other diseases' during the MDG 2010 Review Summit; including an agenda item on this topics during the ECOSOC 2010 Coordination Segment; encouraging regional intergovernmental organizations to prioritize non-communicable

diseases and injuries; and establishing Regional Multisectoral Taskforces on addressing non-communicable diseases and injuries in developing countries. Most of these recommendations are building on the 'Doha Declaration on Non-communicable Diseases and Injuries', which was adopted by the participants attending the Preparatory ECOSOC Western Asia Ministerial Meeting on Non-communicable Diseases and Injuries, which took place in Doha between 10-11 May 2009 under the patronage of the Prime-Minister of Qatar.

There are additional promising initiatives. The Committee on the U.S. Commitment to Global Health recently recommended that the U.S. President and Congress should commit to investing \$15 billion in global health, including \$2 billion to the challenges of non-communicable diseases in developing countries. This recommendation is heartening in many respects, but the challenges faced by developing countries today are already greater than at any time since non-communicable diseases became a problem in industrialized countries.



“Why are high-income countries not responsive to requests from low- and middle-income countries to help build national capacities to address noncommunicable diseases and injuries? Because these problems are beyond those targeted by the Millennium Development Goals.”

**Ms Sylvie Lucas**  
**President of ECOSOC**  
 at  
 ECOSOC High-level Segment  
 of the ECOSOC 2009 Substantive Session



“What we are now hearing is calls from low- and middle-income countries to no longer exclude noncommunicable diseases and injuries in global discussions on development. We are hearing these calls clearly from leaders within and beyond the Middle East, to give these conditions omitted by the MDGs a moral dimension and to invest in them with social values – like a poverty-reduction strategy. We have a powerful instrument in the MDG Review Summit in 2010 to operationalize this call.”

**Dr Ali Bin Mohammed Bin Moosa**  
**Minister of Health of Oman**  
 at  
 ECOSOC High-level Segment  
 of the ECOSOC 2009 Substantive Session

This crisis highlights more than ever the need for the voices of the poor and of developing countries to be heard. We all know that development assistance can and does make a difference. We also know that progress can be made towards achievement of the MDGs, even in the most difficult of settings. The resources and the know-how exist to help bring about much needed improvements in people's lives. We are looking forward to the United Nations General Assembly in September 2009 to make concrete action in this omitted area a reality.

Providing effective responses to the threat posed by noncommunicable diseases in developing

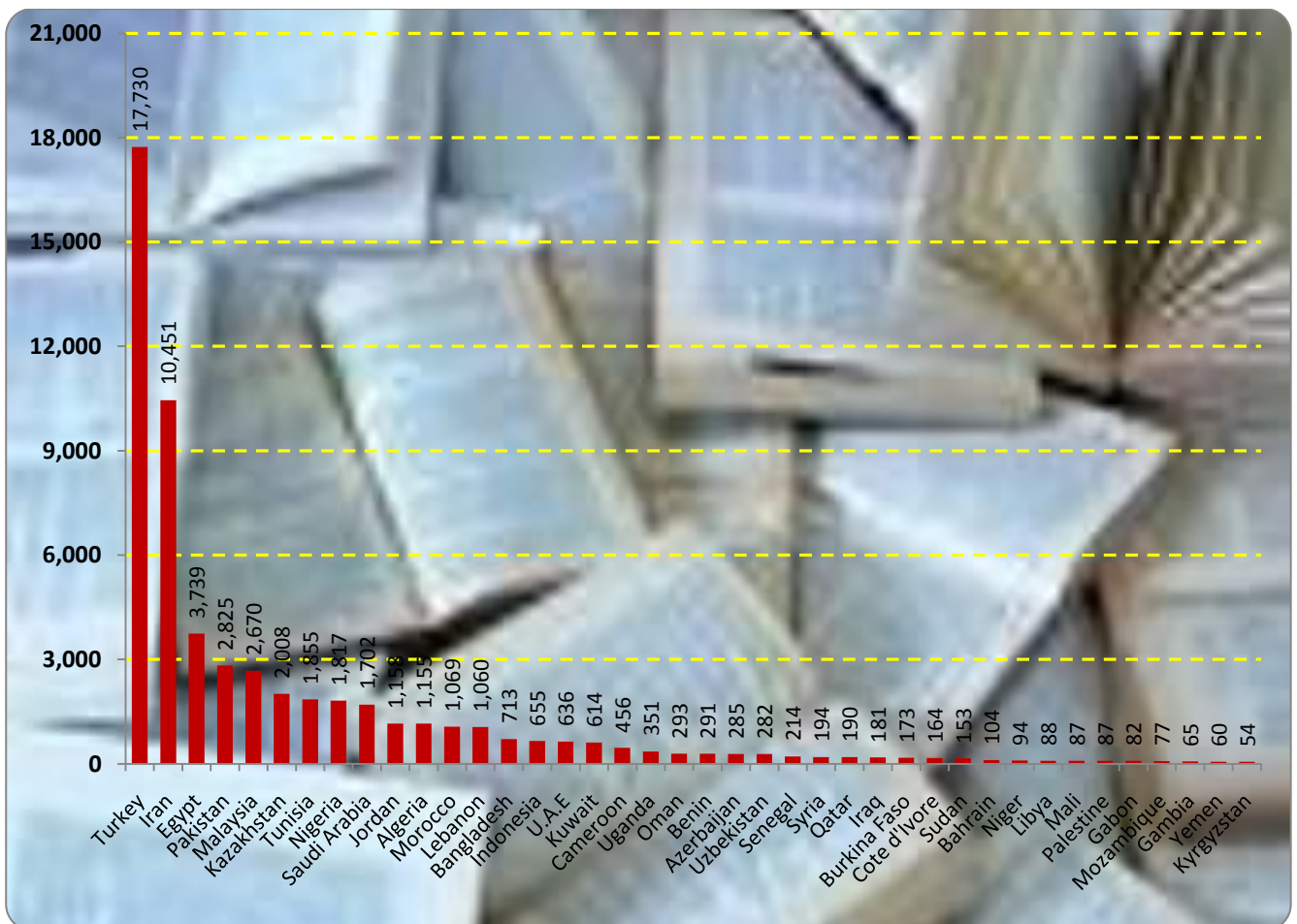
countries requires strong global and national partnerships. Developing countries have pledged to scale up their efforts to address noncommunicable diseases, and invest in their people through health care and prevention. WHO launched a Global Noncommunicable Disease Network ("NCDnet") on 8 July 2009 to promote collaborative action at global and national levels to help them in their efforts. Rich countries must now pledge to support them, through aid and expertise which have led to drastic reductions in deaths from these diseases in their own populations.



# DO YOU KNOW?

- ✓ In 2008, the total number of scientific articles published in OIC Member Countries was 56,198
- ✓ Only 2 member countries, Turkey and Iran, published more than 10,000 articles while less than 50 articles were published in 17 member countries.
- ✓ The top10 OIC Member Countries published nearly 82% of total article publication of OIC.

Total Number of Scientific Articles<sup>1</sup> in 2008



Source: SESRIC, ISI Web of Knowledge

<sup>1</sup> These are the articles in journals that are covered by Science Citation Index Expanded (SCI-EXPANDED), Social Science Citation Index (SSCI), and Arts & Humanities Citation Index (A&HCI).

## THE GLOBAL FINANCIAL CRISIS: THE DEEPEST SINCE WORLD WAR II

The current global financial crisis started in July 2007 when investors lost their confidence in the value of securitised mortgages in the United States (US). The turmoil in the US sub-prime mortgages triggered by “reckless” lending institutions was only part of a far more extensive problem in the financial system affecting the entire \$20 trillion US housing market. Yet, the extent it reached now is a *global* financial crisis, considered as the deepest one since World War II.

The financial crisis in the US housing market has evolved into a large-scale liquidity crisis as the banks, credit institutions and other players in the financial market preferred to hold cash rather than lending to each other amidst the rush to get rid of the so-called toxic assets. At the beginning, the companies affected were those directly involved in home construction and mortgage lending, and then came the financial institutions which had engaged in the securitization of mortgages. After the federal takeover of Fannie Mae and Freddie Mac on 7 September 2008, which at that point owned or guaranteed about half of the US’s mortgage market, the 14<sup>th</sup> of September 2009 was the date when the financial crisis entered a severe-impact phase marked by failures of some prominent American and European banks, like the bankruptcy of Lehman Brothers, which is the largest in US history with Lehman holding \$639 billion in assets (Mamudi, 2008).

The crisis has been deepening with a global reach since September 2008 affecting a wide range of financial and economic activities and institutions around the world. The early impacts of the current financial crisis have been ensued in various countries and industries in terms of overall tightening of credit, steep declines in financial markets, liquidity problems in equity funds, devaluation of the assets underpinning insurance contracts and pension funds, increased public debt due to provision of public funds to

financial services and other affected industries, devaluation of some currencies and increased currency volatility. As a result, a considerable number of stock markets, banks, mortgage lenders and insurance companies worldwide collapsed.

As the crisis deepened, the governments of major developed and developing countries as well as international financial regulators attempted to take some mitigation actions and coordinate efforts to contain the crisis. These actions and efforts included substantial capital injection into financial markets and interest rate cuts by major central banks like the US Federal Reserve, Bank of England, and the European Central Bank. For example, the US, at the core of the crisis, enacted on 3 October 2008 the Emergency Economic Stabilization Act, creating a \$700 billion Troubled Assets Relief Program to purchase failing bank assets, especially mortgage-backed securities, and inject capital into banks. The British government on 8 October 2008 also launched a £500 billion bailout plan which aimed at injecting capital into the financial system and nationalized most of the financial institutions in trouble. These stabilization attempts were followed by cuts in interest rates by central banks in the US (Fed), England, China, Canada, Sweden, Switzerland and the European Central Bank in a coordinated effort to aid world economy.

As the crisis has resulted in negative effects on real economies of the developed countries, where output is expected to contract by around 3% in 2009, the developing countries have also started to suffer from the crisis due to decline in capital inflows and shrinking volume of international trade as a result of the sharp fall in global demand for exports. As a consequence, a number of developing countries also launched support packages to stimulate their economies unlike the large rescue packages by the

developed countries mostly devoted to bailout programmes.

Yet, it is widely argued that these efforts will only fix the financial crisis, but that the worst is

still to come: if the liquidity crisis continues, there could be an extended global economic recession with recovery unlikely for at least two years

## Impacts on World Economies

The current global financial crisis first and most severely hit the developed economies, particularly the US –where the crisis emerged– and European countries that are well-integrated financially. Defaults on securitized sub-prime mortgages led in a short time to a liquidity crisis resulting in failures of many major financial institutions and a collapse of interbank and stock markets. Eventually, with the tightening credit market accompanied by loss of confidence and rising uncertainty, the real economy also entered a period of severe contraction with unprecedented growth in unemployment.

### From Developed to Developing Countries

The global economy is now undergoing a deep economic downturn, with negative effects on both financial and real sectors not only in developed countries but also in developing countries. Most of the developing countries which survived the first wave of the storm due to little or no exposure to subprime mortgages are now being severely affected. Indeed, developing countries are now exposed to the global crisis more than in the previous occurrences given that they are currently more integrated with the global economy through trade, FDI, and remittances. Therefore, the current crisis, though rooted and deepened in developed countries, is now imposing serious adverse effects on developing countries, particularly those with high level of integration in world economy and international markets. In this context, the main transmission channels have been through the contraction of international trade and accompanying fall in

commodity prices and the reversal of financial flows. Consequently, the following problems have been the major gifts of the crisis to developing countries:

- Slowdown in economic growth
- Fall in export demand and commodity prices
- Sharp drops in private capital inflows
- Interruption in flows of ODA and remittances
- High exchange-rate volatility
- Deterioration in current account balances
- Increase in unemployment

### Slowdown in Economic Growth

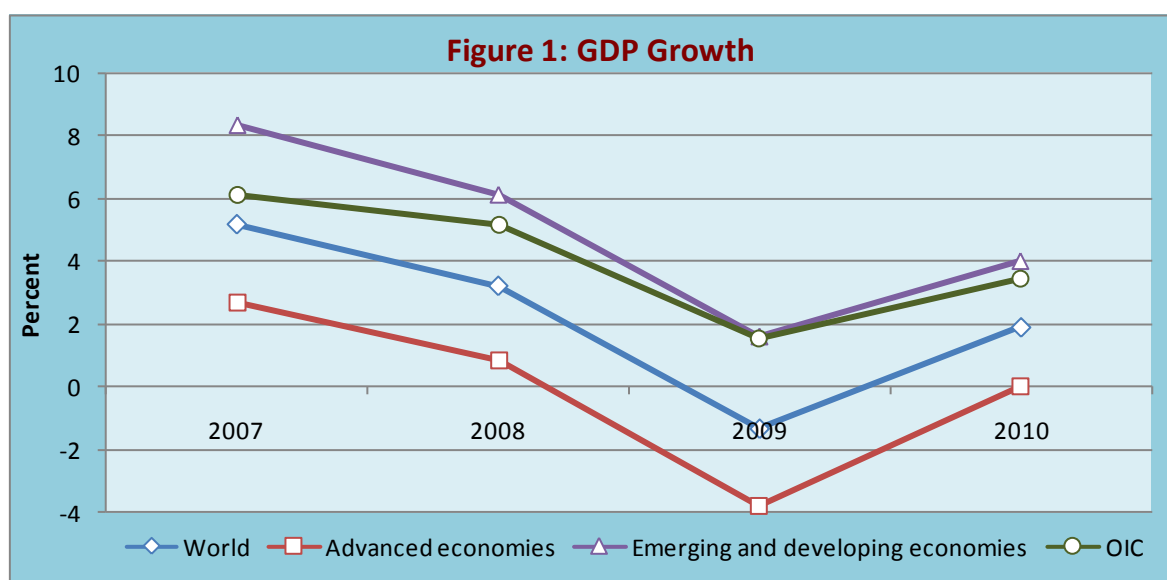
It is commonly believed that the forthcoming recession in the world economy due to the crisis will be the worst since the Great Depression of 1930s, with negative world economic growth for 2009, particularly for the major developed countries like the US, Canada, the UK and Japan as well as the Euro area. Moreover, world economic outlooks of many international developmental agencies and institutions are still revised downwards. For example, while, in October 2008, the IMF predicted a worldwide growth for 2009 by 3.0%, this was later revised down twice to 2.2% and then to 0.5%. Lastly, the WEO Report of April 2009 announced a projection of further contraction by 1.3% in world output in 2009 with leading advanced economies to experience a sharp contraction in growth while the developing countries to have a growth rate as low as 1.6% (see Table 1).

Table 1: Revisions by IMF for 2009 Growth Projections				
	WEO Oct.2008	Update Nov.2008	Update Jan.2009	WEO Apr.2009
<b>World</b>	3.0	2.2	0.5	-1.3
<b>Advanced Economies</b>	0.5	-0.3	-2.0	-3.8
<b>Euro Area</b>	0.2	-0.5	-2.0	-4.2
<b>USA</b>	0.05	-0.7	-1.6	-2.8
<b>Japan</b>	0.5	-0.2	-2.6	-6.2
<b>Emerging and Developing Economies</b>	6.1	5.1	3.3	1.6

Source: IMF World Economic Outlook (WEO) Databases and Updates.

IMF's April World Economic Outlook has revealed that the slowdown in global economic activity will continue in 2009 while 2010 will mark a sluggish recovery. As shown in the Figure 1, global economic growth will decrease from 3.2 percent in 2008 to -1.3 percent in 2009.

Similarly, in developing and emerging economies, growth will show a sharp decline from 6.1 percent in 2008 to 1.6 percent in 2009. In the OIC member countries, on average, output growth will decline significantly from 5.1 percent in 2008 to 1.5 percent in 2009.



Source: IMF World Economic Outlook Database, April 2008.

### Fall in Export Demand and Commodity Prices

WTO estimates show that the volume of global exports in goods and services will decrease by 9% in 2009, the largest decline since World War II (WTO, 2009a). Exports will fall by 10% in developed countries while in developing countries exports will fall by 2-3% in 2009. Given the fact that most of the developing countries like China, India, Turkey, Korea,

Malaysia, and many others rely heavily on trade to attract investment, create jobs, and reduce poverty, the fall in exports will pose severe socio-economic implications for these economies.

Another blow to exports earnings of developing countries will come from decreasing commodity prices. The World Bank estimates that energy prices will decline by 25% while non-energy commodity prices will decline by 23% in 2009.

In this regard, OIC member countries which exports manufactured goods like Indonesia, Malaysia, Turkey and some others are already suffering from the decrease in global demand for durable goods. In Indonesia alone, the exports of electronic products –accounting for 15% of total exports– fell by 25% in value between January 2008 and 2009. OIC member countries in Africa are highly dependent on commodity prices as in the case of Gabon and Nigeria where oil provides 50 percent of export revenue, and Côte d’Ivoire and Guinea where cocoa and minerals account for a fifth of revenues. Similarly in MENA region, despite trade diversification in some countries, oil exports are still the major source of earnings for the majority of member countries.

Another related problem will be looming in the area of trade financing. Global trade is highly dependent on trade credit and nearly 90% of trade is traditionally financed by the short term credit. Now, due to financial and economic crisis the credit market has been dried up. In 2008, WTO estimated a trade financing gap of US\$ 25 billion which will further aggravate prospects for the developing countries which are more dependent on trade.

### **Sharp Drops in Private Capital Inflows**

Foreign Direct Investment (FDI) is considered as a major source of financing for both public and private sectors in the developing countries lacking strong domestic financial systems. Amid the current financial and economic crisis, global FDI flow has shown downward trend and, according to UNCTAD, 2009, global FDI fell by 21 percent annually in 2008, after five years of strong growth and a record level of US\$1.8 trillion in 2007. Developed countries witnessed the sharpest downturn of 33 percent while FDI flows to developing countries remained positive in 2008. However, growth rate decreased from over 20 percent in 2007 to 3.6 percent in 2008. Developing countries in regions like Africa

which received huge amount of FDI in recent years may face sharper decline in FDI mainly triggered by the decrease in commodity prices, as most of the FDI in these economies was resource motivated.

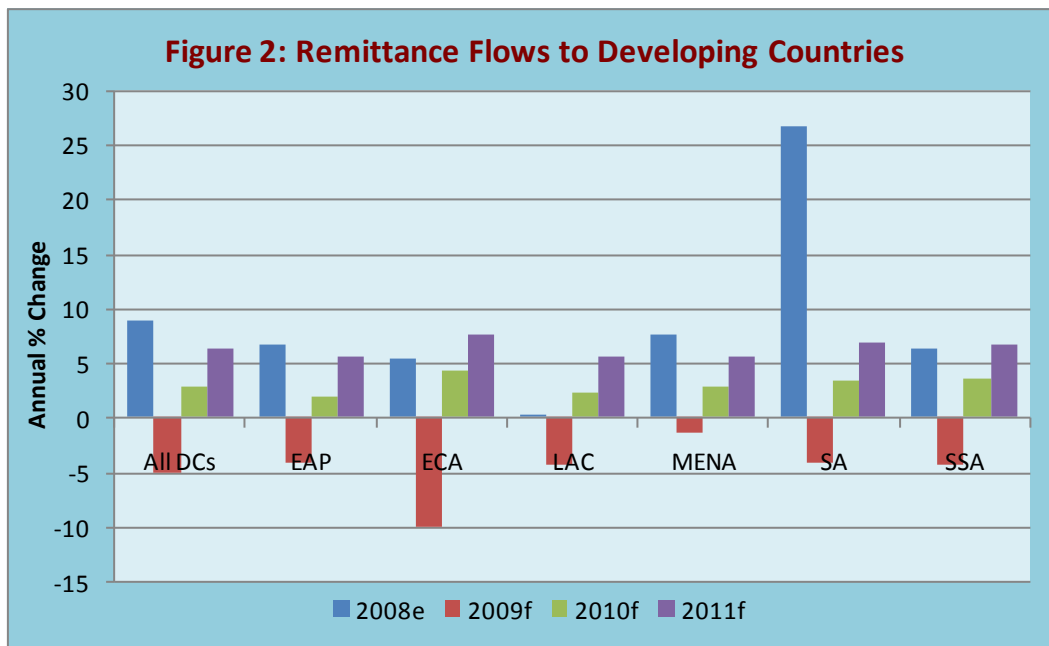
According to the World Bank and the Institute for International Finance, private capital flows to developing countries declined by about \$500 billion in 2008 from 2007 levels, and a further decline by about \$630 billion is forecast for 2009 (UN-DESA, 2009a). The World Bank also estimates that 104 developing countries are expected to fall short of covering their external debt coming due in 2009, and their total financing needs to exceed \$1.4 trillion. The United Nations, on the other hand, has estimated that developing countries would need around \$1 trillion for 2009 and 2010, half for covering short-term financing needs, and half for long-term development lending and assistance (UN-DESA, 2009b).

### **Interruption in Flows of ODA and Remittances**

Official Development Assistance (ODA) has been an important source of financing for many developing countries. A recent UNCTAD publication (UNCTAD, 2009) has shown that banking crisis in donor countries during the past 30 year confirm a positive correlation between banking crisis and shrinking ODA. Provided the fact that developed countries were falling short of their commitments even before the onset of current financial and economic crisis, UNCTAD expects that crisis will cast negative impacts on flow of ODA to low income developing countries, thus further aggravating the prospects for achieving the Millennium Development Goals (MDGs) in these countries. In this regard, OIC member countries, especially those classified among the least developed countries will be hard hit by decrease in ODA flow.

Over the years remittances has also emerged as an important source of finance for the developing countries. In 2008, developing countries received US\$ 305 billion inflow of remittances. However, due to financial crisis, growth rate of inflow decreased from 22% in 2007 to 8% in 2008 (World Bank, 2009). Provided the fact that financial crisis has severely damaged the developed economies where

majority of workers from developing countries are employed; remittances inflow to developing countries is expected to fall by 5 to 8 percent in 2009. Although remittances inflow will show negative growth across all developing regions, some regions like South Asia (SA) and Europe & Central Asia (ECA) will witness sharper decline compared to other regions (Figure 2).

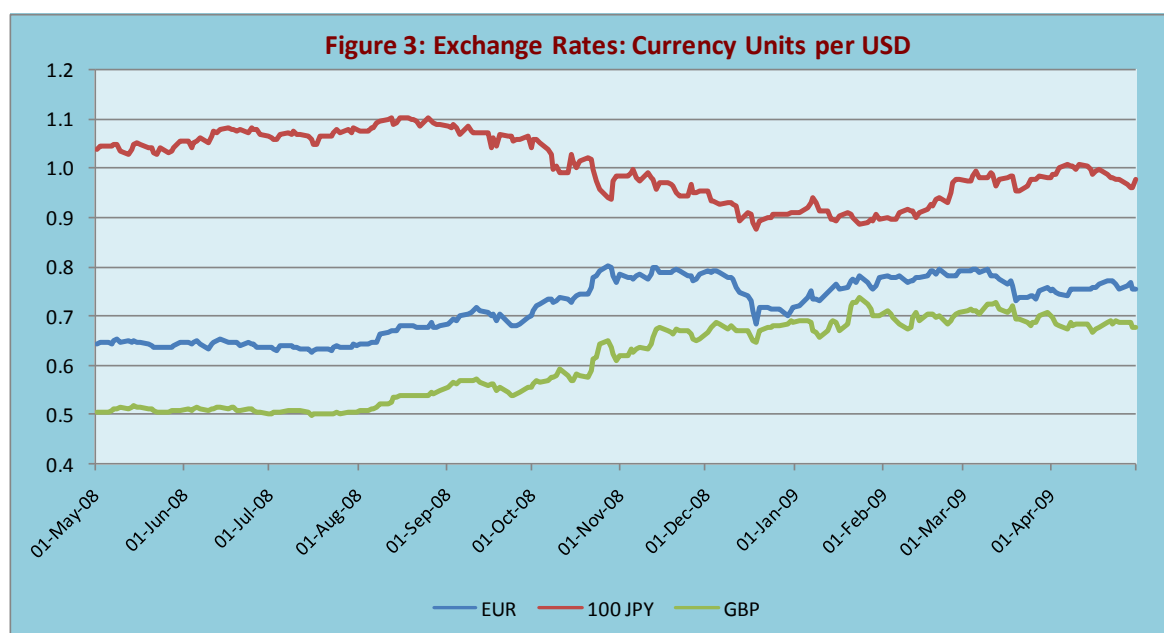


Source: World Bank. (2009). Outlook for Remittance Flows 2008-2011. Migration and Development Brief, No: 9.

Remittances inflow to OIC member countries has increased from US\$ 73 in 2007 to US\$80 billion in 2008 though growth rate of inflow decreased from record high 24.7% in 2007 to 10.3 % in 2008. OIC member countries accounted for 26% of total remittances received by the developing countries in 2008. As negative growth has been forecasted for the remittances inflow in developing countries in 2009, hence OIC member countries will also witness substantial decline in this regard. Member countries like Tajikistan, Lebanon, Jordan and Guyana, where remittances account for 20 to 40 percent of GDP, will be more affected than the others.

### High Exchange-Rate Volatility

The current crisis has led to higher exchange rate volatility that translates into increasing uncertainty and rising costs of international trade. Until the summer of 2008, the US dollar had weakened against the euro, but in the afterwards and especially after the collapse of Lehman Brothers in mid-September, the US dollar appreciated against the euro as well as British pound (GBP) (Figure 3). The increasing risk aversion worldwide that results in a significant increase in portfolio flows into the US in addition to a widespread shortage of dollar liquidity in financial markets contributed to the appreciation of the dollar.



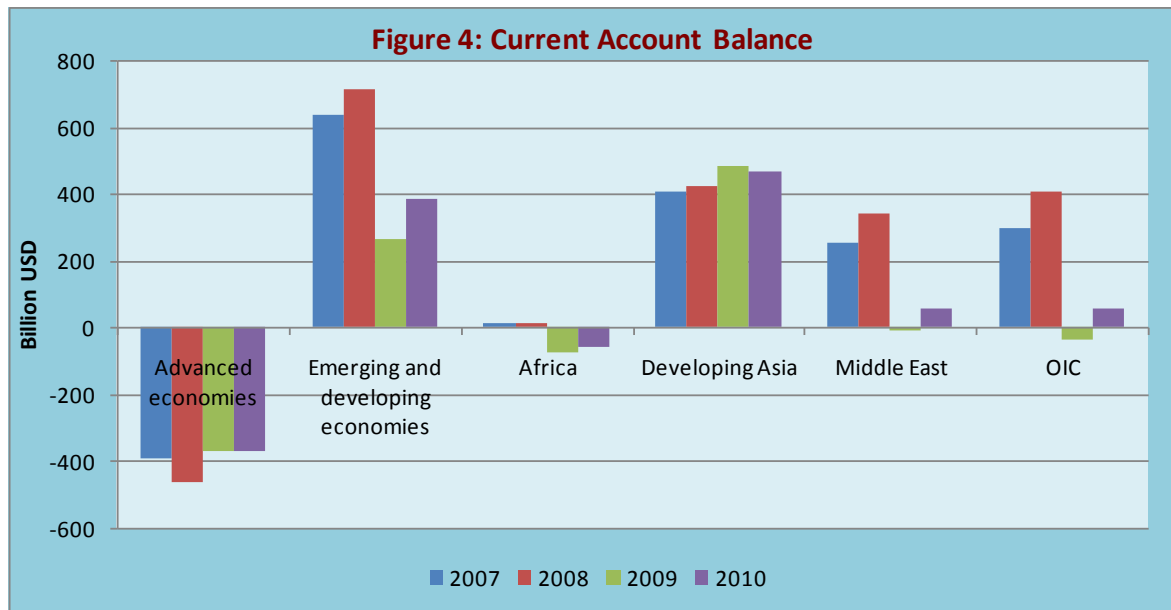
In this regard, most of the currencies of the developing countries including those with a pegged exchange rate to the euro have depreciated against the dollar. On the other hand, those with a pegged rate to the dollar have experienced appreciation in their currencies. To the extent that the changes in nominal exchange rates turn into movements in real exchange rates, countries with appreciation in their currencies will face weakening competitiveness. For the others, however, the increase in competitiveness does not necessarily imply an increase in their export due to weak global demand.

### Deterioration in Current Account Balances

The decline in global demand, the fall in commodity prices, and the credit crunch in the export markets have been the main sources of the decrease in the volume of exports worldwide. Therefore, countries are already facing or will soon be facing declines in export revenues, indicating a clear shock on current

account balances, although some countries also have lower import values due to lower commodity and oil prices. On the other hand, the decline in remittances inflows is also an important element of the negative impact of the crisis on the current account balances of many developing countries.

In light of the recent estimates by the IMF, Figure 4 shows that the advanced economies will have a slight improvement in their current account deficit in 2009 while the emerging and developing countries see a sharp decline in their surplus. Africa and the Middle East will suffer deficits unlike the developing Asian countries, which will experience an increase in their surplus. On the other hand, the OIC member countries, which have been giving increasing surpluses in recent years (above \$400 billion in 2008), will face a deficit of around \$35 billion, due mainly to sharp decline in oil revenues of the major oil exporting countries in the Middle East.

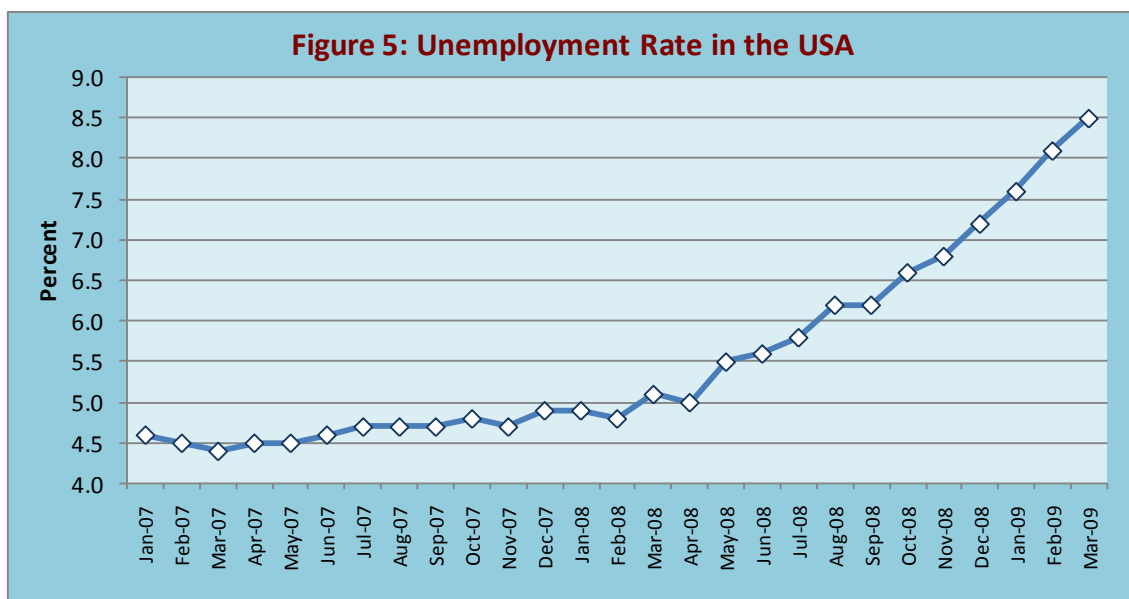


Source: IMF, World Economic Outlook Database, April 2009.

### Increase in Unemployment

The global economic slowdown triggered by the crisis is leading to a rapid rise in unemployment. New investment/business projects are being postponed and most of the current ones are on hold due to the negative effects on the real economy and the pessimistic perceptions caused by the crisis. Given the slowdown in economic activity and the decrease in the volume of production as a result of the weak global demand, the business sector has had to reduce

workforce to save cost. Consequently, many developed countries, in particular the US, are experiencing substantial increases in unemployment. Unemployment rate in the US has been significantly rising in recent months, reaching up to 8.5 percent in March 2009 compared to 6.2 percent in September 2008 (Figure 5). Since the beginning of the recession in December 2007, 5.1 million jobs have been lost, with almost two-thirds (3.3 million) of the decrease occurring in the last 5 months (BLS, 2009).



Source: LBS. (2009). The Employment Situation – March 2009. US Bureau of Labor Statistics.



At the other side, developing countries are also suffering unemployment pressures imposed by the crisis. Before the current crisis, many low- and middle-income countries were severely affected by increases in food and fuel prices while some others obtained significant gains. Now, with a fall in global demand, prices have fallen, to the advantage of net importers but to the detriment of those more

dependent on export revenues, with rising unemployment pressures in the export sectors.

According to the ILO, due to the crisis, at least 20 million jobs will have been lost globally by the end of 2009. These jobs, which are predicted to be mostly in construction, real estate, financial services and auto sectors, will bring world unemployment above 200 million for the first time.

## Spillovers to Developing Countries by Regions

**Central & Eastern Europe and the CIS:** They are the most adversely affected, given their large current account deficits. Some countries are expected to face sharp declines in capital inflows.

**Latin America:** Tight financial conditions and weak external demand are the main factors leading to decelerating growth.

**Emerging Asia:** The region is mainly affected by the shrinking exports due to the region's high dependence on high technology exports.

**Africa:** Growth is slowing, yet to a less extent than in the other regions. Slowdown is expected particularly in commodity exporting countries. Several countries are suffering from weakening demand for their exports, lower remittances, and foreign direct investment, while aid flows are under threat.

**Middle East:** The effects of the financial crisis have been more limited –mainly through decreasing oil revenues– as they are financially less integrated with the world economy.

### Impacts on LDCs

The least developed countries that are net food and oil importers have already been suffering

from the recent boom in oil and commodity prices, and therefore facing inflationary pressures and accumulating fiscal imbalances. Although commodity and energy prices have recently fallen at a significant level, these countries continue to suffer. Moreover, the commodity exporters are now hit hard due to weaker demand for their exports. The collapse of their exports while aid flows are constrained put extra constraint on their current account balances. These developments endanger the efforts spent so far to achieve the MDGs, particularly that on poverty alleviation.

### Impacts on Oil-Exporting Countries

Low global investment and declining demand for oil due to the serious downturn in global economic activity, with stable oil prices of \$40-45 per barrel after a sharp decline from record high level of above \$145, resulted in a sharp fall in oil revenues of oil-exporting countries. The declining revenues in turn imposed negative effects on them due to increased spending to stimulate their economies and create jobs.

## Impacts and Policy Response: Selected OIC Member Countries

**Turkey:** In Turkey, industrial output declined by 21.3% in January 2009, particularly in the production of motor vehicles, which dropped by 60%. Unemployment rose to 13.6 % in the last three months. So far, 6 fiscal packages have been announced, and 3-4 more are to come in the next 3 years. 36 measures to address the

crisis summed to around \$34 billion for 2008-2010. These included 20 measures on revenues (\$8.9 billion), 11 measures on expenditures (\$17.2 billion), and 6 other fiscal measures indirectly related to the budget (\$7.9 billion) (HaberTurk, 2009).

Table 2: Turkish Government Projections

	2008	2009	2010	2011
<b>Growth (%)</b>	1.1	-3.6	3.3	4.5
<b>Current Account Deficit (Billion \$)</b>	41.7	11.0	18.6	26.4

Source: Turkish Statistical Institute, Statistical Databases; Haber7, Ekonomi Kurmayları Yol Haritasını Çizdi, 13.04.2009.

Government officials project that GDP in Turkey will decline by 3.6 percent in 2009 and recover in 2010 with 3.3 percent growth. On the other hand, current account deficit, with a significant decline in trade volume, is projected to fall down to \$11 billion from its 2008 level of \$41.7 billion (Table 2).

**Malaysia:** Malaysia recently joined the growing list of countries hit by the global crisis. In November 2008, the government rolled out a 7.0 billion ringgit ( $\approx$  \$1.95 billion) fiscal stimulus package. The Malaysian Government, on 10 March 2009, announced a second fiscal stimulus package of 60 billion ringgit ( $\approx$  \$17 billion) that accounts for 9% of GDP and includes direct measures to support employment (Khor, 2009).

A Report by the WTO revealed that, in the last six months, Malaysia also;

- Eliminated the import duty on cement.
- Liberalized the imports of iron and steel products.
- Eliminated the import licenses for the construction and manufacturing sector.

“The purpose of these measures is no doubt various, but each one presents an example of trade policies contributing positively to help

reverse the contraction of global trade” (WTO, 2009b)

**Indonesia:** Growth of exports, with a fall by 6 percent, predicted to drop below zero in 2009. Suffering from the decreasing exports, export-related enterprises in the country have come to expand lay-offs so as to save their costs. Many analysts in Indonesia lost their confidence in the 4.5 percent economic growth this year, with Bank Indonesia, in March, reduced its economic growth expectation to 4 percent.

The government launched a stimulus package of Rp 73.3 trillion (\$6.3 billion) to strengthen consumers’ purchasing power and infrastructure development. Of this package, 76.8% was dedicated to tax cuts, 16.6% to infrastructure projects, and 6.5% to energy-saving investments. The stimulus package is expected to increase the 2009 budget deficit to \$11.6 billion, or 2.5% of GDP.

**Arab Countries:** The president of the Arab Monetary Fund (AMF) declared that “*the financial indicators show a limited impact of the crisis on the Arab World*”. On the other hand, Director General of the Arab Planning Institute (API) stated that “*the Gulf countries were not*

exempted from the global financial crisis that had affected oil prices and caused crash of stock markets.”

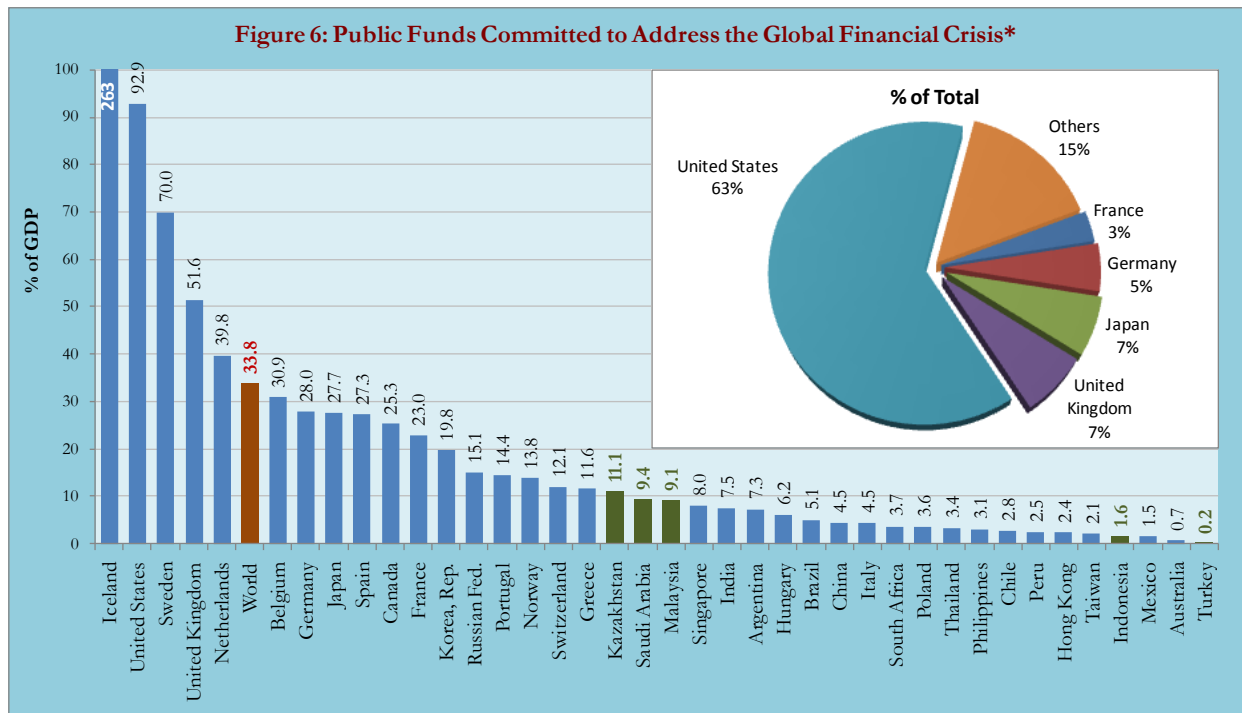
According to Kuwait-based Global Investment House, the total net income of the GCC listed

companies dropped by 19.8% in 2008 compared to 2007. Out of the 466 listed companies, 283 suffered a decline in their annual earnings while 109 firms incurred losses.

### Financial Sector Rescue Packages and Fiscal Stimulus Packages

Major developed countries and several developing countries have allocated substantial amount of financial sector rescue packages and large fiscal stimulus packages to contain the crisis. Since the outbreak of the crisis up to March 2009, the total support by 39 countries (mostly developed) is estimated at \$20.9 trillion or 33.8 percent of the estimated World Gross Product (WGP) for 2008 (UN-DESA, 2009a). Most of these resources were for financial

bailout packages and only five developed countries, namely the USA, the UK, Japan, Germany, and France accounted for 85 percent of this amount (Figure 6). The fiscal stimulus plans sum to about \$2.6 trillion or 4 percent of WGP, to be spent over the 3-year period 2009-2011. However, this amount is still considered to be insufficient, as suggestions focus on 3 percent of WGP per annum (UN-DESA, 2009b).



Source: UN/DESA Montly Briefing WESP No.7

\* Between 1 September 2008 and 31 March 2009.

### Global Considerations on Mobilizing Additional Resources for Financing

To mitigate the effects of the crisis, particularly on developing countries, and meet the additional liquidity worldwide, a number of proposals were

put forth by leading international organizations. Among them was the issuance of SDRs and doubling (as proposed by the EU) or tripling (proposed by the United States) the IMF’s existing lending capacity of \$250 billion. In this respect, Japan has already lent \$100 billion of its

reserves to increase the IMF's lending capacity. The European Union has also committed EUR 75 billion. China and some of the major oil-exporting countries are also expected to contribute similarly. Mobilization of reserves and resources accumulated in sovereign wealth funds from surplus countries was also proposed to overcome the current financial imbalances among countries. In this regard, ASEAN countries have already agreed to increase resources for liquidity provisioning through the Chiang Mai Initiative (their main mechanism of regional financial cooperation) from \$80 billion to \$120 billion. The World Bank also proposes the creation of a "vulnerability fund", to be financed from 0.7% of each developed country's stimulus package (UN-DESA, 2009a; IMF, 2009c).

### **G20 London Summit: Decisions**

Amidst the deepening crisis, the Leaders of the Group of Twenty (G20) met in London on 2 April 2009 with the notion that a global crisis requires a global solution. They pledged to do whatever is necessary to:

- restore confidence, growth, and jobs;
- repair the financial system to restore lending;

- strengthen financial regulation to rebuild trust;
- fund and reform our international financial institutions to overcome this crisis and prevent future ones;
- promote global trade and investment and reject protectionism, to underpin prosperity; and
- build an inclusive, green, and sustainable recovery.

Within the global plan they constituted for recovery and reform, they agreed to;

- treble resources available to the IMF to \$750 billion;
- support a new SDR allocation of \$250 billion;
- support at least \$100 billion of additional lending by the MDBs;
- ensure \$250 billion of support for trade finance;
- use the additional resources from agreed IMF gold sales for concessional finance for the poorest countries; and
- constitute an additional \$1.1 trillion programme of support to restore credit, growth and jobs in the world economy.

## Views on the Solutions

It is widely agreed that the downside risks to the world economic growth calls for concerted and coordinated policy action at national and international level. As IMF described it, the current crisis is partly a "crisis of confidence", confidence in the global financial system. Restoring confidence in international financial system is key to resolving the crisis, and thus, greater international policy cooperation is crucial. The current global financial crisis and economic conditions could rebound faster than anticipated if policy measures at both national and international levels are credibly strengthened.

### **Recommendations by the Commission of Experts on Reforms of the International Monetary and Financial System**

Led by Nobel Laureate Joseph Stiglitz and commissioned by the President of the General Assembly, a group of experts proposed far-reaching changes in the international financial structure, and strong measures to overcome the current global economic crisis. The recommendations focused on the following titles<sup>40</sup>:

1. All developed countries should take strong, coordinated, and effective actions to stimulate their economies.
2. Developing countries need additional funding.
3. Mobilizing Additional Development Funds by the Creation of a New Credit Facility.
4. Developing Countries need more policy space.
5. The lack of coherence between policies governing trade and finance must be rectified.
6. Crisis response must avoid protectionism.
7. Opening advanced country markets to least developed countries' exports.
8. Learning from Successful Policies to undertake Regulatory Reforms.
9. Coordinating the Domestic and Global Impact of Government Financial Sector Support.
10. Improved coordination of global economic policies.

The recommendations were considered at a Thematic Interactive Dialogue on the crisis<sup>41</sup> that took place 25-27 March at the UN headquarters in New York. Both the

recommendations to the General Assembly and the Interactive Dialogue will be considered in the preparatory process leading to the upcoming International Conference on the Global Economic and Financial Crisis and its Impact on Development, to be held 1-3 June in New York.

The report of the experts also included an "agenda for systemic reform" to the international system that suggested;

1. A New Global Reserve System.
2. Reforms of the Governance of the International Financial Institutions.
3. A Global Economic Coordination Council.
4. Better and more balanced surveillance.
5. Reforming Central Bank Policies to promote Development.
6. Financial Market Policies.
7. Support for Financial Innovations to Enhance Risk Mitigation.
8. Mechanisms for handling Sovereign Debt Restructuring and Cross-border Investment Disputes.
9. Completion of a Truly Development-Oriented Trade Round.
10. More Stable and Sustainable Development Finance.

## Islamic Finance & Banking System: A Potential Alternative in the Aftermath of the Current Global Financial Crisis

Like many previous global financial and economic crises over the last four decades, the current global financial crisis has proved once again the failure of the prevailing global financial architecture which is mainly based on the conventional banking system as a key element. The global financial system has proved to be inefficient to deal with the complex structure of the conventional banking mechanism that, with excessive risk-taking, led to the recent sub-prime mortgage crisis in the United States and, in turn, the credit crunch that evolved into the ongoing global financial crisis. The current global

financial crisis has, therefore, turned out to be a crisis of "confidence" in the present global financial system.

In the light of many concerns which have been recently raised on the efficiency of the Bretton Woods system and its major institutions like the IMF and the World Bank, some opinions have focused on the need for urgent modernisation and reforming of the global financial system in a way that might have prevented the crisis. Concerns over the establishment of new financial architecture also call for involving

major emerging and developing countries in the global decision-making process. This implies that economic clubs of industrialised countries like the Group of Eight (G8) cannot deal effectively with global economic and financial issues in the absence of close coordination and collaboration with the developing world.

Indeed, it sounds rational for any organisation with the mandate to monitor the global economy to include representatives of all major economies. In this context, it is worth mentioning that in his views on the weakness of the current global financial system, Robert Zoellick, president of the World Bank, argued that international organisations that excluded countries such as China, India, Brazil, Saudi Arabia, South Africa and Russia were outdated.

Like in the case of the previous financial crises, many voices have blamed the conventional banking practices for being at the root of the current crisis. Great panic in fear of the collapse of the world financial system has immediately led to ambitious search for banks rescue plans. The current financial crisis has raised some voices which call for rethinking of other alternative financial systems. Among these alternatives, the Islamic finance and banking system has been debated largely, particularly in many developing countries, including the OIC members. Today, many people come to argue that the current global financial crisis could have been avoided if the Islamic finance and banking system had been in place instead of the conventional one.

### **The Conventional Banking System and the Outbreak of the Crisis**

It is now well-known that the current financial crisis, which has started in the United States, caused by big financial institutions lending money to risky borrowers (sub-prime) for buying houses. In so doing, these institutions have been violating the conventional rule of

lending only to those who have the capacity to repay their loans, or institutions with a good credit rating. The banks thought there was nothing to worry about as house prices were rising so that, in case of foreclosures, they would again make profit by reselling the houses. This scenario was also true for the borrowers who would still be able to repay their loan after selling their houses at higher prices.

However, all started to go wrong when interest rates bounced up as a result of the unprecedented increase in world food and energy prices that led to inflationary pressures. The result was that people were no more willing to buy new houses and even those who already bought houses could not afford to repay their mortgages. In fact, the low-risk or the “prime” borrowers even preferred to default on their mortgages as their houses worth less than the mortgages. With declining demand for houses accompanied by an increasing rate of foreclosures that resulted in excessive supply of housing, house prices started to fall at a significant rate. Consequently, the banks and other lending institutions began to have shortages of funds to repay their debts.

In fact, the debacle in the United States housing market could have remained only as a mortgage crisis in the economy of the United States. However, the high ratios of leverages and the wide-spread use of mortgage-based complex derivatives in the global financial market pushed the crisis to other financial markets outside the United States with wider scope of liquidity constraints. Before the outbreak of the crisis, many large banks and financial institutions had borrowed huge amounts, and to repay their debts, they first relied heavily on selling prime mortgage debts to other investment companies and hedge funds. What was worse, however, is that those banks began selling the “sub-prime” mortgages to other financial agents, who, in turn, were selling them to other investment companies.

Initially, they all sold the mortgages of low-risk borrowers, but as they became greedier to make more and more profits, they started selling the high-risk mortgages as well. They were so creative that they produced various derivative financial instruments that consisted of loans and mortgages with different risk levels so as to serve all kind of investors, from risk-lovers to risk-averse ones. In such a setting, those who are willing to take the lowest risk were guaranteed by first claim in case of a default; those taking medium-level risks were promised the next available funds; and those with the highest risk would get the remainder. The banks were no more worried about their debt they sold as the risks were transferred to debt-buyers.

Consequently, credit risk spread throughout the financial system by means of those derivatives – mortgage-backed securities and collateralised debt obligations. Considering that the risks were low as house prices were rising, insurance companies also got involved in this game, insuring banks' debt and charging the debt-buyers premiums for the mortgage debt sold by the banks. Thus, the mortgage-based derivatives were then interconnecting a number of players in the financial system, which were all contented with high profits. Eventually, when the mortgage sector faced a high ratio of defaults and the banks as well as other lenders fell short of funds to repay their debts, the balloon inflated by fictitious money coming from the derivatives finally burst into a crisis of confidence generated by greed and overindulgence.

It turned out that the banks could not even distinguish which of their loans were safe, and then interbank lending stopped as the banks could not trust funds from others, suspecting that they were buying fictitious money. As the derivatives had no more any value, institutions holding them turned out to be insolvent. Financial institutions could not find money even for their ordinary transactions or very short-term requirements, which implied that the

system was amidst a liquidity crisis leading to widespread insolvency. “Given the central role played in the US subprime market by banks headquartered in the United States and Europe, it was not surprising that they had begun to announce losses” (BIS, 2008, 5). Biggest banks and financial institutions in the United States – Citibank, HSBC, Bear Sterne, and Merrill Lynch– and in Britain –Northern Rock, Royal Bank of Scotland, and Barclay’s Bank– as well as a number of others in many European countries had massive losses.

### **The Argument on the Conventional Financial System**

It is then obvious that the non-performing mortgages could have still remained as a problem of the banking sector and other mortgage-related institutions in the United States. However, the overuse of securitisation in the form of credit derivatives and debt trading aggravated the problem to threaten the whole financial system, bringing it to the brink of collapse. The global financial system rests too much on the financial derivatives that depend mainly on transactions that do not involve exchanges of real goods and/or services.



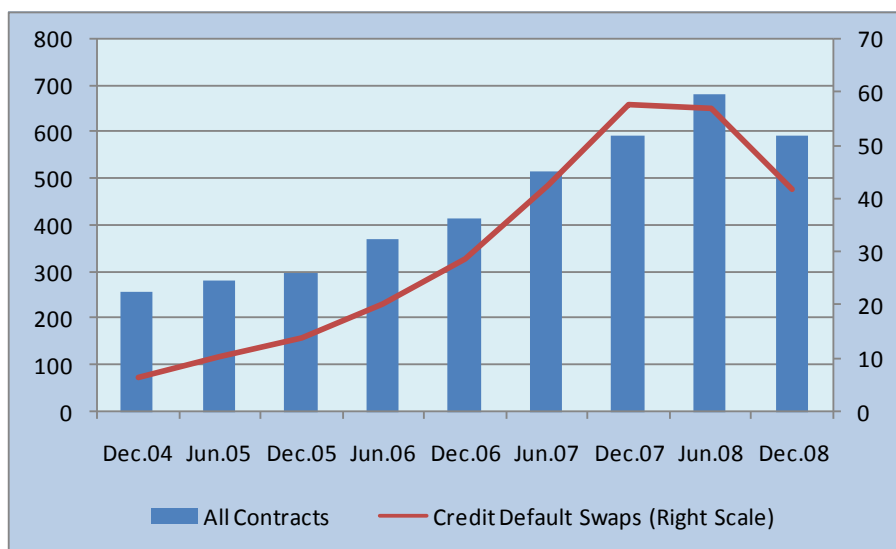
In fact, until the outbreak of the current financial crisis, most of the people were not aware of these derivatives although this kind of financial instruments makes up the largest financial market in the world. Indeed, financial derivatives have no intrinsic value; they are nothing else than bets. In this context, it is

worth mentioning that R. Chapman was one of the first economists who raised the issue of the negative impacts of the implications of the financial derivatives bubble when he argued a decade ago that “The point everyone misses is buying derivatives is not investing. It is gambling, insurance and high stakes bookmaking. Derivatives create nothing.” (Chapman, 1998).

According to Bank for International Settlements, the total notional amount of over-the-counter (OTC) derivatives contracts outstanding was \$592.0 trillion at the end of

December 2008 (Figure 1), corresponding to almost 10 times the value of Gross Domestic Product (GDP) of all the countries in the world, which is only about \$60 trillion. The most widely traded form of credit derivatives, i.e. the credit default swaps (CDS), have increased significantly in the last few years, and reached to \$58 trillion in December 2007, corresponding to 105% of the world GDP, though this ratio was only 15% in December 2004. This implies that gamblers can bet as much as they want with money that they actually do not have, and that is where the huge increase in risk comes in (Brown, 2008).

**Figure 1: Over-the-Counter (OTC) Derivatives**  
(Notional Amounts Outstanding, Trillion US Dollar)



Source: Bank for International Settlements, Statistics on Derivatives.

Given this state of affairs, it is widely accepted that the main reason for the current financial crisis was the high level engagement in nominal transactions with no real value. This implies that the conventional financial system has weak interactions with the real economy and, thus, highly influenced by speculative transactions in the financial market, regardless of the actual supply-demand conditions or production trends in the economy.

Of course, the current global financial crisis is not the first one and does not seem to be the last given the current structure of the global

financial architecture. As Stiglitz (2003, 54) emphasized, “... international financial crises or near-crises have become regular events... It is becoming rarer for a country not to have a crisis than to have one, and by some reckonings, there have been 100 crises in the past 35 years”.

### Islamic Finance & Banking System: A Potential Alternative

The current global financial crisis is widely considered as the worst one since World War II. It seriously affected a number of most successful



institutions operating in the international financial market, including even some of those which were considered to be well-established and “too big to fail”. On the contrary, the Islamic banks and financial institutions throughout the world have proved to be somewhat sheltered from the crisis. Accordingly, given that the current crisis has clearly shown up the weaknesses of the conventional banking and finance system, the resilience of the Islamic institutions to the current financial turmoil has led many analysts, particularly in the developing countries, to come to a conclusion that Islamic finance and banking system could provide the solution to the weaknesses of the conventional financial system and could be a feasible alternative.

Islamic finance requires that financial transactions must be in line with the Islamic law, Shariah. Accordingly, these transactions must be free from *riba* (interest or usury), *gharar* (uncertainty), and *maysir* (gambling). Moreover, “financial dealings in Islamic banking and finance are guided by the ultimate objective of achieving the ideals of equitable justice where priority is given to equity-based financing rather than debt-based financing” (Kassim and Majid, 2009).

Given that ensuring justice in human society is one of the central principles of Islam, its fulfilment in financial transactions requires that financial institutions should equally share the profit as well as the loss so as not to shift the entire burden of losses to the entrepreneur (Chapra, 2008, 14). In this setting, financial institutions need to evaluate the risks more cautiously and to monitor more effectively the use of funds by the borrowers. This implies that the lender (bank), acting as an agent for the borrower, has full information on how the borrower is using the loan, leaving no room for asymmetric information.

On the contrary, the process of lending in the conventional banking system is subject to the problem of asymmetric information and moral hazard. The borrowers typically know more about their own business than the lenders. As borrowers are in a position to hide information from banks, they can easily use the loans for other purposes than they specified on the agreement, posing unknown risk on the banks through misreporting their income flows; an issue which was not considered seriously by the reckless banks in the United States before the mortgage crisis.



On the other hand, the Islamic financial system does not allow the creation of debt through either direct lending and/or borrowing. It rather requires the creation of debt through the sale or lease of “real assets” through various Shariah-compliant sales- and lease-based modes or instruments of financing such as murabahah, ijarah, salam, istisna and sukuk. The aim is to help individuals as well as firms to buy urgently needed real goods and services at present considering their ability to repay at a later time. In this context, it is worth mentioning that the Islamic financial system has certain conditions that would help prevent excessive expansion of debt, which, according to (Chapra, 2008, 15-16), can be summarised as:

- The asset which is being sold or leased must be real, and not imaginary or notional;
- The seller must own and possess the goods being sold or leased;

- The transaction must be a genuine trade transaction with full intention of giving and taking delivery; and
- The debt cannot be sold and thus the risk associate with it cannot be transferred to someone else. It must be borne by the creditor himself.

Under these conditions, it is clear that the strength of the Islamic economy is based on the fact that the Shariah-compliant financial instruments are based on real economics rather than speculations and other wrong practices. Once the debts are no more traded, the financial market cannot be stretched beyond what the real economy can bear. Thus, eliminating the derivatives and their transactions that are basically speculative and do not add value to the real economy avoids the chain reaction of any debt failure, which was a primary cause of the collapse of major financial institutions during the current financial crisis. Consequently, the absence of all these conditions indeed was among the main reasons that contributed to the current financial crisis. That is why many experts and

analysts have come to support the implementation of the principles of Islamic finance.

Having faced the threats of the global financial crisis, a number of banks across the world are now building up their Islamic finance units, tapping into an emerging industry estimated at \$700 billion to \$1 trillion in asset size and growing annually by 15 to 20 percent (Reuters, 2009). Today, investments through Islamic finance systems are acceptable in a significant number of countries –both Islamic and others– such as Indonesia, Malaysia, Turkey, Japan, China, England, and USA, and continue to expand to many other countries as an alternative or complementary to the conventional financial and banking system. As Wilson (2009) argued “Islamic banking provides a viable alternative to conventional banking and is less cycle prone. The spread of Islamic finance into western markets demonstrates that it now being treated seriously by regulators and finance ministries.”

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# SOCIO-ECONOMIC IMPACTS OF FOOD PRICES VOLATILITY IN THE OIC MEMBER COUNTRIES

*Mazhar Hussain, SESRIC*

## 1- Introduction

Food is one of the most basic necessities for the survival of human beings. The daily consumption of an adequate amount of food is mandatory to live a healthy and productive life. However, despite tremendous growth in global food production over the years, millions of people across the globe are still undernourished. Particularly, in developing countries households are spending 50 to 80 percent of their income to secure only two quality meals in a day. Hence, any increase in food prices implies more direct and severe implications for the very survival of millions of human beings compared to non food commodities.

Despite showing some unprecedented increases in early 70s and mid 90s, prices of major food commodities have shown a downward trend in the international markets since 1950s (Wiggins S. & Stephanie Levy, 2008). However since 2002, food prices started an upward movement and recorded excessive volatility during 2007-2008. Prices of all major food commodities like wheat, rice, maize, and soya reached to their historic peaks in 2Q of 2008.

This sharp increase in food prices posed severe negative impacts on food security across the globe and tens of more millions people, particularly in developing countries, were pushed into hunger and poverty. Developing countries which account for nearly 98% of world undernourished people and some of them rely heavily on food imports to meet their domestic demand, were the hard hit.

OIC member countries were no exception, where despite having agriculture based economies, majority of them are net importers of food and 36 member countries are being placed in the Low Income Food Deficit Countries (LIFDCs) category by the FAO. OIC member countries in Asian and African regions were affected more than other regions and many countries like Pakistan, Bangladesh, Indonesia, Uzbekistan, Mozambique, Morocco, Egypt and Yemen witnessed food related riots and political unrest. Against the back drop of recent food crisis this paper aims to investigate the socio-economic implications of the food price inflation for the OIC member countries.

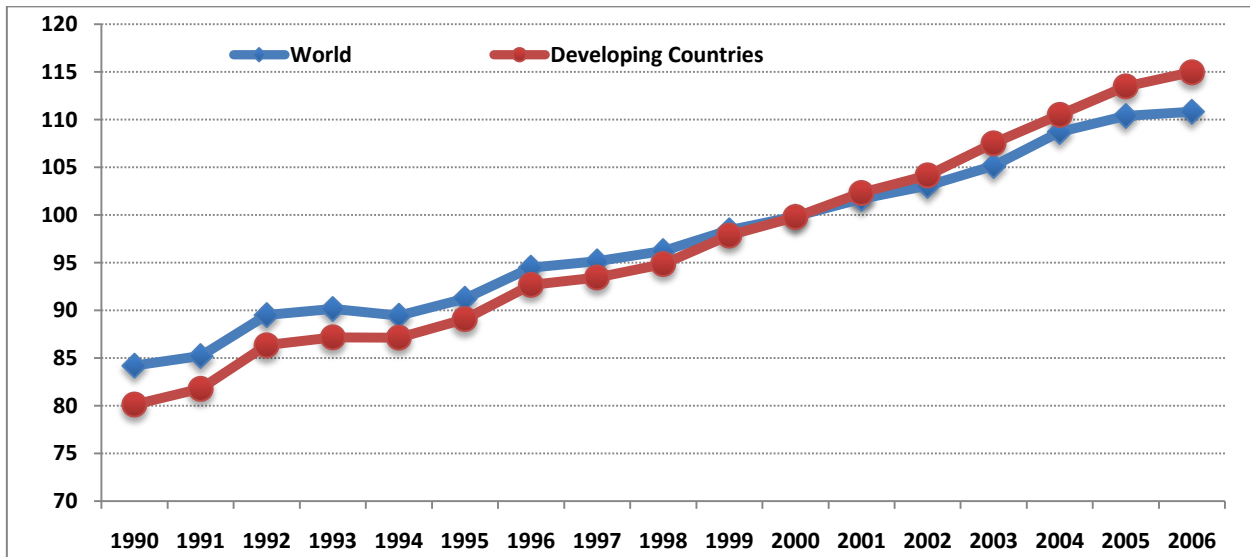
## 2- Global Food Production and Price Trend

### 2.1 Food Production

Over the years agriculture sector has made great progress and global food production has increased significantly and today more food is available to consume compared to a few decades ago. As shown in Figure 1, global food production has increased in real terms by 32 percent between the period 1990 and 2006. From

1990 to 2000, on average, developing countries food production index remained below the world average while from 2000 onward developing countries registered food production higher than world and their production index remained well above the world production index.

Figure 1: Global Food Production Index (1999-2001 = 100)

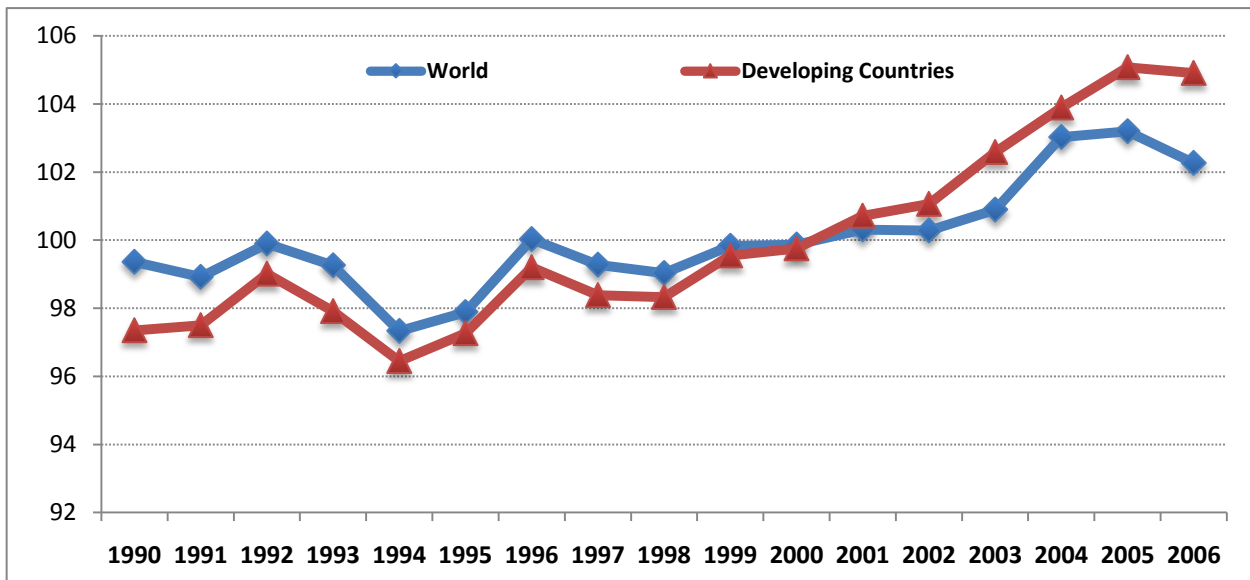


Source: FAOSTAT, Calculated by using UNCTAD Country Classification..

As shown in Figure 2, global per capita food production has also shown an upward trend. Despite showing some down ward fluctuations in the early years, global food production per capita index increased by 3 percent, during

1990-2006. Developing countries, which initially followed the global trend, have shown significant increase in food production in later years (2000 on ward) and per capita food supplies increased by 8 percent.

Figure 2: Global Food Production per Capita Index (1999-2001 = 100)



Source: FAOSTAT, Calculated by using UNCTAD Country Classification

Although, both at aggregate and per capita level, global food supply has increased over the years, agriculture productivity growth (measured in global average aggregate yield) has shown

downward trend. According to US Department of Agriculture (USDA May 2008) report, between 1970 and 1990, agriculture productivity growth rose by an average of 2.0% each year.

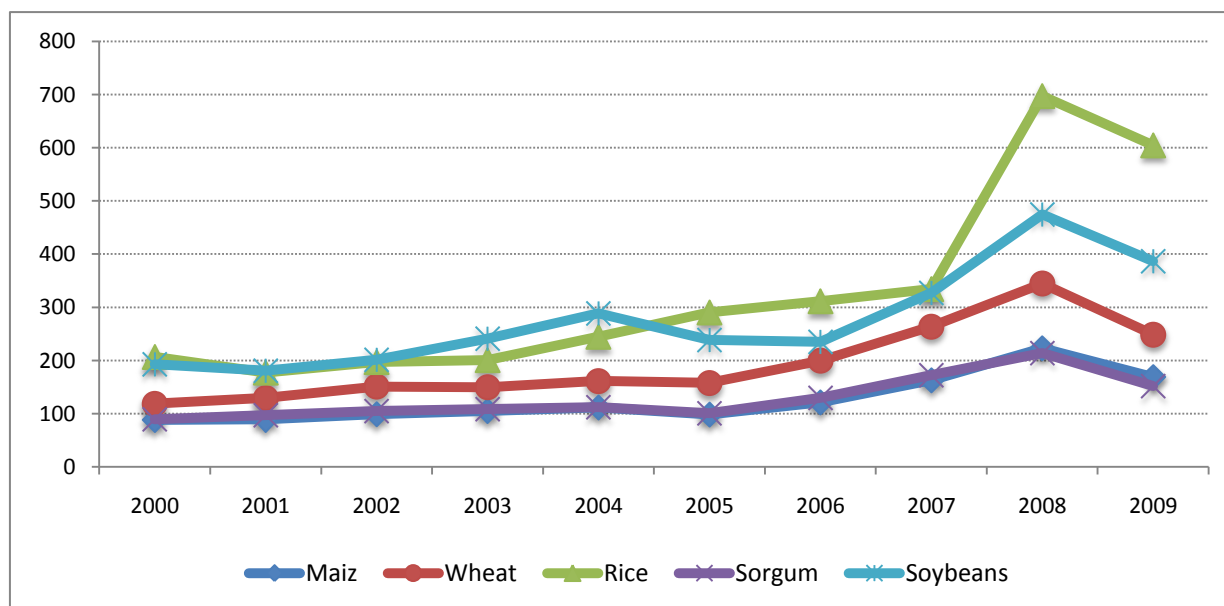
However since then it declined to an average of 1.1% as of 2007 and this trend will continue over the next decade. Global production growth of major food stuffs like grains and oil seeds has also followed this trend and declined from an average 2.2% annual rise in 1970 and 1980 to 1.3% from 1990 to 2007.

## 2.2 Food Prices

After a decade of relatively constant and stable prices, world has witnessed dramatic increase and excessive volatility in prices of all major commodities since 2005. This upward trend picked up the pace in 2007 and reached to the record levels in 2008. As shown in Figure3, in 2008 wheat prices reached to US\$ 344/ton – registering nearly 31 percent increase over 2007 prices. With a 109 percent increase over 2007

level rice prices reached to US\$697/ton in 2008. Meanwhile, prices of maize increased by 38 percent, sorghum by 24 percent and soybeans by 45 percent over the prices of 2007. Though during 2008-2009 international food prices have declined from their peak levels; according to FAO’s latest report (Crop Prospects and Food Situation April 2009) , high food prices persist in developing countries. Among the 58 developing countries, 80 percent are suffering from food prices higher than a year ago. Most affected are the sub-Saharan African countries where prices of rice are significantly higher than the 12 months earlier, while the prices of maize, millet and sorghum are higher in 89 percent of the countries. This is creating further hardships for millions of people already suffering from the hunger and poverty.

Figure 3: Prices of Major Food Commodities (US\$/ton)



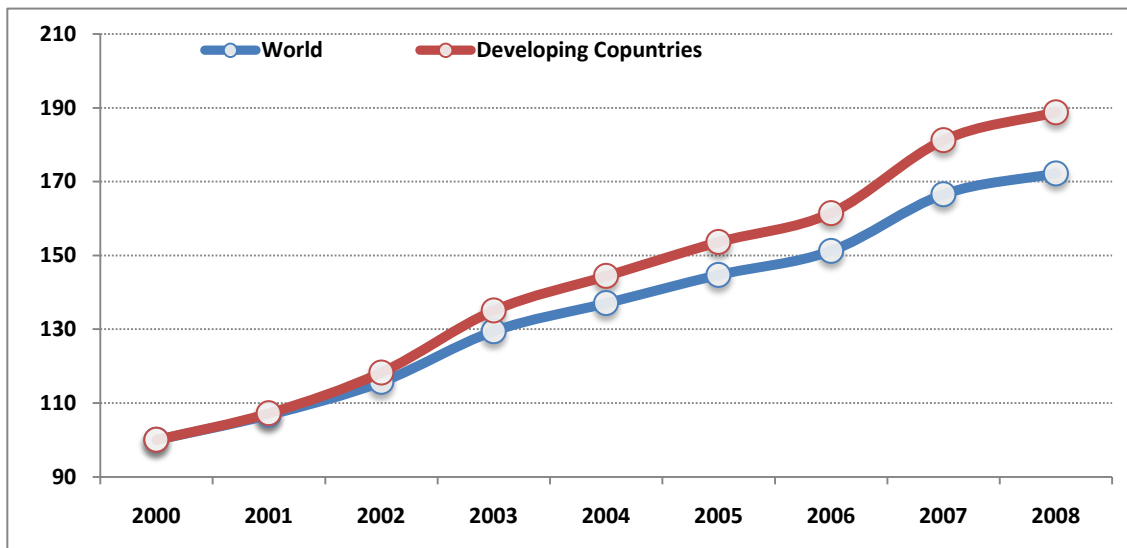
Note: Maize=US No.2, Yellow, U.S. Gulf (Friday), Wheat=US No.2, Hard Red Winter ord. Prot, US Fob Gulf (Tuesday), Rice=White Rice, Thai 100% B second grade, f.o.b. Bangkok (Wednesday), Sorghum=US No.2, Yellow, U.S. Gulf (Friday) and Soybeans=US No.1, Yellow, U.S. Gulf (Friday).

Source: FAO, International Commodity Price database

During period 2005-2008, mainly triggered by exponential increase in prices of major food commodities, global food price index has shown an upward trend. And in 2008, real food prices were 19 percent above their 2005

levels. As shown in Figure 4, developing countries have experienced even higher price increase than the world average and food price index has registered 23 percent increase in 2008 compared to 2005 levels.

Figure 4: Food Price Index (2000=100)



Source: International Labour Organization (ILO), Calculated by using UNCTAD Country Classification.

Following major reasons behind this excessive food price volatility during the period 2005-2008 have been identified by the FAO as follow:

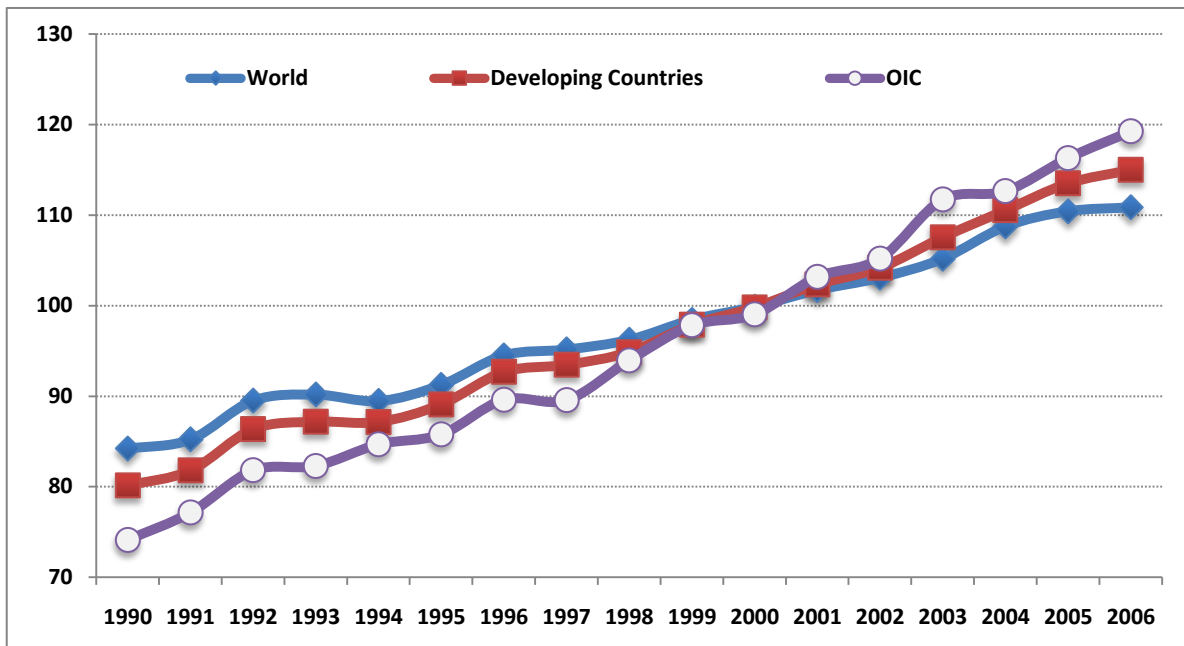
- Growth in global demand for food especially in emerging economies like China and India
- Agriculture production shortfalls mainly derived by extreme weather conditions,
- Changing global food consumption patterns,
- Increased use of farmland to produce biofuels,
- Diminishing investment in agriculture sector,
- Increasing agriculture input prices like energy prices, fertilizers, and
- Speculations in international commodity markets.

### 3- Food Production and Price Trend in OIC Member Countries

3.1 Food Production in OIC Member Countries Food production in OIC MCs has followed the global trend and production index has registered an increase of 61 percent from 1990 to 2006 (Figure 5). During the period 1990-1999, food production in the OIC member countries remained low compared to the average of both the world

and the developing countries. However, since 2000, food production in OIC member countries has shown significant increase where OIC food production index remained well above that of the world and developing countries production. During the period 2000-2006 OIC food production index has increased by 19 percent.

Figure 5: OIC Food Production Index (1999-2001 = 100)

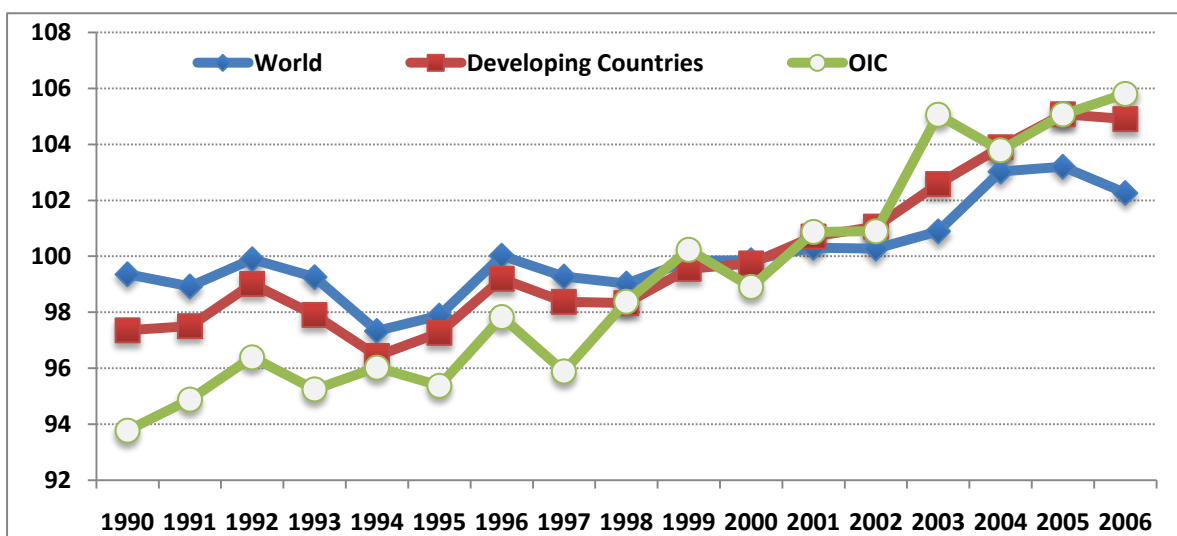


Source: FAOSTAT, Calculated by using UNCTAD Country Classification.

Over the years, per capita food production has improved in the OIC member countries which implies that growth in food production was higher than population growth in these economies. During 1990-2006, OIC food production per capita index increased by 13 percent which is higher than world 3% and developing countries 8 % increase during the

same period. During the 90s, despite showing increasing trend, OIC index remained below the world and developing countries indices. However, from 2000 onward, per capita food production in OIC member countries has shown significant improvement and per capita index increased by 7 % compared to world 2% and developing countries 5% (Figure 6).

Figure 6: OIC Food Production per Capita Index (1999-2001 = 100)



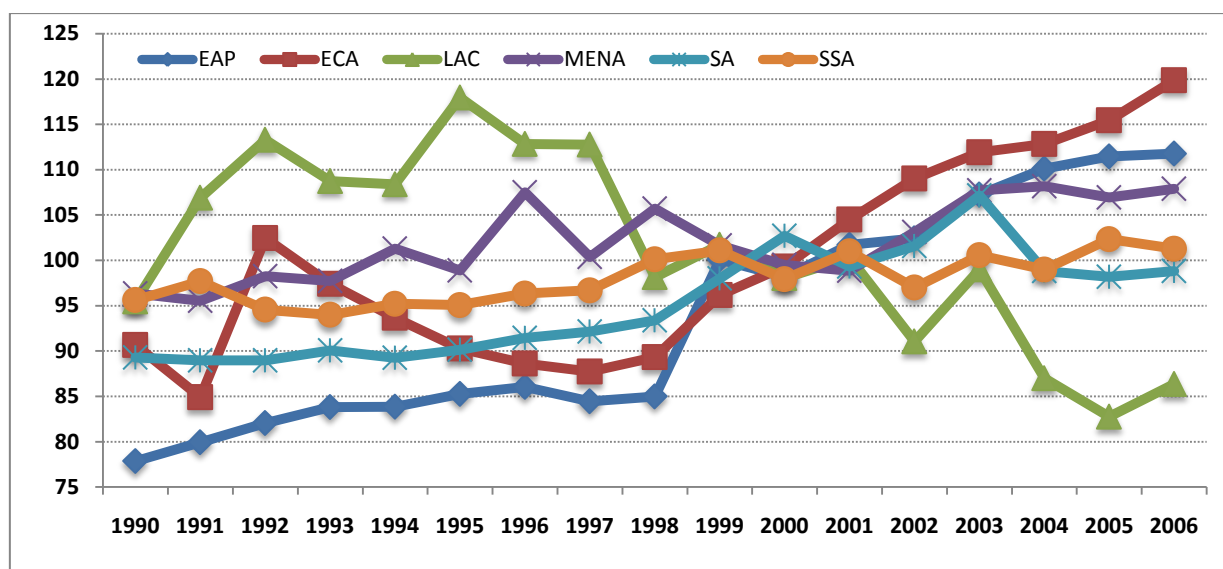
Source: FAOSTAT, Calculated by using UNCTAD Country Classification.



Among the OIC regions, as shown in Figure 7, Europe & Central Asia (ECA) and East Asia & Pacific (EAP) has shown great progress in food production in the period 1990-2006 and their per capita food indices has increased by 44% and 32% respectively. While among the other regions,

Middle East & North Africa (MENA) registered an increase of 12 %, South Asia (SA) 11% and Sub-Saharan Africa (SSA) 6%. During the same period, per capita food production has declined by 10% in member countries of Latin America & Caribbean (LAC) region.

Figure7: OIC Regions Food Production per Capita Index (1999-2001 = 100)



Source: FAOSTAT, Calculated by using World Bank Regional Classification

However despite showing increasing trend in food production, the majority of the OIC member countries is still domestically food deficient and relies heavily on imports to fulfill their domestic demand. According to FAO, 36 OIC member countries are included in Low Income Food Deficient Countries (LIFDCs) category (globally 82 countries have been placed in this category). Among the OIC-LIFDCs, 21 are located in Sub Saharan Africa, 6 in Europe & Central Asia, 5 in Middle East & North Africa and 4 in South and East Asia. These countries are more vulnerable to food price hike than others mainly due to low income, deficit in domestic food production, high prevalence of undernourishment and larger share of food in household total expenditures.

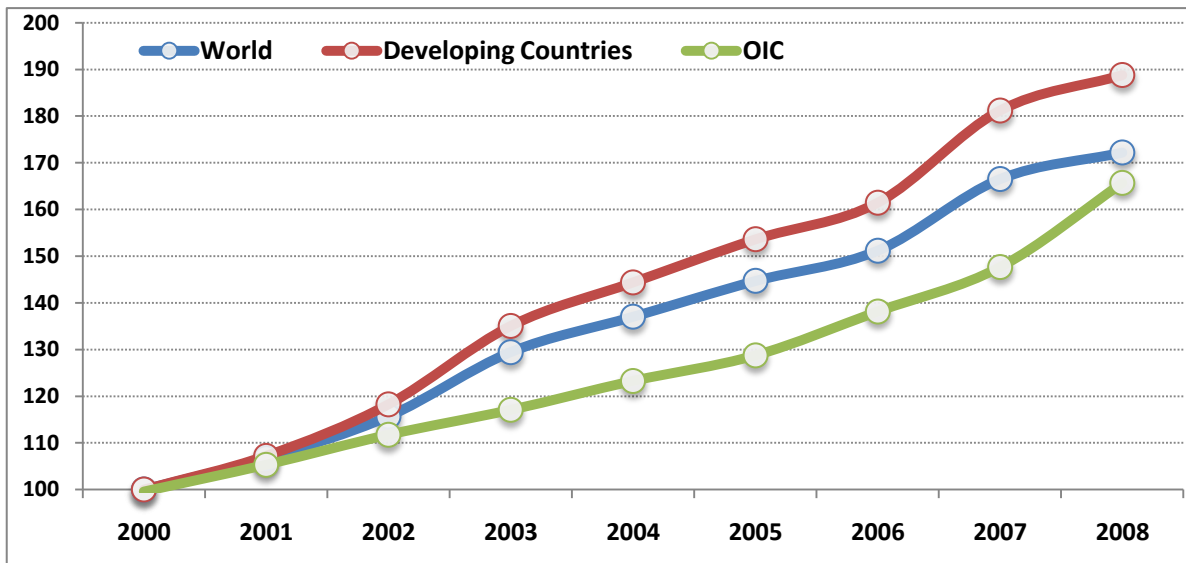
### 3.2 Food Prices

As shown in Figure 8, food prices soared in the OIC member countries where food price index has increased by 65% during 2000-2008. Although,

during the period in consideration, food price index for the OIC member countries remained below the world and developing countries average, it has registered steeper growth of 29% between 2005 and 2008 compared to world (19%) and developing countries (23%).

Food price index has increased across all OIC regional groups (Figure9). However, in some regions it has increased higher and shown more fluctuations and volatility compared to others. During the period 2000-2008, South Asian region (SA) recorded highest increase of 86%, followed by Sub Saharan Africa (SSA) 77% and Europe & Central Asia (ECA) 69%. In all three regions percent increase in food price index remained higher than OIC average of 65% in the same period. In 2007-08, at the peak level of food crisis, member countries in South Asian region experienced steeper increase of 29% in food price index followed by SSA 12% while in East Asia & Pacific (EAP) index witnessed an increase of only 3%.

Figure 8: OIC Food Price Index (2000 = 100)

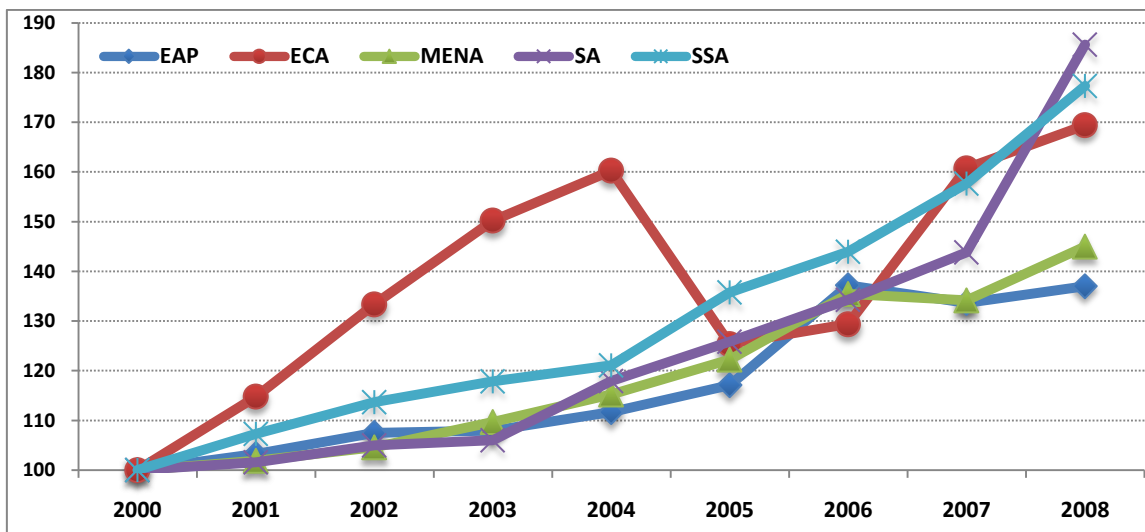


Source: International Labour Organization (ILO), Calculated by using UNCTAD Country Classification.

At the individual country level, prices of major food commodities have shown different trends. According to FAO (Crop Prospects and Food Situation, April 2008), during March 2007 to March 2008, prices of rice in Cote d'Ivoire, wheat in Senegal and sorghum and millet in Nigeria have doubled. During the same period, prices of wheat in Sudan and rice in Bangladesh increased by 43 % and 66 % respectively. While in Tajikistan prices of bread in February 2008 were twice the levels at the same time in 2007. Despite a significant decrease in international food commodity prices since 3Q of

2008, food prices are still very high in some OIC MCs. According to FAO's latest report (Crop Prospects and Food Situation", April 2009), in March 2009, prices of maize in Mozambique were 29 percent higher than at the same time last year while prices of wheat in Pakistan were 50 percent higher in the same period. During February 2008-2009, prices of sorghum in Niger and Sudan increased by 29 68 percent respectively while in Senegal the prices of imported rice increased 48 percent in the same period.

Figure 9: OIC Regions Food Price Index (2000 = 100)



Source: International Labour Organization (ILO), Calculated by using World Bank Regional Classification.

## 4. Socio-Economic Impacts of Food Crisis on the Economies of OIC Member Countries

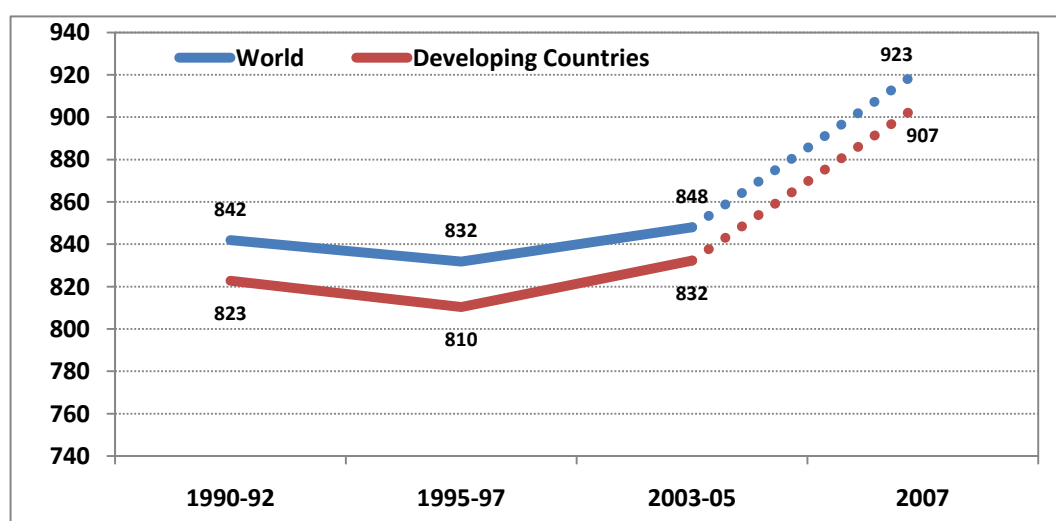
Recent food price crisis caused serious negative impacts on the economies of developing countries, including the OIC members, both at micro and macro levels. Developing countries, which are deficient in food production and rely on imports for meeting their domestic demand for food, were more exposed to these impacts than the others. Food price inflation has worsened the food security situation, increased the food import bills and trade deficits, triggered the head line inflation and posed serious negative impacts on health and education in these economies.

### 4.1 Undernourishment and Food Insecurity

One of the most significant negative effects of food prices inflation is increase in global food

insecurity especially in the developing countries. Developing countries are home for some 98% of global food insecure people who spend the bulk of their income on food consumption. According to FAO's State of Food Insecurity report 2008, before the onset of recent food crisis, in 2003-05 globally there were some 848 million undernourished people of which 832 million were living in developing countries. Food inflation pushed nearly 75 million more in this bracket and increased the global total to 923 million. However, almost all of this increase occurred in developing countries and number of undernourished people has increased from 832 million in 2003-05 to 907 million in 2007.

Figure 10: Undernourished People in the World (Millions)



Source: FAO Statistical Division, Food Security Statistics & SOFI 2008.

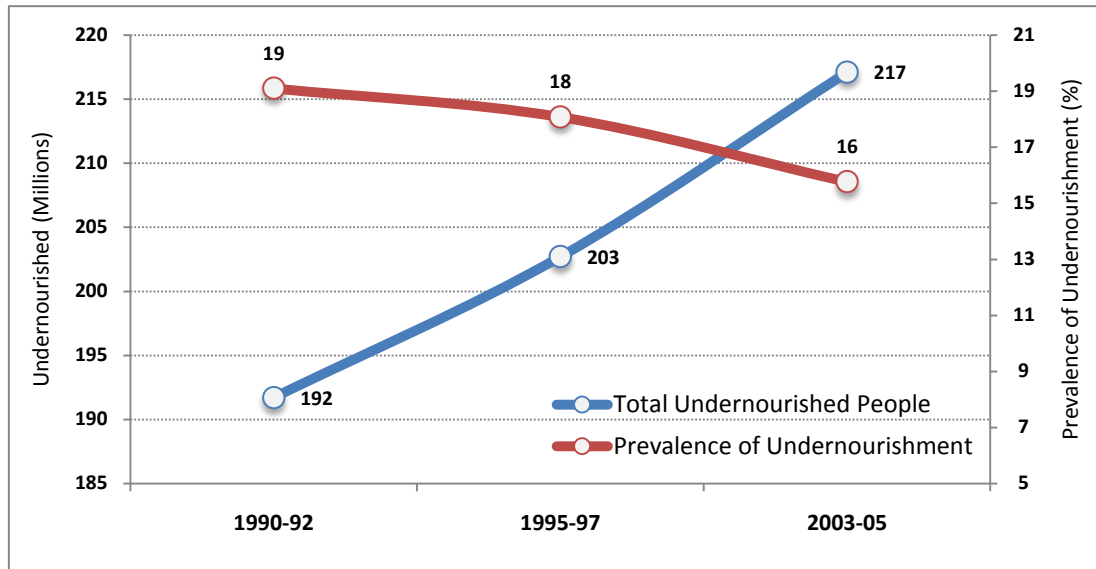
Among the developing regions, Asia & Pacific and Sub-Saharan Africa which accounted for 750 million (89%) hungry people of the world in 2003-05, experienced the largest food prices inflation in 2007 and thus, the number of undernourished people in these two regions increased by 41 million and 24 million respectively.

In 2003-05, OIC member countries were home to some 217 million undernourished people, corresponding to nearly 26 percent of each world and developing countries total. As shown in Figure 11, over the time number of undernourished people in the OIC member countries has increased from 192 million in 1990-92 to 217 million in 2003-05, an increase of 13

percent. During this period the share of OIC member countries in world total undernourished people has increased from 23% in 1990-92 to 26% in 2003-05. Nevertheless, the share of

undernourished people in the total population of OIC member countries has declined from 19% in 1990-92 to 16 % in 2003-05.

Figure 11: Undernourished People in the OIC Member Countries

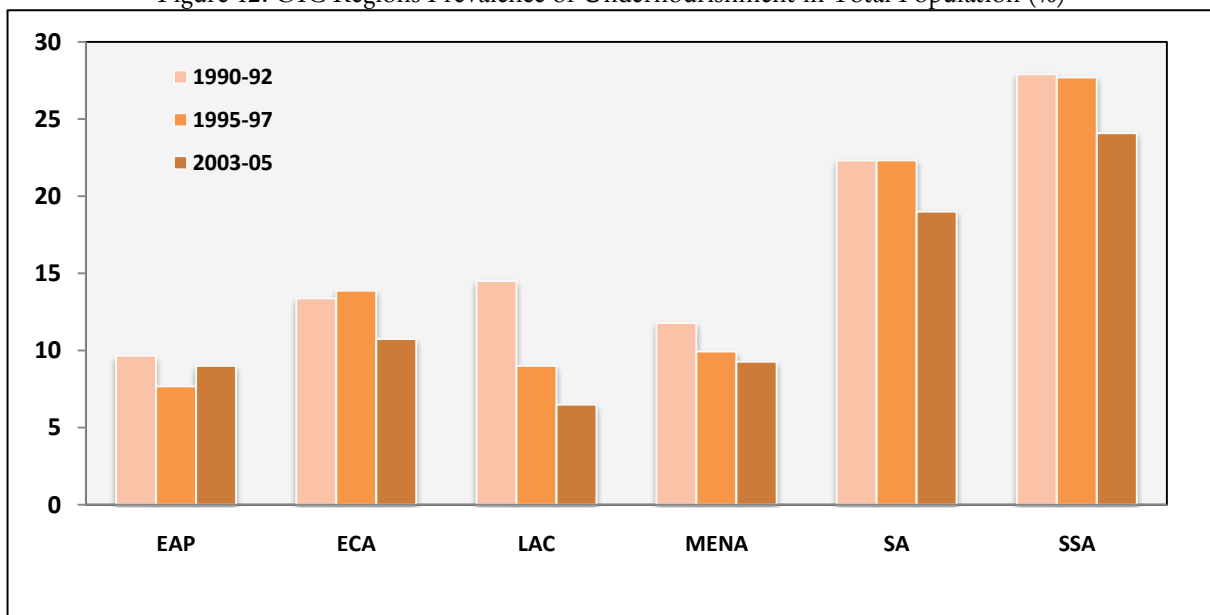


Source: FAO Statistical Division, Food Security Statistics.

In all OIC regions, the share of undernourished people in total population has decreased during the period 1990-92 to 2003-05. In 2003-05, Sub Saharan Africa accounted for the largest share of undernourished people

in total population (24%) followed by South Asia (19%), Europe & Central Asia (11%), East Asia & Pacific (9%), Middle east & North Africa (9%) and Latin America & Caribbean (7%) [Figure12].

Figure 12: OIC Regions Prevalence of Undernourishment in Total Population (%)

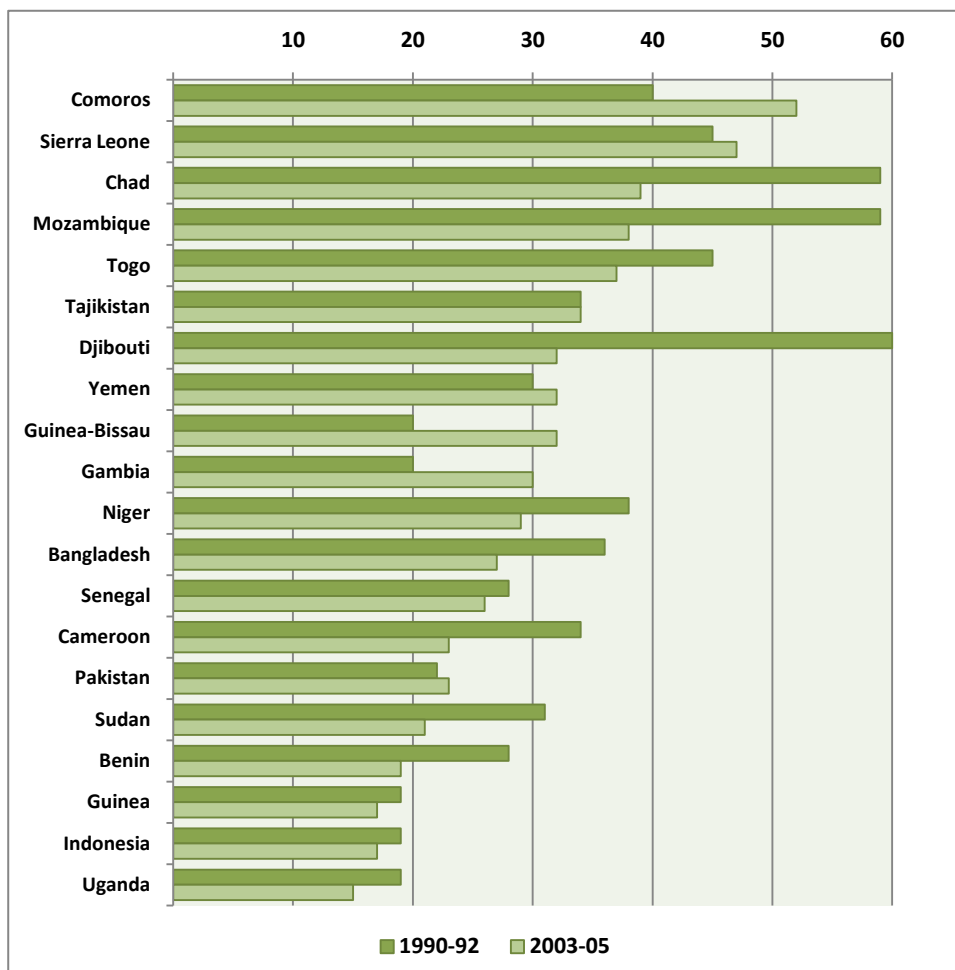


Source: FAO Statistics Division, Food Security Statistics , Calculated by using World Bank Regional Classification.

At the individual country level, some member countries has shown impressive progress and the share of undernourished people in their total population has declined significantly during the period 1990-92 to 2003-05 (Figure13). However, in most of the member countries, especially in Sub-Saharan Africa and Asia, prevalence of undernourishment in total

population is still very high. Hence, provided the fact that food inflation has deteriorated the food security situation in Asia & Pacific and Sub-Saharan Africa, OIC member countries in these regions will have more severe negative socio-economic repercussions than the others and number of undernourished people will increase.

Figure 13: Prevalence of Undernourishment in Total Population (%)



Source: FAO Statistics Division, Food Security Statistics.

#### 4.2 Inflation

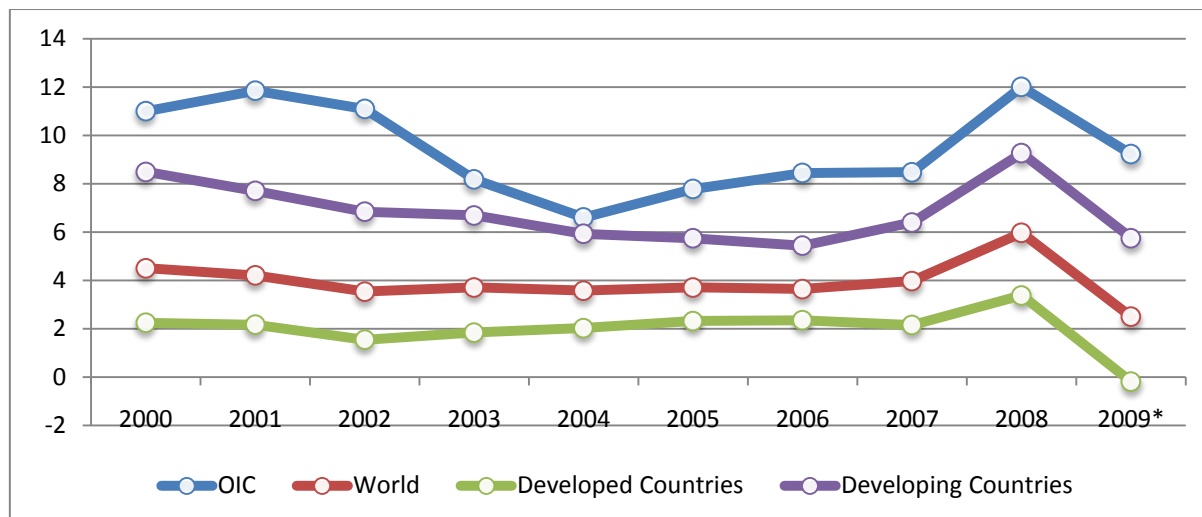
Recent dramatic increase of food commodity prices had a significant contribution to the world average inflation rate. As shown in Figure14, world inflation rate which was declining since 2001 rebounded and in 2008 reached to 6% compare to 4% in 2001. According to IMF World Economic Outlook (WEO) April 2008, the share of food prices in global inflation has increased to 44% in

2007 compared to 27% in 2006. While in advanced economies the contribution of food products to headline inflation is approximately 19.5 % (2007), in emerging and developing economies it ranges from 40 % to 67 %. In the OIC member countries, inflation rate has increased even more significantly than developed and developing & emerging economies. During 2001-2004, average OIC inflation rate exhibited a downward trend and declined from peak level of 12% to approximately

6.6 % but thereafter it started increasing moderately up to 2007. However, triggered by food and fuel price hike, inflation rebounded to

double digits i.e. over 12% at the end of 2008, nearly double the world average inflation value.

Figure14: Inflation rate (% change in CPI)



Source: IMF, WEO April 2009.

The contribution of food prices in inflation of regions where majority of OIC member countries is located ranges from 40 to 67% while comparatively contribution of energy prices remained very low. According to OECD-FAO agriculture Outlook 2008-2017, from February 2007 to February 2008, food inflation

contributed 7.6 points of total 10.6% CPI in Pakistan, 9.2 points of the total of 10.3% in Bangladesh, 5.6 points of the total of 9.5% in Egypt, 4.4 points of the total of 5.8% in Senegal and 3.6 points of the total of 5.4% CPI in Jordan (Table 1).

Table 1: Food Price Contribution to Consumer Price Inflation (Feb 2007 to Feb 2008)

	Total CPI % change	Food Price Inflation %	Expenditure share of food %	Contribution of Food to total change in CPI %
<b>Developing</b>				
Guatemala	8.04	11.6	38.9	4.5
Sri Lanka*	19.37	25.6	62	15.9
Pakistan	10.6	18.2	41.5	7.6
Egypt	9.5	13.5	41.5	5.6
Senegal	5.8	10.9	40.3	4.4
Jordan	5.4	9.1	39.7	3.6
Bangladesh	10.3	14.2	64.5	9.2
Kenya	15.4	24.6	50.5	12.4
Haiti	9.9	11.8	50.3	5.9
Peru	4	6.4	29.6	1.9
Botswana	7.7	18.3	21.8	4
South Africa	8.6	13.6	21	2.9
<b>Developed</b>				
USA	4	5.1	9.8	0.5
France	2.8	5	16.3	0.8
Germany	2.8	7.4	10.4	0.8
UK	2.5	5.6	11.8	0.7
Japan	1	1.4	19	0.3
Spain	4.4	7.1	21.9	1.6
Poland	4.3	7.1	30.4	2.2

\*Includes beverages and tobacco.

Source: OECD-FAO agriculture Outlook 2008-2017

In addition to its direct effect on inflation, food price hike also increased the inflation rate through indirect channels such as posing upward pressure on salary growth and increasing the prices of non-food commodities. Most low income developing countries, where food represents major portion in consumer spending, witnessed these indirect effects more severely than the others. According to IMF estimates (WEO, October 2007) , 1 percent increase of food commodity prices may cause 0.1- 0.6 percentage point increase in the prices of non food goods and services in developing countries over a period of 6 to 12 months; in emerging economies it may result into 0.1- 0.9 percentage point over a period of 12 months. In contrast, it has no effects on prices of non food goods and services in developed countries.

### 4.3 Increased Food Import Bills and Trade Deficits

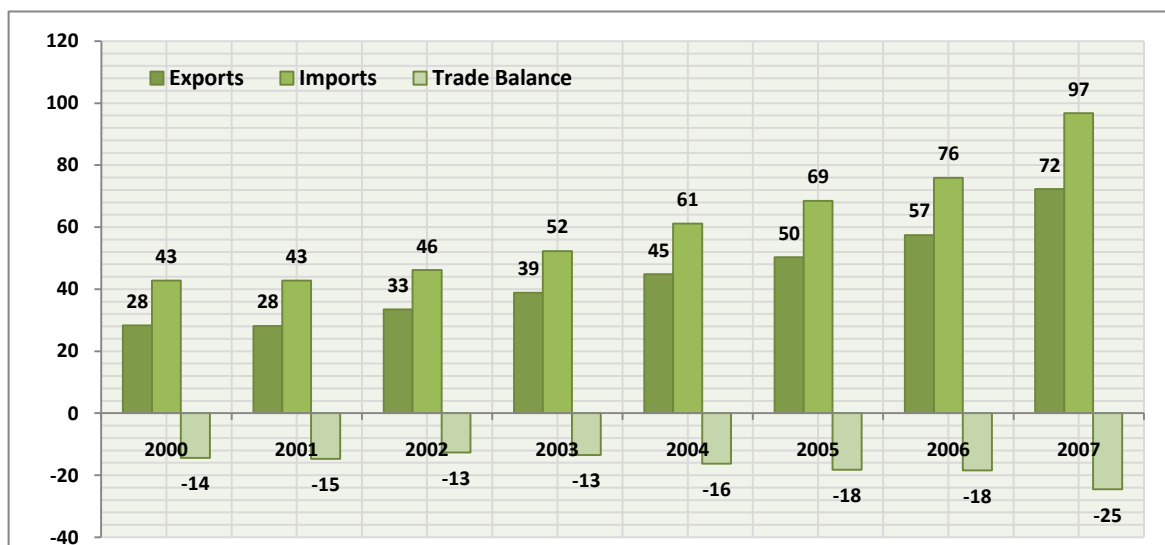
Catalyzed by raising incomes, low domestic production, higher population growth and trade liberalization, food import dependency in many developing countries has increased markedly during the last three decades. As indicated by USDA Economic Research Service (Rose S. & Shahla S., 2008) , in the Least Developed

Countries (LDCs) import share of production for wheat jumped from 93 percent in 1980 to more than 130 percent in 2005. For sugar, the share soared from only 4 percent in 1980 to more than 65 percent in 2005. A similar pattern is seen for vegetable oils, with the share rising from about 6 percent to 80 percent.

According to FAO Food Outlook (Global Market Analysis, 2008), in 2007 global food import bill has surged to historic peak of US\$820 billion. While another increase of 26 percent is expected in 2008 .LDCs and LIFDCs remained the most vulnerable as their share in global food imports, which increased by 30 percent in 2006/2007, is expected to climb by 37-40 percent in 2008. Soaring import bills will lead to new macroeconomic imbalances by putting further pressure on already deteriorating trade and fiscal deficits in these economies.

Despite being agrarian economies, majority of the OIC member countries still heavily rely on imports to meet their domestic food demand. As a group OIC member countries are net importers of food and their food trade deficit has increased from US\$14 billion in 2000 to US\$ 25 billion in 2007(Figure 15).

Figure 15: OIC Food Exports, Imports and Trade Balance (US\$ billions)

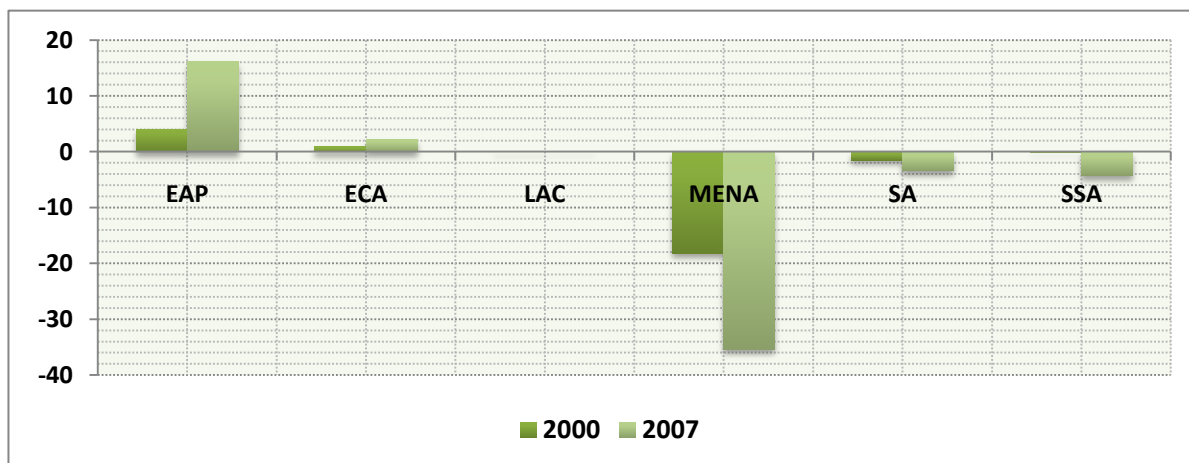


Source: World Trade Organization Online Database

Among the OIC regional groups, EAP, ECA and LAC remained net exporters of food while MENA, SSA and SA are net importers of food. During 2000-2007, food trade surplus of EAP increased four times from US\$4 billion in 2000

to US\$16 billion in 2007. While during the same period the highest food trade deficit has been incurred by MENA region and it has nearly doubled from US\$18 billion in 2000 to over US\$ 35 billion in 2007 (Figure 16).

Figure 16: OIC Regions Food Trade Balance (US\$ billions)



Source: World Trade Organization Online Database, Calculated by using World Bank Regional Classification.

OIC-LIFDCs has remained more vulnerable to increasing food import costs as these countries are accounted for nearly half of OIC total food imports and their food trade deficit has been doubled from US\$ 6 billion in 2000 to US\$12 billion in 2007. International food price hike will further expand the food trade deficit and cause negative implications for the financial stability of the OIC member countries in this category.

#### 4.4 Education and Health

Due to higher share of food in household expenditures, in developing countries usually people left with very less income for other basic social services such as education, health care and housing. Food inflation further aggravates this situation by affecting the real income of poor households negatively. Evidence from previous real income shocks suggests that there is a significant risk to educational outcomes for the poor as they cannot afford sending their children to school instead they put them in productive activities to sustain the household expenditures.

For example, in 1997/98, Burkina Faso faced an increase of more than 40 percent in the prices of the three main food crops, sorghum, millet and maize mainly triggered by the substantial decline in agricultural output due to draught (Grimm M., 2009). As a result both the producers as well as the consumers of food were badly affected and their real income has deteriorated. This led to a substantial cut in their spending on education and a drop of more than ten percent in enrolment rates. In Indonesia, during the 1997 economic crisis, school enrolments among the poor in rural areas has declined significantly where number of 7-12 years olds not enrolled in schools doubled from 6% to 12%.

Recent food crisis has also compelled the households, especially in low income countries, to cut the education expenditures to meet their food requirements. A recent survey conducted in Bangladesh suggests that about half the households surveyed reduced spending on education to cope with rising food prices (World Bank, October 2008).





Higher food prices are also having adverse effects on health. As due to low income and high share of food in total expenditures, poor left with no choice but to reduce the quantity and quality of food. Consequently, their nutritional level deteriorates which leads to irreparable damage to their health. Once again children suffer the most and prevalence of weight loss and malnutrition increase by many folds. According to World Bank (October 2008), recent food crisis has increased the number of children suffering permanent cognitive and physical injury due to malnutrition by 44 millions. Low income countries in Asia and Sub-Saharan Africa with high pre-existing levels of malnutrition were hard hit.

#### 4.5 Increase in Farmers Income

Though high international food prices seems to boost the agriculture production and increase the income of farmers, the ability of farmers to take advantage of higher prices usually depends on availability of resources and access to markets, both domestic and international. Usually, benefits of high food prices are restricted to big farmers, particularly those in developed countries, who have more access to market and are better able to respond the

international market signals. During the recent food price hike only few farmers could take the benefits as during the same period cost of agriculture inputs like fertilizers, seeds, fuel and animal feed were very high. According to FAO's estimates, prices of fertilizers and seed increased by 98 and 72 percent respectively since 2006. During the peak times of food prices, FAO input price index doubled in first quarter of 2008 compared to the same period in 2007. Provided the fact that farmers in developed countries have better access to credit and market, in response to higher food commodity prices, cereal production in developed countries has increased by 11 percent while in case of developing countries increase remained less than 1 percent. While if we exclude the emerging developing economies China, India and Brazil, cereal production in rest of developing countries has actually declined by 1.6 percent (FAO, SOFI 2008).

However, it has been argued by many experts that higher food prices in international market can help to reach Doha Round agreement on agricultural liberalization. As due to higher food prices the need for subsidies in agriculture sector will be negligible hence it's very much easy for the developed countries to decrease subsidies on agriculture. Hence developing countries which so far resisted exposing their farmers to the impact of highly subsidized foreign producers will be able to open up their agriculture sector to global competition. This will lead to more fairness in global food trade and farmers in developing countries will reap the benefits of access to international market (Bhagwati J. & Arvind P., 2008).

## 5- Conclusion and Policy Recommendations

Recent food crisis has posed some severe challenges for the OIC member countries. The number of food insecure people has increased, head line inflation has rebounded to double

digits and food import bills and trade deficit has soared up. So in order to mitigate these challenges an ambitious policy response should be taken by the OIC Member Countries, both at

national and Intra-OIC level. Some serious measures should be adopted to enhance their domestic agriculture productivity by improving farming system, land and water resources, technological innovation, research and development (R&D) and institutional reforms. In this connection, following points can be made:

- In order to minimize the impacts of food price volatility on households, member countries should improve institutional setup for better monitoring of food prices and establishment of buffer stocks during the bumper crop seasons. In addition measures should be taken to provide safety nets aimed at alleviating the impacts of rising food prices and food shortage, including both direct and indirect transfers.
- One of the major reasons for low productivity and subsistence farming in rural area is poor infrastructure and less access to international market. Hence member countries should improve the access to international market by improving rural infrastructure, communication and transportation and facilitating trade in food products. These efforts should also incorporate a strategy to reduce corruption and other institutional bottle necks, which has a major impact on trade and food security.
- Member countries should encourage the agriculture research and development (R&D) by allocating adequate financial resources and building more research and development facilities. It will help in adoption of bio technology, innovation in farming system and development of crops with high yield. At the intra-OIC level, member countries should encourage the mutual sharing of best practices in agriculture sector through training and agriculture expert exchange program.
- Necessary measures should be taken at both national and Intra-OIC level to promote and encourage the Intra-OIC agriculture



investment. There are already some indications of improvement in this regard and some member countries from Gulf region are involved in agriculture related investment in agriculture based member economies. This will help both parties positively as on one hand it will help the investors to diversify their portfolios, reap high investment returns and secure their own food supply. While on the other hand it will help the producers to tap their agriculture potential and will increase the income of farmers and help to alleviate the poverty.

- Over the years, mainly derived by structural change programs; agriculture sector has been generally neglected compared to other sectors. Consequently, the share of agriculture in public expenditures has declined across the developing countries, including some OIC member countries. However, current food crisis is a wakening call for the member countries to channel due share of public investment to agriculture sector.
- Another major area of emphasis for the member countries is encouragement of active participation of private sector in agriculture. In order to achieve this goal, member countries should improve the investment climate by removing complex regulations, licensing and other institutional bottlenecks. An improvement in investment and business environment will decrease the cost of doing business and will encourage the investors to put their savings in agriculture sector.

- At the Intra-OIC level, a joint agriculture fund should be created to help the member countries overcoming financial constraints to build modern irrigation system, water reservoirs, canals, seed banks and grain storage houses.
- Global warming and climate change are among the serious challenges facing the development of agriculture sector in the MCs. Hence member countries should encourage and promote climate- friendly agricultural production systems and land-use policies both at national and Intra-OIC level. In addition climate change has increased the intensity of natural disasters like floods, droughts and cyclones which are causing sever damage to agriculture sector and posing sever threats to the very survival of millions of people across the OIC member countries . Hence both at national and intra- OIC level, member countries should develop and adopt an emergency response mechanism to minimize the impacts of such disasters by providing necessary help.
- Member countries should encourage and promote practices of sustainable agriculture by helping and educating the farmers best techniques including improving yields on marginal land, farming forests, expanding aquaculture, rediscovering forgotten foods, and encouraging urban agriculture.
- Population growth is one of the most important reasons for the high prevalence of undernourishment in the OIC member countries especially in Africa and Asian region. Hence a better coordination between population policies and agricultural policies would help improving the food security in the member countries.

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# TRANSPORTATION SECTOR IN OIC MEMBER COUNTRIES

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## Introduction

An efficient transportation system is a fundamental element in socio-economic development. It facilitates fast transfer and movements of goods, services and resources from producing to consuming areas and improves access to local and international markets.

The issue of transportation has been taken up in the various OIC fora beginning with the Second Islamic Conference of Foreign Ministers (ICFM) in 1979, which called on the member countries to strengthen and coordinate their activities in the field of transportation. One major outcome of this meeting was the realization that the necessary information whereby concrete steps could be taken to enhance cooperation in the field of transportation was largely missing.

Since then, many important activities and developments at the OIC level have taken place in the area of cooperation in transportation. These include, among others, the establishment of the Organization of the Islamic Ship-owners Association (OISA) in 1982 (Jeddah, Saudi Arabia), the First Meeting of the Ministers of Transportation of OIC Countries in 1987 (Istanbul, Turkey) and the resolution for the establishment of a committee for implementing

the Port Sudan-Dakar Railway Project adopted at the 11th Islamic Summit held in Dakar, in March 2008.

Transport and communication represents one of the ten priority areas of the Plan of Action to strengthen Economic and Commercial Cooperation among the Member Countries of the OIC. In this context, the Plan mandates an Expert Group Meeting in Transport and Communication to review the requirements for action and make proposals, when necessary, to help implement the provisions of the Plan pertaining to this area.

This report attempts to present and to evaluate the performance of the three modes of the transportation sector; Land, Air and Sea, in the OIC countries. This report presents an overview on the transportation sector in OIC member countries highlights a set of policy recommendations for development of a modern transportation sector in OIC countries and strengthening their cooperation in this important field. Each section attempts to examine, to the extent the available data allows, the basic indicators on different transport modes in the OIC countries.

## Capacity And Performance Of The Transportation Sector In Oic Countries

The OIC region is geographically vast. The current 57 OIC member countries are dispersed over a large area on four continents, extending from Albania (Europe) in the north to Mozambique (Africa) in the south, and from Guyana (Latin America) in the west to Indonesia (Asia) in the east. As such, the OIC countries as

a group account for one sixth of the world area and enjoy a vast strategic trading region. In addition, they account for one fifth of the world population and are well-endowed with potential economic resources in different fields and sectors, such as agriculture and arable land, energy and mining, and human resources.

Utilising these inherent potentials necessitates, inter alia, the existence of an efficient transport sector in the OIC countries. A well functioning transport system is of vital importance for the OIC countries not only at the national level but also for their integration at both the regional and world trading system levels.

Therefore, as far as the OIC countries are concerned, the role and importance of transport is threefold. First, it facilitates mass carriage of goods, which is of special importance to the OIC community in general since the majority of the OIC countries are mainly suppliers of primary commodities. Second, the diverse geographic characteristics

of the OIC community, that need to be considered as a natural constraint for enhanced cooperation activities, make it necessary to fully utilise the already established mass transport facilities on the one hand, and develop them further, on the other. Third, an integrated transport system in the OIC countries would be in harmony with the Islamic free trade area and the Islamic common market strategies.

Yet, considering the present situation of the transport sector in OIC countries in terms of both capacity and performance, it seems that this sector is still far from reaching the desired level.

## Land Transport

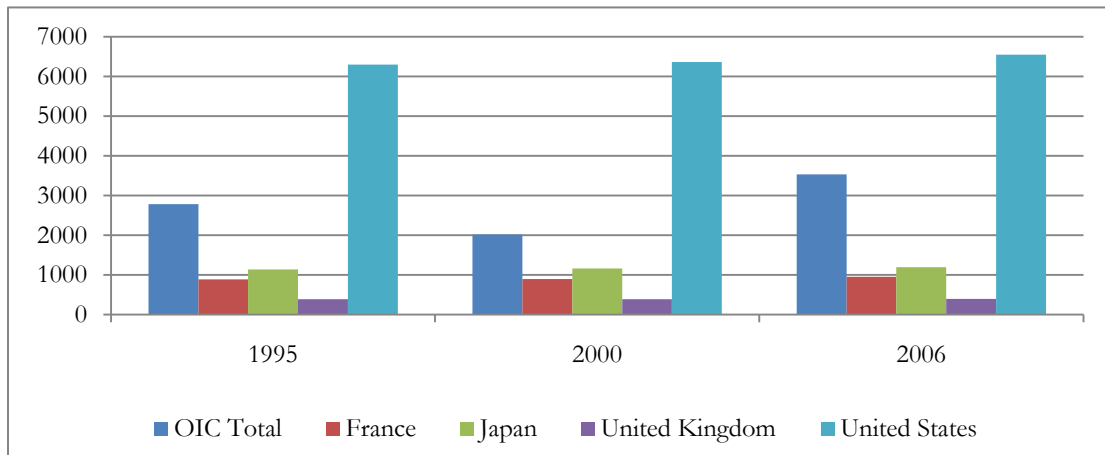
### *ROADS*

The largest transport activity in the OIC region and in most of the OIC countries is by roads. The OIC countries as a whole have an extensive road network. There are over 3 million km of highways. However, compared with the total land area, the density of roads is relatively low in many OIC countries and in the OIC countries as a group. As seen in Figure 1, although the total land area of the United States is only one third that of the OIC region, in 1995, it had more than double the road network. And that with a total land area of only 3.7 per cent of the OIC region, the total road network in Japan, France and United Kingdom accounted for 87 per cent of that of the OIC region for the same year. At the individual country level, it has been observed that in none of the OIC countries is the density of roads close to that in any of the industrial countries shown in the figure. In 2000, the road network of the United States

was more than 3 times that of the OIC countries as a group. However, in 2006, as shown in Figure 1, the total road network in Japan, France and United Kingdom accounted for 72 per cent of that of the OIC and the United States road network was less than 2 times that of the OIC. This shows that there has been a clear development in the transportation sector in the OIC countries though this network is still insufficient compared to the land area of the OIC countries.

When we consider the share of OIC member total road network in the world it is seen that OIC member countries have quite a modest share. The share of developing countries in the world total road network was 46 per cent in 1995, while developed countries recorded a share of 54 per cent. Of this 46 per cent 11.4 per cent was the share of OIC member countries.

Figure 1: Total Road Network in 000 KMs

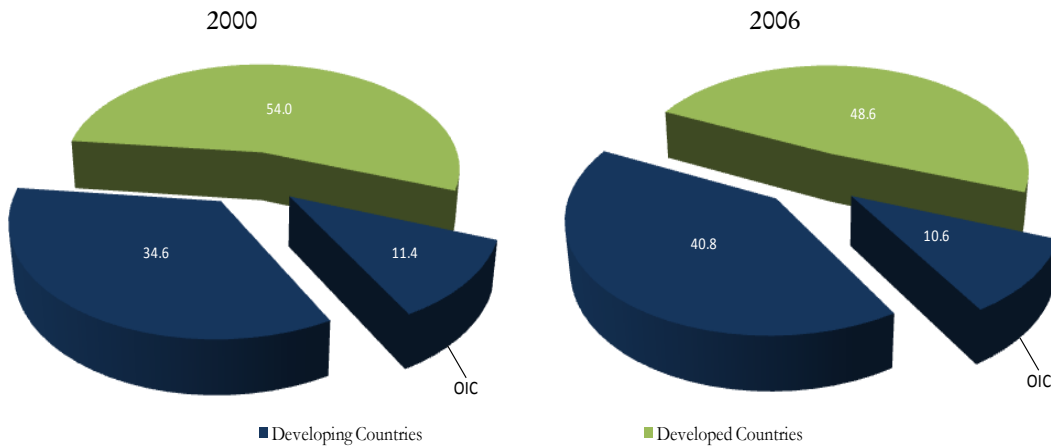


Source: World Development Indicators Online Database.

In 2006 the share of developing countries increased to 51.4 percent but on the contrary the share of OIC member countries slid back to 10.8 percent. On the other hand, in 1995 the share of OIC member countries in the total road network of developing countries was 24.8

percent and this share fell back to 20.6 in 2006, although developing countries as a whole gained pace and recorded a share better than that of developed countries in the world total in 2006 as shown in Figure 2.

Figure 2: Share in World Total Road Network



Source: World Development Indicators Online Database.

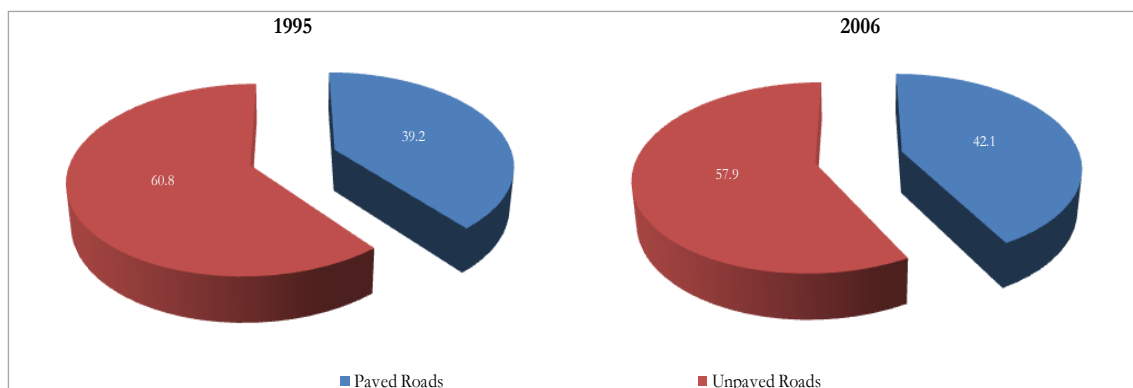
Furthermore, when the adequacy of the roads in the OIC countries is considered, Figure 3 indicates that more than half of these roads are unpaved (over 60 percent in 1995 and around 58 percent in 2006). In contrast, more than half of the road networks in industrial countries such as the United States and Japan are paved. The percentage of the paved roads even reached 100 percent of the total road network in some countries like the United Kingdom and France.

At the individual country level, the percentage of unpaved roads is very high in many OIC countries. The percentage of unpaved roads reached 90 per cent or more in Bangladesh, Chad, Cote d'Ivoire, Gabon, Guyana, Niger, Sierra Leone, and Yemen in 1995 (calculated using the data in Table A.2 in the annex). However, in some other countries the percentage of paved roads is very high, even higher than that of many industrial countries. For example, the percentage

of paved roads reached 80 per cent or more in Azerbaijan, Iraq, Kuwait, Kyrgyzstan, Lebanon, Qatar Tajikistan and Uzbekistan. It even reached 100 percent in Jordan and the UAE. In 2006

countries like Palestine and Syria developed their road networks to possess 100 percent paved roads but the bulk of OIC countries still lagged behind in the aspect of adequacy of roads.

Figure 3: Paved Roads as % of Total Road Network

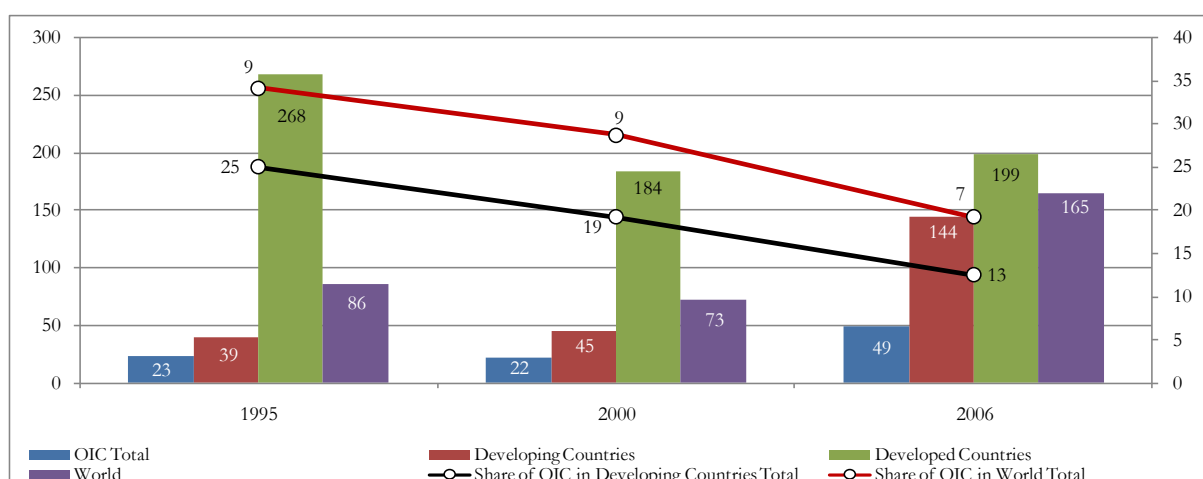


Source: World Development Indicators Online Database.

On average, paved roads in OIC member countries have doubled to reach 49 thousand kilometers in 2006, compared to the average of 24 thousand kilometers in 1995. On the other hand, this figure remained below averages of developing countries, developed countries and the world as shown in Figure 4. In 1995 the share of the OIC member countries in the world total paved roads

network was 9 percent and this figure decreased to 7 percent in 2006. The situation is the same in the share of OIC member countries in the developing countries total paved roads network, as their share decreased to 13 percent in 2006 when compared to the level of 25 percent in 1995 as shown in Figure 4.

Figure 4: Average Paved Road Network in 000 KMs

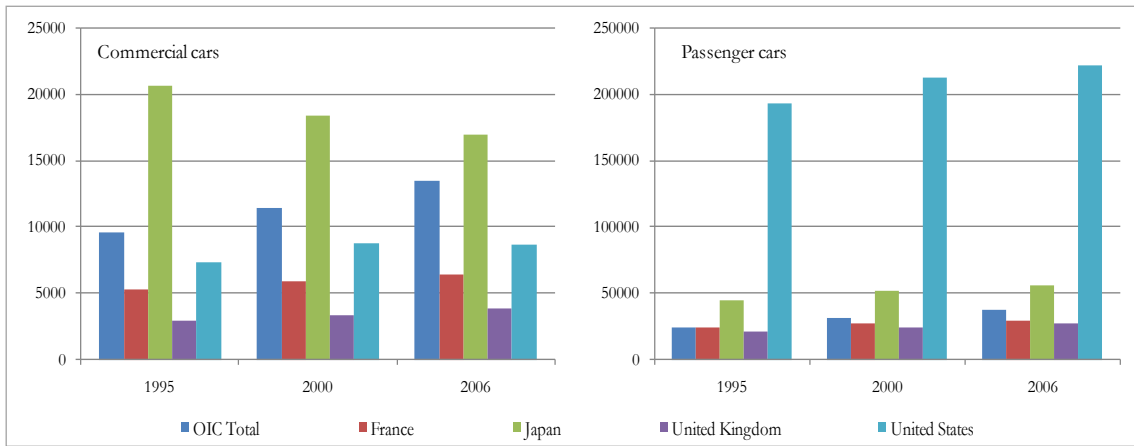


Source: World Development Indicators Online Database.

On the other hand, over the last forty years there has been a ten-fold increase in the number of motorized vehicles in the world to over 800 million units today. The bulk of this increase has been registered in the industrial countries. In this context, considering factors such as the total land

area and density of population and road networks, Figure 5 shows that the number of motor vehicles in use in the OIC countries is relatively small when compared with that in some industrial countries.

Figure 5: Motor Vehicles in Use 000s



Source: United Nations Statistical Yearbook 50<sup>th</sup> Edition.

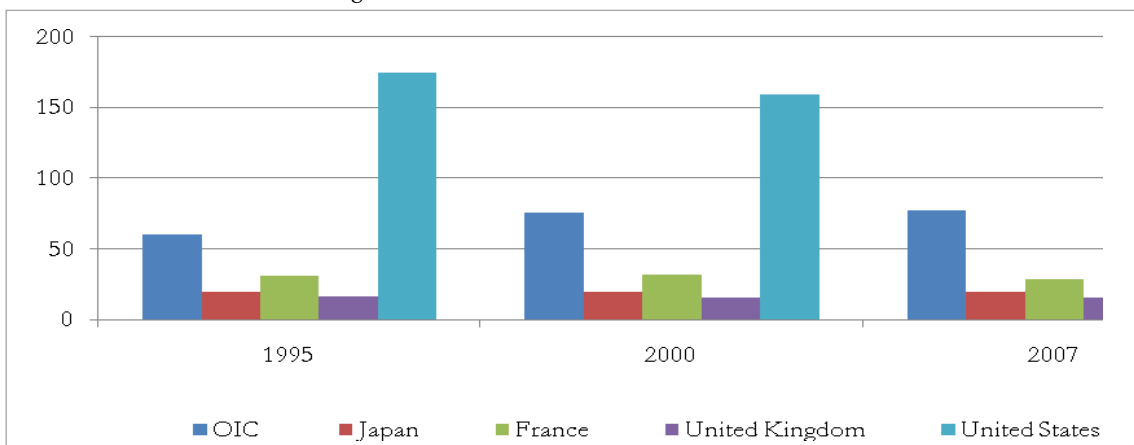
All in all, it is clear that the road transport in the OIC countries is not only suffering from low levels of investment in new road networks, but also from the low level of adequacy. Therefore, in order to improve the efficiency of this important mode of transport in these countries, there is an urgent need for increasing the capacity of road networks by constructing new ones and improving the quality of more than half of the already existing roads.

### RAILWAYS

Like in road transport, compared with the total land area, the density of railways is relatively low in the OIC region and in many OIC countries. With a total land area of only one third that of the OIC region, in 1995 the United States had a

railways network almost 3 times that of the OIC countries as a group. In the same year, with a total land area of only 3.7 per cent of the OIC region, the total railways network in Japan, France and United Kingdom accounted for more than 100 per cent of that of the OIC region. The situation was the same in 2000 and 2007, where the United States had a railways network of more than two times that of the OIC countries in both years. At the individual country level, Table A.6 in the Annex shows that railway networks either don't exist or are very insufficient in many OIC countries. However, rail transport seems to play an important role in some OIC countries such as Kazakhstan, Turkey, Pakistan, Indonesia, and Egypt. Figure 6 shows the railway networks of OIC and some industrialized countries.

Figure 6: Rail Lines Total Route in 000 KMs



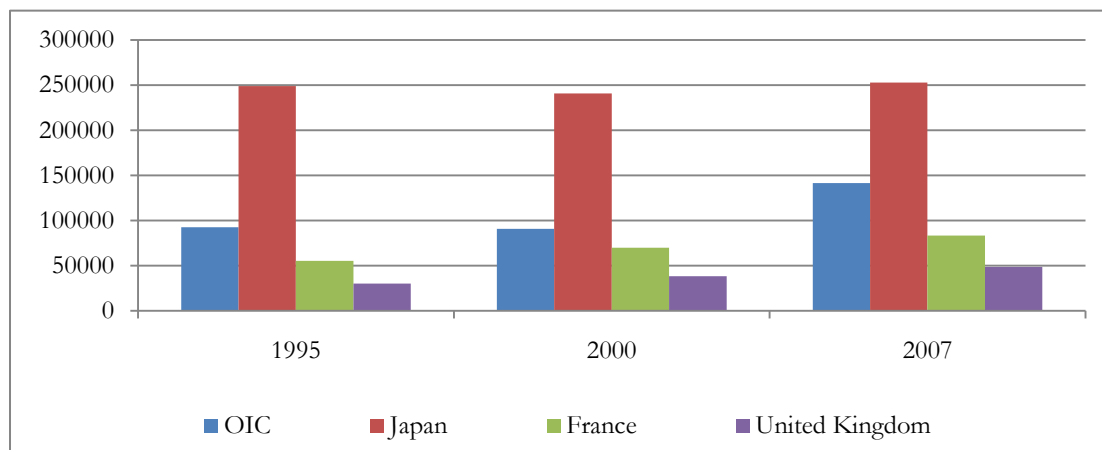
Source: World Development Indicators Online Database.



On the other hand, Figure 7 shows that the overall capacity of the existing railway network in the OIC region is relatively low. For example, with less than one third of the OIC railway

network, the Japanese railways have a passenger-kilometers capacity more than double that of the OIC for the all the years considered.

Figure 7: Railway Traffic Passenger Kilometers in Millions



Source: World Development Indicators Online Database.

In terms of net-ton-kilometers, the capacity of the United States railway network in 1995 for the transportation of goods by railways was 26 times more than the OIC and this rate was pulled down to 10 times in 2000 and remained almost the same in 2007. At the individual country level, Kazakhstan, Tajikistan and Uzbekistan have recorded the highest capacities of good transport in OIC countries with net-ton kilometers of over 10000.

There is a need to connect OIC member countries through rail lines. This will help in enhancing cooperation between OIC member states as rail lines will facilitate intra-OIC trade considering the fact that railways are a less costly means of transportation compared with roads

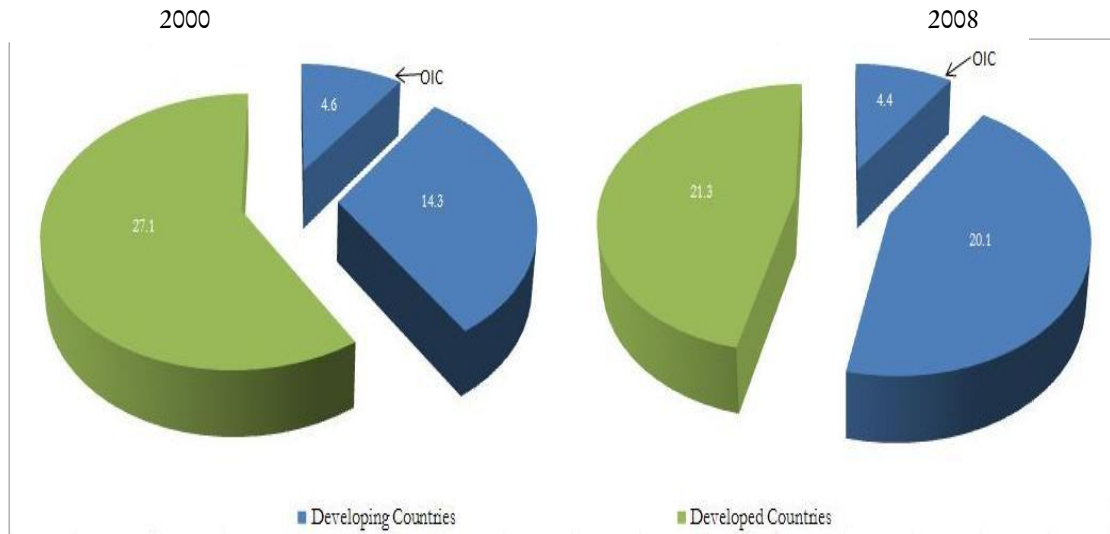
and civil aviation and are faster than maritime transport. As an example to fulfill this need, a resolution was adopted at the 11<sup>th</sup> Islamic Summit held in Dakar, Senegal, in March 2008. The resolution is related to the establishment of the Port Sudan-Dakar Railways Line Project which will link East Africa to West Africa. This project will also create grounds for extensive economic integration among all countries included in the line especially the transit states. This project is expected to strengthen the bonds OIC African member states. The First Meeting of the Committee for implementing the project was held at the OIC General Secretariat in Jeddah, on 19-20 July 2008.

## Maritime Transport

As one of the major modes of bulk transportation, maritime transport is of special importance to the OIC region and the OIC countries since the majority of them are mainly suppliers of primary commodities. In fact, the OIC region is a

vast strategic maritime trading region. It enjoys a coastline of about 109 thousand kilometers and a significant seaport access and overlooks some major world maritime straits.

Figure 8: Share of OIC and developing countries fleet in the world market



Source: UNCTAD, Review of Maritime Transport, 2000 and 2008.

In terms of capacity, the OIC merchant fleet amounted to 33.9 million Gross Tons (GT) or 44.6 million Dead Weight Tons (DWT) as of 1<sup>st</sup> January 2008. However, this accounted for only 4.4 percent of the total world fleet capacity and around 18 percent of that of the developing countries, which, accounted for 24.5 percent of the world total fleet. Moreover, the percentage shares of the capacity of the OIC merchant fleet in the world total fleet and in that of the developing countries in the year 2000 were slightly higher with the OIC merchant fleet

having a share of 4.6 percent in the world total fleet and 19 percent in the developing countries fleet. On the other hand, the share of developing countries in the world total fleet was much lower with 18.9 percent in 2000. The drawback witnessed by OIC member countries was most probably caused by the lack of investment in the shipping industry in OIC member countries. As seen in Figure 8, the OIC member countries have shown a slight downward trend for their share in the world total fleet.

Table 1: Share of countries included in the Top 35 list of largest controlled fleets

2000		2008	
Country	Share	Country	Share
Saudi Arabia	1.51	Turkey	1.27
Turkey	1.32	Saudi Arabia	1.25
Malaysia	0.88	Malaysia	1.08
Iran	0.83	Iran	0.99
Indonesia	0.61	United Arab Emirates	0.86
Kuwait	0.52	Indonesia	0.70
Greece	18.21	Kuwait	0.51
Japan	12.76	Greece	17.39
		Japan	15.07

Source: UNCTAD, Review of Maritime Transport, 2000 and 2008 editions.

At the individual country level, the capacity of merchant fleet has, however, increased substantially in some of OIC member countries. In this regard, according to the UNCTAD's *Review of Maritime Transport 2008 Report*, 7 OIC member countries are among the 35 countries and territories with the largest controlled fleets, as of 1 January 2008 (Table 1) in contrast to the year 2000 where the number of OIC countries was 6. In 2008, the shares of merchant fleets in the OIC countries listed in the top 35 were, in descending order, Saudi Arabia (1.21%), Turkey (1.12%), Iran (1.02%), United Arab Emirates (0.71%), Indonesia (0.68%), Malaysia (0.68%) and Kuwait (0.49%) (UNCTAD, *Review of Maritime Transport 2008*,

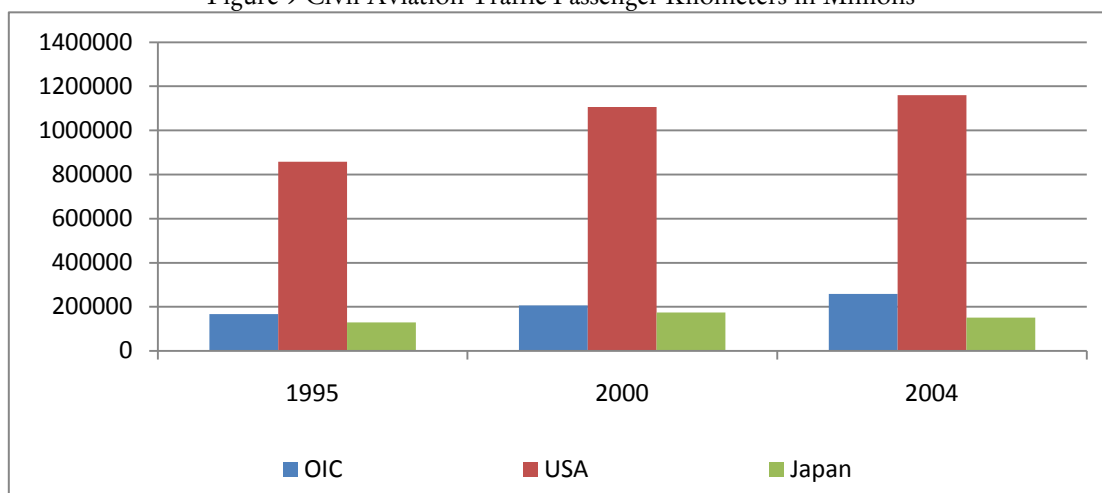
p.28). Except for the UAE that appears in the list in 2008, the other countries are the same countries that were in the list in 2000 (UNCTAD, *Review of Maritime Transport 2000*, p.28). It is seen that, excluding the UAE, Indonesia, Iran and Malaysia have succeeded in increasing their share in the world while the remaining 3 -Saudi Arabia, Turkey and Kuwait- have slid back slightly in their percentage share in the world total fleet. The top two countries, Greece and Japan, have a considerably high share in the world fleets as can be seen in Table 1. The total share of the OIC countries appearing in the top 35 list of largest controlled fleets is less than half of both Greece and Japan.

## Civil Aviation Transport

There is an extensive airport network in OIC countries with each country having its own international airport. Air passenger transport has also increased substantially with some airports in the OIC countries having gained importance and

have become basic hubs of international traffic. However, compared with the number of airports, the air passenger capacity of the existing airport network is still low in the OIC region and in many OIC countries.

Figure 9 Civil Aviation Traffic Passenger Kilometers in Millions



Source: United Nations Statistics Division Online Database.

As can be seen in Figure 9 the capacity of the civil aviation network of the United States in terms of passenger kilometers was 5 times that of the OIC countries in 1995. The situation was the same in the year 2000 but in 2004 the OIC countries were able to reduce this ratio. Figure 9 also shows that

the civil aviation traffic in OIC countries is higher than that of Japan. However, it should be noted that the capacity of Japan is much higher than that of OIC countries considering that the number of airports in Japan is less than the OIC region keeping in mind that we are comparing airports in

57 countries with just 1 country. On the other hand, the capacity of the OIC countries at the individual country level, when compared with the industrialized countries, OIC countries are far behind in civil aviation traffic.

This low capacity of the civil aviation traffic can be explained by the lack of appropriate infrastructure facilities to meet needs of international civil aviation. The development of this sector is essential as, in today's global world, the fastest, easiest and safest means of transportation is considered to be civil aviation. Facilities such as proper terminals and paved runways that will support the needs of traffic flow are essential, and investment opportunities in this sector should be developed and encouraged.

To enhance economic cooperation and increase business activities among OIC member states direct flights from and to important centers of OIC member states should be increased. A properly oriented civil aviation network that will link at least the capital cities of the OIC member countries is a necessity for cooperation. Developing this network of civil aviation and direct flights among OIC member states will have a positive impact on passenger flow to and from OIC member states. This can be helpful in increasing the flow of capital, establishment of new investment opportunities and enhancing intra-OIC tourism and trade.

Therefore, infrastructure modernization in airports is very essential and state involvement is needed since many of the airports in OIC countries have traffic levels that are too low to meet the actual demand.

## Conclusion

The transport sector still lags behind in OIC member countries and measures should be taken to ensure the development of the OIC countries in this field. Measures should be taken in order to fully utilize the current available means and capacities of transport in OIC member countries. Share of information among the OIC countries about the transport capacities they have and technologies used in different fields of transport would be helpful in assisting the development of the sector within the OIC group. The lack of investment in the field of tourism should be reversed by encouraging investors through introduction of investment facilities by generating policies with the participation of the private sector in order to help secure a sustainable development environment in the sector.

As seen, the transportation sector has vital importance on the socio-economic development process. However, the development of the transportation sector needs to be considered as a

whole. The transportation sector as already mentioned has different modes that serve for different purposes. Developing one arm only or developing a number of arms and leaving one out will not have the expected impact. Measures needed to be taken must be considered in a manner that will enable the development of all modes of transportation as one sector. Roads and railways are more involved in domestic transportation while maritime and civil aviation have vital importance in international transport. International transport is very important for the development of international trade. On the other hand to enhance and facilitate the use of maritime and civil aviation transport for increasing international trade, products that are subject to that trade are to be transferred to the docks and airports from which they will be sent abroad. This transport of goods to docks/seaports and airports depends on the capacity of domestic transport which is composed mainly of road and railway networks.

Another point is the transportation network in landlocked countries. Landlocked countries suffer greatly in terms of transfer of goods from neighbouring ports to their markets. The lack of access to the sea and the current isolation of the landlocked countries from the international markets has become a handicap in their process of socio-economic development. The remoteness of these countries from sea access has crippled their ability to actively participate in the global trade market. Dependency on transit through other countries and long distances from ports to markets inevitably generates very high costs for these countries. Another problem is that most neighbouring countries of landlocked countries are developing countries that often suffer from similar economical resource scarcity. The distance of landlocked countries from seaports is over 2000 km (except for developed landlocked countries of Europe where distance is short and sea borne trade is not very high). There are a total of 31 landlocked countries worldwide 16 of which are classified as poor countries. Out of these 31 countries 12 are OIC member states 6 of which are classified as least developed countries. The development of a proper transportation network, for example through joint projects that will facilitate the transit of goods for these countries has become a major constraint. The main mode of transport of goods in landlocked countries is by trucks. This however, is a very costly means of transportation considering the recent fluctuation of oil prices. Transfer of goods to landlocked countries takes a very long time majorly due to the inadequacy of the current transportation network in these countries.

The spatial distribution of population, the intensity of economic activities and the level of economic development are uneven in the OIC countries. It is clear that these differences are so great that there is a need to differentiate ways in which transport problems are intended to be solved.



In the light of this brief overview of the transportation sector in OIC countries, the following points should be considered for the development of the sector in OIC member countries:

1. The infrastructure problems: require sustainable longer-term investment and involvement of the private sector in transport project investments through OIC joint venture transport projects.
2. Measures to improve maintenance of existing roads, railways, seaports and airports (Budgetary problems) as well as to improve the quality of these transport modes services.
3. Transport sector reform has to be set in the context of general reform of public institutions (Deregulation and privatization of public transport services and road industry).
4. Managing charges and taxes for the use of transport infrastructures to improve efficiency of transport sector.
5. The challenge of developing transport policies for sustainable development is to orient the sector towards a compromise that maximizes the economic and social benefits of transport and minimizes associated environmental, social and economic costs. Measures are required to achieve this

balance through integrating transport policies with policies in other sectors.

6. Developing an OIC regional transport approach requires close cooperation and coordination between the member countries as well as the different organization and agencies involved. It also requires concluding of framework agreement on the priorities both in the infrastructure and policy areas.
7. High level policy coordination among Ministers of Transport in member countries can help promote dialogue on the challenges and problems facing the sector in the OIC region.
8. Introduce new regulations that will attract investors to the transport sector in OIC member countries as the level of capital investments in the sector is not sufficient to meet the requirements.
9. Linkages even between neighbouring countries are insufficient among the OIC member countries. This requires the development of proper modern facilities that link OIC member countries through direct rail road and air transport extending beyond the commercial centres.
10. Exchange of information among OIC member countries about their domestic and international transport facilities to help improve the networks throughout the OIC.
11. Develop civil aviation network and expand direct flights between important centres of OIC member states.
12. Design and implement projects similar to the Port Sudan-Dakar railway line project to create grounds of cooperation among OIC member states in the field of transportation.

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# WATER RESOURCES AND WATER-RELATED ISSUES IN OIC MEMBER COUNTRIES

*Rimah Melhem, SESRIC*

## Introduction

Fresh water is essential element for life and it is virtual for all human, economical and natural activities like agriculture, industry, household, recreation and environment. Fresh water is only 2.5% of the total water on earth with an over two thirds of it in frozen form. While small fraction flows as surface water or in the air, the rest accumulated as ground water.

As the demand for clean fresh water increases steadily, its supply has been declining at an alarming rates. Water scarcity is emerging as a major development challenge for many countries. While in some countries water availability is a key concern, other countries with expanding urban settlements, industrial sectors, and commercialized agriculture, water quality is a major concern. Still one can argue that water scarcity, whether qualitative, quantitative, or both, originates from inefficient

utilization and poor management of water in most of the countries, although the nature and severity of water scarcity vary from one country to another and one region to another.

Beyond controversy, climate change is a serious cause of water resources depletion and other water-related disasters. For example, many of the Organizations of the Islamic Conference (OIC) Member Countries have already witnessed frequent droughts and floods due to global warming.

This report attempts to shed light on some water related issues in OIC Member Countries. First, the current condition of water resources in the member countries is presented, then, major problems and challenges are discussed, and finally mitigation policies and suggestions for their implementations are proposed.

## Water Resources in OIC Member Countries

Water resources are generally classified into renewable and non-renewable water resources. Renewable water resources are regenerated by precipitation, while non-renewable or fossil water, are the accumulated underground for millions of years. Internal renewable water resources (IRWRs) are the portion of the water resources generated from endogenous

precipitation. It is computed by adding up surface runoff and groundwater recharge occurring inside the countries' borders. Total renewable water resources (TRWRs) refer to the sum of internal renewable water resources and incoming flow originating outside the countries' borders, which called the external renewable water resources (ERWRs).

## Renewable Water Resources

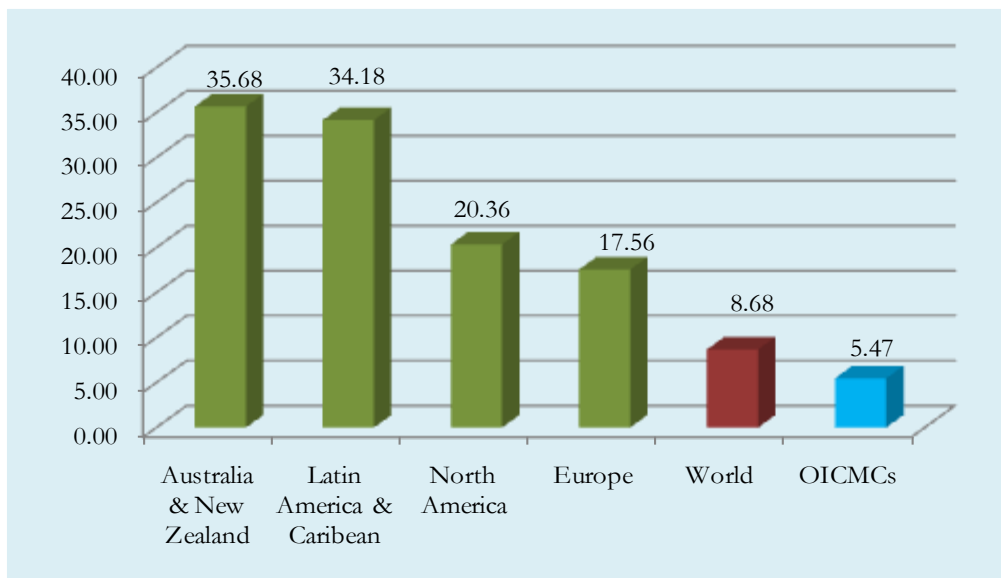
The OIC Member Countries have relatively a small portion of the world total water renewable resources compared to their population and land area. Although the OIC Member Countries cover 20.6% of the world's land area and dwell

22% of its population, they have 8033.32 km<sup>3</sup> of renewable water resources, which represent only 14.55% of the world's total water renewable resources (calculated from FAO-AQUASTAT online data, 2007).

The average of total renewable water resources *per capita* in OIC Member Countries is 5,469m<sup>3</sup>/yr, which is lower than the world

average (8,680 m<sup>3</sup>/yr) and significantly lesser in regions like Europe, the Americas, Australia and New Zealand, as shown in Figure 1.

Figure 1: Total Renewable Water Resources per Capita in Regions, 2007 (000m<sup>3</sup>/yr)

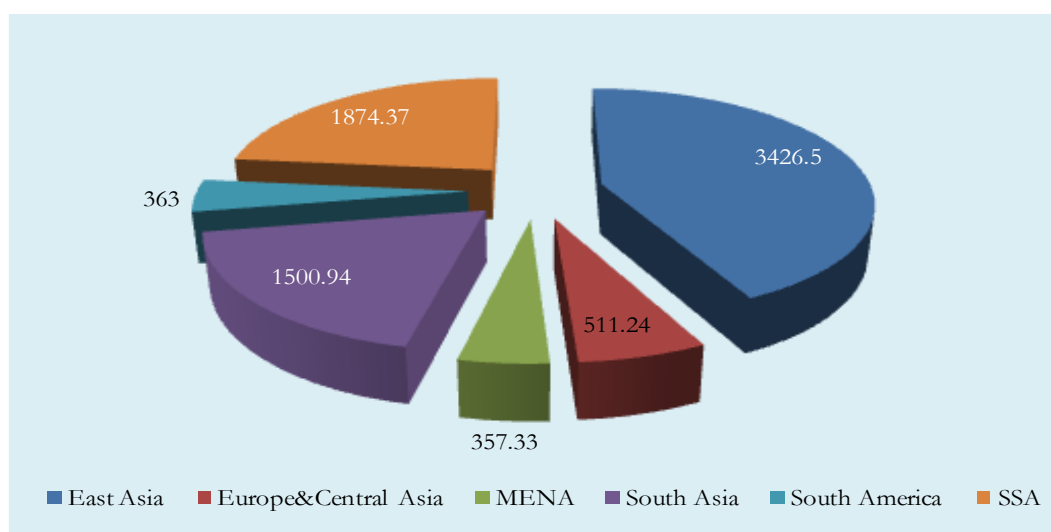


Source: calculated from FAO AQUASTAT online database

Due to wide range of climate conditions, water resources have a very uneven distribution among OIC Sub regions. While East Asia (Brunei, Indonesia and Malaysia) has 42% of the total OIC renewable water resources, Middle East and North Africa (MENA), which represents 19 countries, has the least fragment of 4.4%. Similarly, as shown in Figure 2, the twenty one

of OIC Sub Saharan Africa Countries (SSA) have the portion of 23.3%; OIC South Asia, represents four countries, has 18%; the eight OIC Countries in Europe and Central Asia account for 6.4%; and OIC South America (two countries) has 4.5% of the total OIC renewable water.

Figure 2: Total Renewable Water Resources in OIC Regions, 2007 (km<sup>3</sup>)



Source: Calculated from FAO AQUASTAT online database



At individual country level, the allocation of renewable water resources is also varied. In fact, population and the source of renewable water whether internal or external, are the key factors to reflect the actual water status. For example, Indonesia is the richest in terms of TRWRs;

however, it is not even in the top ten in terms of TRWRs *per capita* (see Figure 3 and 4). In the other hand, TRWRs of Indonesia is completely internal, which means the value of ERWRs is zero (Figure 5).

Figure 3: Top 10 OIC Countries with the Highest TRWRs, 2007 (km<sup>3</sup>)

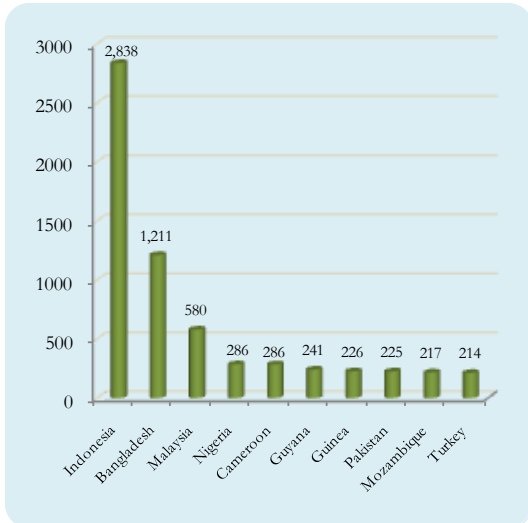
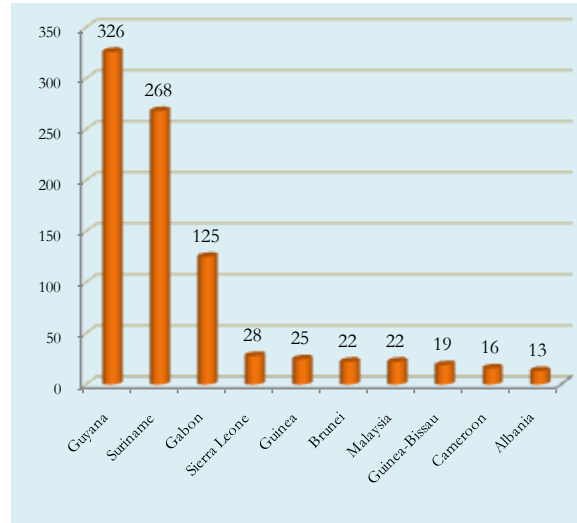


Figure 4: Top 10 OIC Countries with the Highest TRWRs *per capita*, 2007 (m<sup>3</sup>)



Source: FAO AQUASTAT online database

In the nutshell, Indonesia, Bangladesh, and Malaysia are the richest in TRWRs, Guyana, Suriname, and Gabon have the highest TRWRs *per capita*, due to their limited population. Bangladesh and Pakistan are the highest in ERWRs, which means that most of their water comes from outside their borders.

Figure 5: Top 5 OIC Countries with the Highest Total IRWRs, 2007 (km<sup>3</sup>)

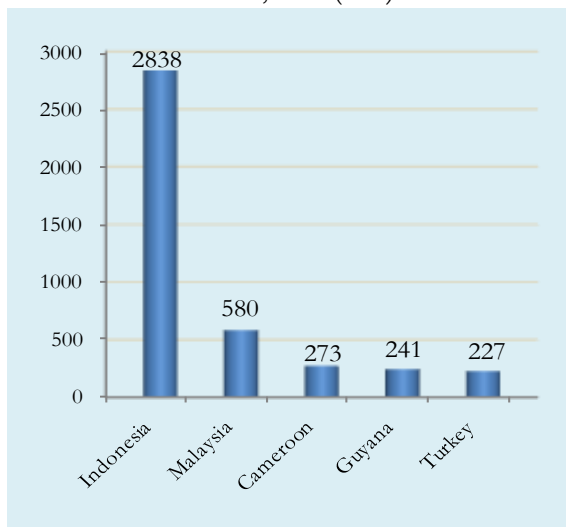
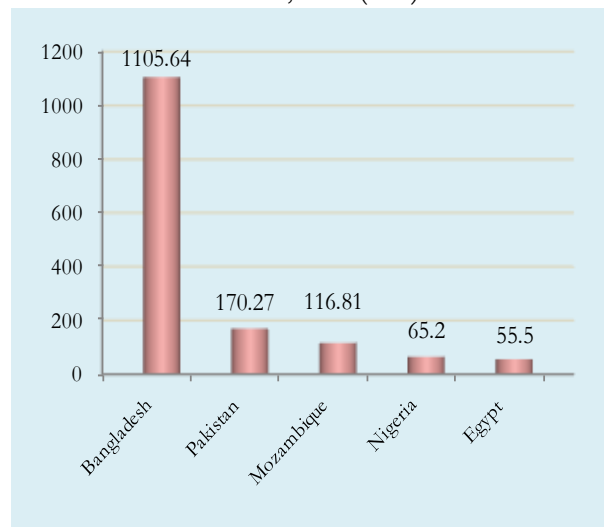


Figure 6: Top 5 OIC Countries with the Highest Total ERWRs, 2007 (km<sup>3</sup>)



Source: FAO AQUASTAT online database

## Non-Renewable Water Resources

In comparison to the OIC Member Countries and the world, Sub-Saharan Africa has a high potential of fossil groundwater reserves such as the Continental Sahara, Murzuk, the Nubian Basin, the Senegal-Mauritania Basin, the Lullemeden Basin in Niger, and the Chad Basin.

Also MENA has very important fossil aquifers. Some countries rely heavily on these resources like Jordan, Libya, Saudi Arabia, and Bahrain due to their limited renewable water resources. Therefore, the increasing depletion of these resources risks the long-term sustainable use of these resources since it is accumulated for long time and cannot be renewed.

## Water Related Issues and Challenges Facing OIC Member Countries

Along the way to development, water is a crucial factor. OIC Member Countries have to figure out the optimal tradeoff between socio-economic development and sustainable utilization of water

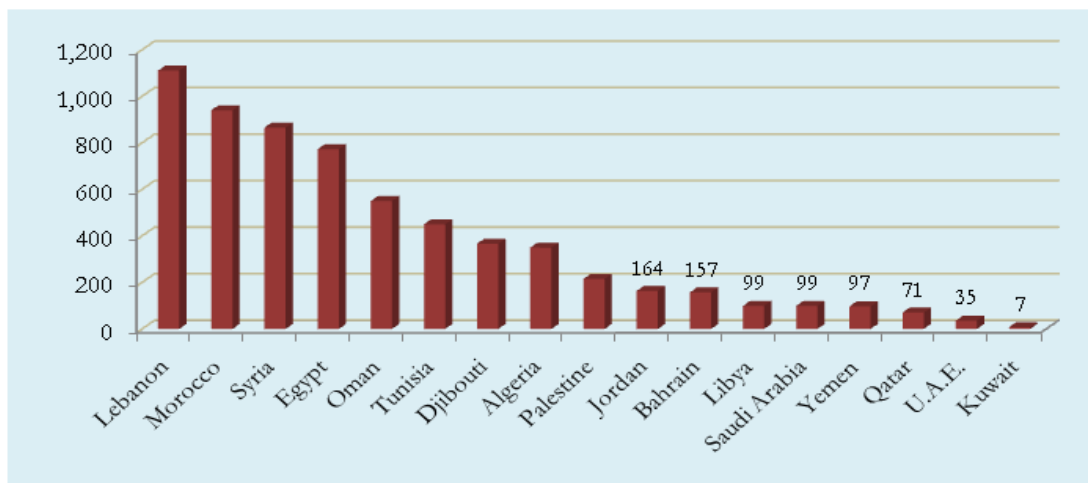
resources. Many challenges are facing OIC Member Countries in this regard. The top priority challenges can be summarized in the following.

## Scarcity of Water Resources and Impacts of Climate Change

Water scarcity is defined as the imbalance of supply and demand of water. The TRWRs required for basic domestic, agricultural, and industrial activities is estimated as a threshold of 1,700m<sup>3</sup> *per capita* per year. Countries whose supplies cannot sustain this figure are considered to experience water stress. A country or region has a water scarcity when the TRWRs is less than 1,000m<sup>3</sup> *per capita* per year and it is absolute scarcity when this number falls below 500m<sup>3</sup> (WB, UN-Water, FAO, 2007).

Accordingly, OIC Countries as a group does not seem to have water scarcity since the average TRWRs *per capita* is 5,469 m<sup>3</sup>/yr compared to 1,700m<sup>3</sup>/yr. Nevertheless, there are 21 OIC Countries that have TRWRs *per capita* less than 1,700m<sup>3</sup>/yr. Pakistan, Lebanon, and Comoros experience water stress. Eighteen member countries have water scarcity.

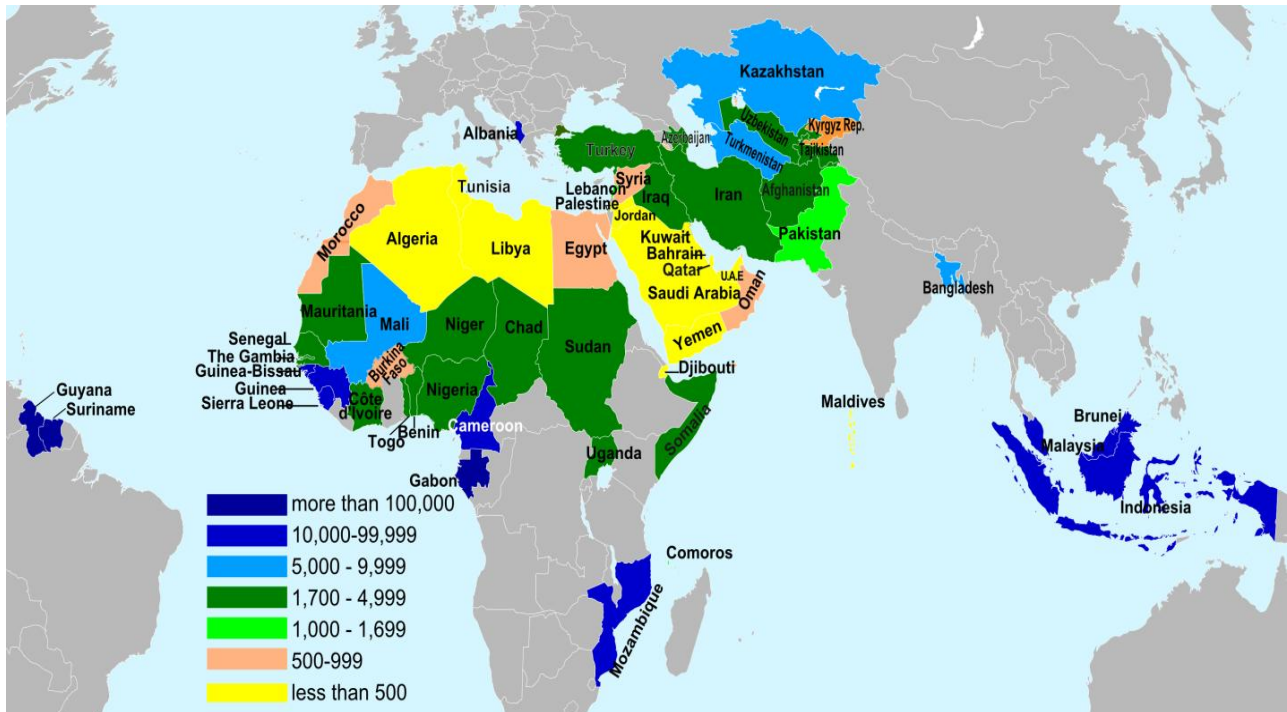
Figure 7: TRWRs per Capita in the Middle East and North Africa, 2007



Source: FAO AQUASTAT online database

Sixteen countries that have water scarcity are located in MENA. Moreover, 12 of them suffer from absolute scarcity like the Gulf Countries and Jordan.

Figure 8: TRWRs per Capita in OIC Countries (m<sup>3</sup> in 2007)

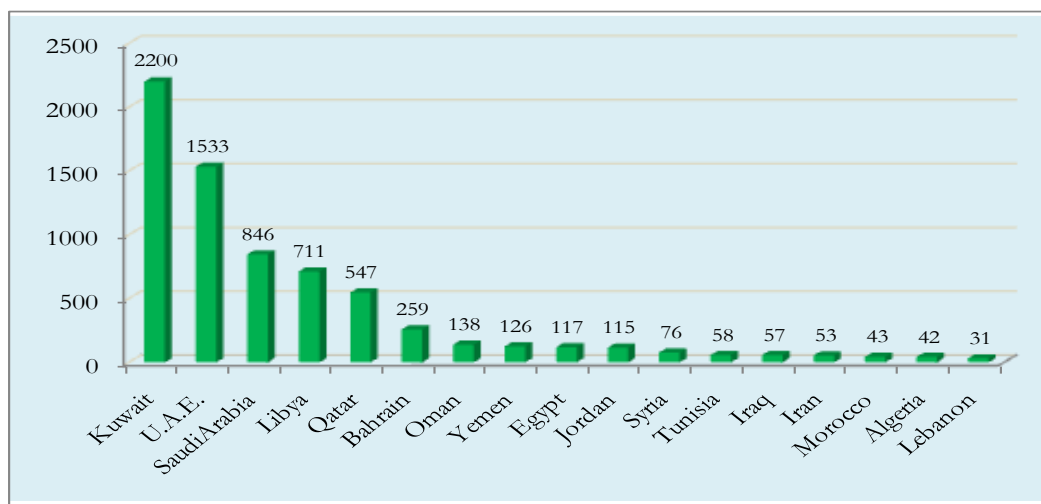


Source: Estimated from FAO AQUASTAT online database

Since the demand for water is very high, the total withdrawn water exceeds the TRWRs in most of these countries. As shown in Figure 9, the percentage of total water withdrawal to

TRWRs is above 100% in ten countries. Non-renewable groundwater, desalinated water, and treated wastewater are, therefore, used as supplemental water resources in most of these countries.

Figure 9: Total Water Withdrawal as a Percentage of TRWRs in MENA

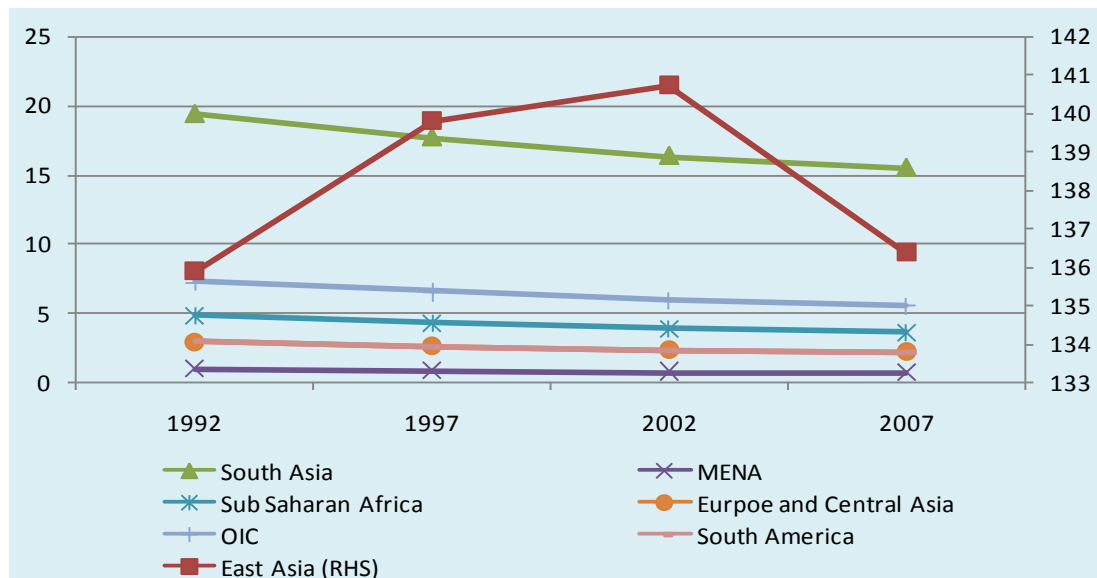


Source: Estimated from FAO AQUASTAT online database, 2002

For many OIC Member Countries, meeting the increasing water demand for anthropogenic activities is still a serious challenge. The rapid growth of population, which is one of the highest in the world, creates a high demand for domestic use, in addition to the increase of

industrial and agricultural needs. It is estimated that the average TRWRs *per capita* in OIC Member Countries has decreased 22.8% since 1992. At Sub-regional level, the TRWRs *per capita* in MENA and SSA have declined 32% and 33% respectively, as shown in Figure 10.

Figure 10: Total Renewable Water Resources per capita in OIC Regions (000m<sup>3</sup>/yr) (1992-2007)



Source: Estimated from FAO AQUASTAT online data

At individual country level, except Albania, Guyana, and Kazakhstan, other countries have shown a decrease within the range between 11.1%-51.2%. Bahrain and Qatar have shown the sever decline with 50.9% and 51.2% respectively.

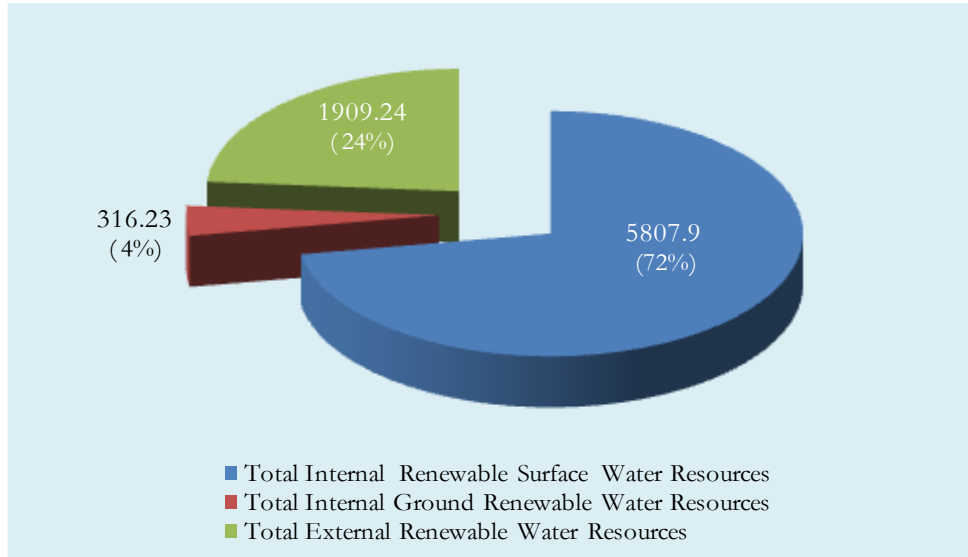
In this regard, the trend of using supplement water resources, such as desalinated water, and treated wastewater is rising in some OIC Member Countries, particularly the Gulf Countries, which convert a significant amount of saline water from the sea into drinking-water. In absolute terms, three countries, Saudi Arabia, the United Arab Emirates, and Kuwait; are by far the largest users of desalinated water, accounting for 77% of the total for the MENA (WB, 2007). Saudi Arabia alone accounts for 47%. Moreover, the reuse of treated wastewater is becoming a common practice in the MENA

Region for irrigation purposes. Climate change and global warming accelerate the scarcity of water. The expected increase of temperature will negatively affect water quantity and quality with frequent occurrence of floods and droughts (IPCC, 2007; EUWI, 2008). Climate change is predicted to reduce water availability severely by up to 60% in the coming century. Water shortages are likely to worsen and become critical. Reductions in water availability are likely to have drastic effects on agriculture, economic diversity and productivity, lead to a loss in GDP, displace large numbers of people, and lead to food shortages. The change of climate has already been witnessed. Precipitation has decreased by 4-27% with significant spatial and seasonal variation (IPCC, 2007; UN, 2004).

## Dependency on External Water Resources

The OIC Member Countries as a whole has a relatively low dependency rate<sup>2</sup>. This dependency rate is around 24% (Figure 11). However, this ratio is quite high in many member countries.

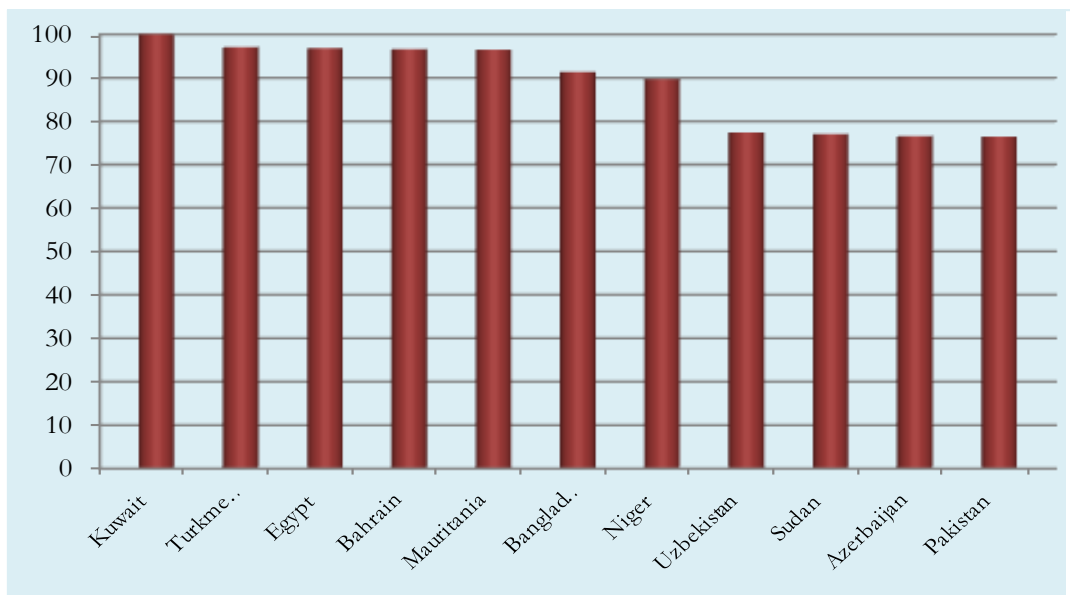
Figure 11: Total Renewable Water Resources in OIC Member Countries (km<sup>3</sup>)



Source: Calculated from FAO AQUASTAT online database

As shown in Figure 12, Kuwait has 100% dependency on ERWRs. It depends on groundwater flows from Saudi Arabia. Six countries depend for over 90% of their renewable water resources on other countries: Egypt (Nile River), Mauritania (Senegal River), Bangladesh (Ganges River from India) and Turkmenistan (Amu Darya River) and Bahrain (from Saudi Arabia groundwater aquifer).

Figure 12: OIC Member Countries with Highest Dependency Rates., 2007



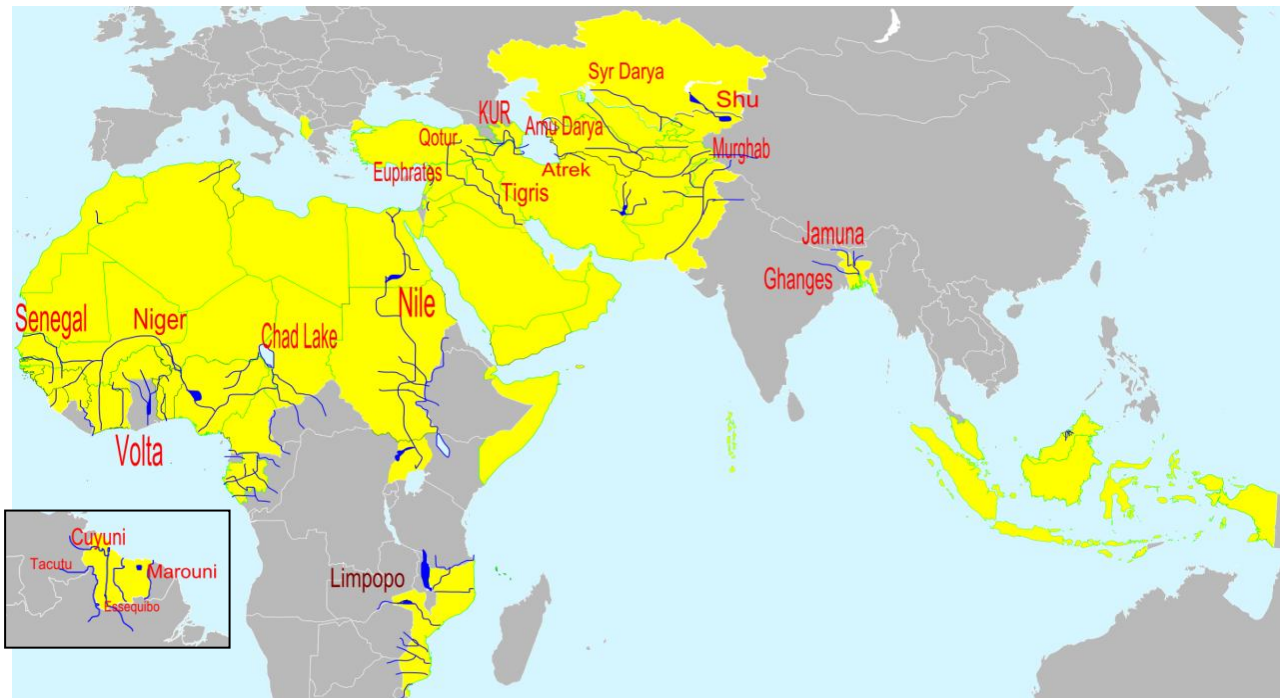
Source: FAO AQUASTAT online database

<sup>2</sup> Dependency ratio is the percentage of external renewable water to the total renewable water.

Many large and networks of minor rivers in addition to shared groundwater aquifers play significant role in water exchange among OIC Member Countries. There are eight main international river basins in the OIC. The Nile, Niger, Senegal, Lake Chad, and Limpopo River Basins lay in African Region; Euphrates and Tigris River Basin, Aral Sea Basin (Amu Darya

and Syr Darya Rivers), and Ganges River Basin in Asian Region. As illustrated in Figure 13, few OIC Countries share river basins with countries that are not affiliated to OIC like Bangladesh, Sudan, and Mozambique. However, the other OIC Member Countries share these resources with countries within the OIC.

Figure 13: The international Water Bodies in OIC Countries



Source: Drawn based on Geology Maps

Since shared surface and ground water resources among geographically adjacent OIC Member Countries are the rule not the exception, and from the political economy perspective, this could potentially augment the difficulty in managing the shared resources in the case when conflicting interests amongst countries emerge. The success in managing the shared resources will depend on the extent to which interests among countries are aligned. Examples of such possible paradigm of political economy are abundant in the context of OIC Member Countries. Countries such as Turkey, Syria, and Iraq meet regularly at both

political and technical levels to discuss challenges and abridge differences in national interests in order to maintain adequate intakes of Euphrates and Tigris water for all of them. In the nutshell, the political efforts for transboundary water cooperation are not absent. In fact, it is sometimes a major challenge that exceeds in term of importance supply- and/or demand-related challenges. Policies that are orchestrated by all beneficiaries and reinforced multilaterally based on collective interests are very essential for the sustainability of water resources and need to be given high priority.

## Inadequate Utilization of Water Resources

Most of OIC Countries suffer from water quality deterioration due to the discharge of most of domestic and industrial wastewater without sufficient treatment to water bodies beside the inadequate agricultural practices. Overexploitation of water resources, lack of water networks and sewerage systems maintenance are other major problems in OIC Member Countries. There are many reasons to slow the mitigation mechanism. They are summarized under three main categories:

- Scattering of responsibilities and lack of coordination between authorities involved in the management of water resources and lack of integration of the various policies: In many OIC Member Countries, 3-4 ministries are responsible for water issues at the same time. For instance, Ministry of Agriculture, Ministry of Irrigation, Ministry of Construction, and municipalities are sharing responsibilities of water issues, and every ministry has its own policies, which makes it a tough task to have an integrated framework for water management.
- Lack of accountability: This occurs when there is absence of a legal framework and transparency between governments and users. In other words, the lack of lax control, inadequate water pricing, and involvement of the users in water resources planning and management will increase carelessness and have misleading approach for sustainable use of water.
- Lack of qualified staff in charge of water management, and lack of financial capacity, which impedes the implementation of the national plans for an integrated management of water resources and water demand.

## Water And Agriculture

Agriculture is the most water-consuming sector. Though data regarding the total water resources withdrawn for agriculture is not available for all OIC Member Countries, the existing figures show an average of 74% of the TRWRs. Countries like Afghanistan, Pakistan, Iran, and Somalia consume over than 90% of their TRWRs for agricultural purposes (FAO AQUASTAT, 2007).

Since the common feature of most of OIC Member Countries is the dry climate, it creates the need for irrigation. So far the traditional methods are commonly used for irrigation. Unfortunately, irrigation water efficiency is below 45% in most of OIC Member Countries. While surface irrigation is by far the most widely used system in irrigation, practiced on

87.6% of the total full and partial control irrigation area, the most water-saving system through micro-irrigation techniques is only practiced on 1.4% of the total irrigation area (Dabour, 2006).

There are several good examples of countries that use advanced irrigation techniques. Saudi Arabia and Libya use sprinkler system approximately 70% and 100% respectively. In United Arab Emirates and Jordan, micro irrigation is used by 59.4% and 56.7% respectively of total irrigated land.

Yet, it is essential for OIC Member Countries to enhance new irrigation policies and practices in order to minimize water-use inefficiency. Efficient water utilization has many positive impacts, such as ensuring water availability for

the increasing demand in industrial, domestic sectors and agriculture itself; sustaining food security; minimizing the sensitivity to drought

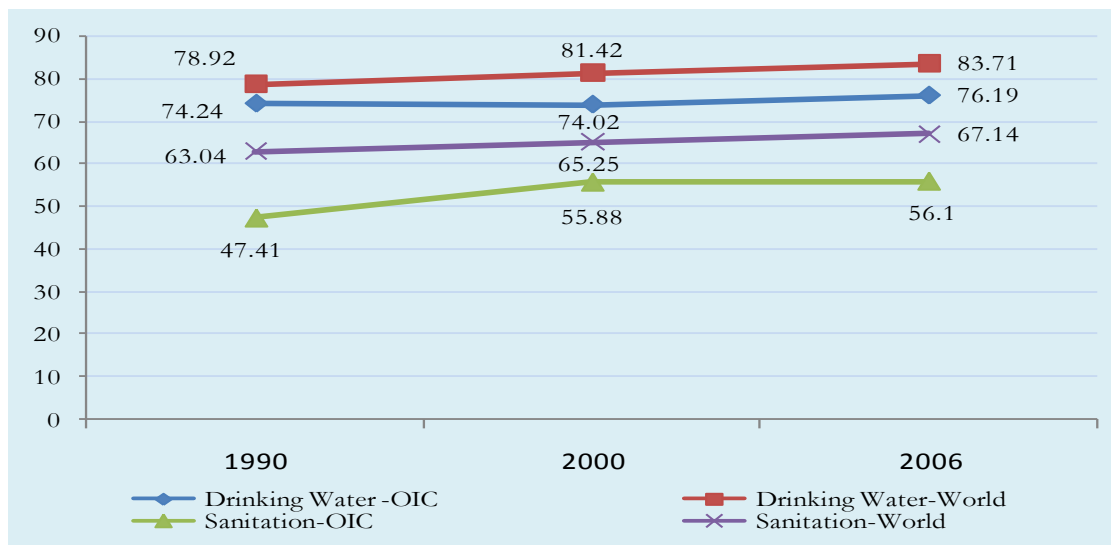
since drought is a frequent phenomenon combined with arid weather.

### Access to Drinking Water and Sanitation

Although access to drinking water and sanitation has been improving in OIC Members Countries to reach 76.19% and 56.10% in 2006, it is yet

below the world average since these indicators are very low in OIC Least Developed Countries.

Figure 14: Population with Access to Improved Water and Sanitation (%)



Source: WHO, WHOSIS Online Database.

The access to drinking water is less than 50% of population in Afghanistan, Somalia, Niger, Nigeria, Chad, and Mozambique.

Nevertheless, the access for sanitation is much low behind. It is less than 50% in all the OIC Least Developed Countries.

Figure 15: Access to Sanitation in LDCs, 2006 (%)



Source: WHO, WHOSIS Online Database



Unfortunately, in Sub-Saharan Countries still millions of people affected by water-borne diseases occur due to lack of drinking water and sanitation access and inadequate management of natural ponds and swamps. The latest data of FAO shows the number of patients of water-borne diseases was around 3 million in Burkina Faso, Cote d'Ivoire and Mauritania in year 2007. According to WHO, the number of patients with Malaria recorded in hospitals reaches 50% in Mozambique and Uganda.

In Bangladesh, 28-35 millions of people use groundwater from illegal wells that contaminated naturally with high levels of inorganic Arsenic. The elevated level of Arsenic causes severe dermatologic diseases. More than 1.5 million cases of skin lesions are reported every year. Moreover, cancer and some heart diseases are suspected to be aggravated by Arsenic (FAO, 2006).

## Recommendations and Policy Measures

Realizing the necessity to address water-related issues, OIC Water View 2025 was proposed at the session of the OIC Ministerial Meeting in the sideline of the Fifth World Water Forum in March, 2009, in Istanbul. The aim of this view is to put a comprehensive agenda to cope with the increase of water demand in OIC Member Countries taking into consideration the consequences of climate change on earth including water resources, drought, floods, etc.

Water resource management requires an inter-sectoral and multidisciplinary approach in order to maximize economic and social welfare in an equitable manner without compromising the sustainability of vital ecosystems. Integration across sectors is needed. This integration needs to take into account development, supply, use and demand, and to place the emphasis on people, their livelihood and the ecosystems that sustain them. The integrated policy has two levels:

➤ At OIC level, member countries need to seek enhancing cooperation in dealing with transboundary water management issues, focusing on negotiations and dialogue and on the quest to optimize the overall societal benefits of water, and taking into consideration the continuous change of geographic setting of political borders in some regions.

➤ At national and local level, policies and governance need adapting in order to better account for increased scarcity and address competing uses in a fair and equitable way. The institutional integration of water policies and increased stakeholder involvement in decision-making processes are paramount to this process, focusing on optimal water pricing and public-private partnership. Beside increase awareness and encourage the habit of water and food conservation.

### Regarding the issue of climate change and agriculture sector, the following recommendations can be made:

➤ Measures should be taken with a view to enhance water conservation and increasing the efficient use of water resources, including promoting and providing modern techniques and water-saving technologies of irrigation, mainly through shifting from surface irrigation system to pressurized irrigation.

➤ Drought contingency plans need to be developed and new related legislations should be adopted at all levels. In this context, applying appropriate water tariffs, introducing new crops that demand less water and promoting dry farming will

contribute to the goal of effective utilization of limited water resources.

- Cooperative efforts need to be undertaken within and among OIC Member Countries to tackle the causes and effects of climate change and adapt to future climates with an approach that

utilizes the challenge as a reason for cooperation rather than a trigger for conflict. In particular, urgent efforts and measures should be made to curb greenhouse gas emissions in OIC Member Countries.

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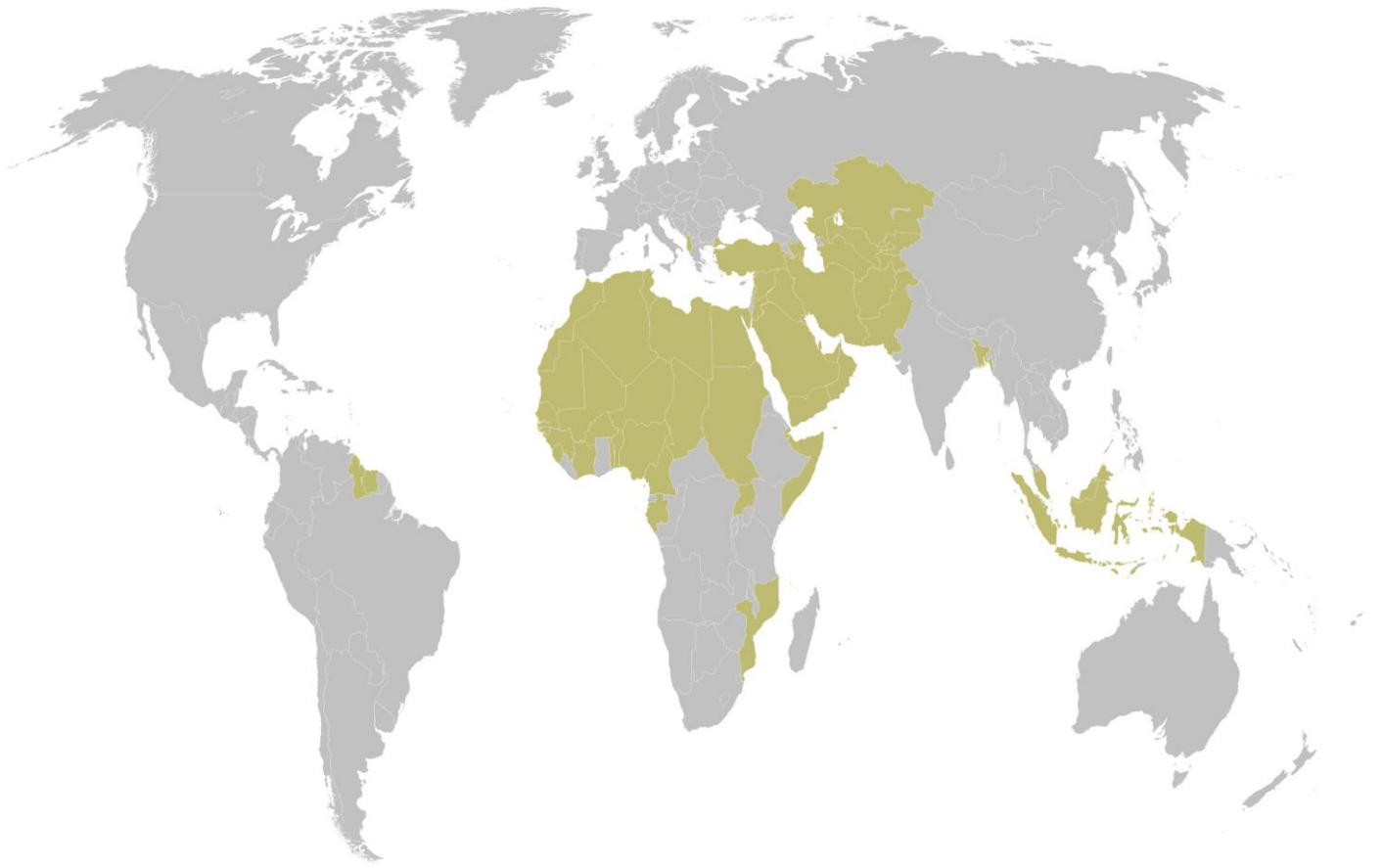
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# OIC



# NEWS

## THE FIRST MEETING OF THE DEVELOPMENT AND COOPERATION INSTITUTIONS OF OIC MEMBER STATES 13-14 MAY 2009, ISTANBUL, REPUBLIC OF TURKEY



The First Meeting of the Development and Cooperation Institutions (DCIs) of OIC Member States was held in Istanbul, Republic of Turkey on 13-14 May 2009. The meeting was organized by the General Secretariat of the Organisation of the Islamic Conference (OIC), the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC) and the Turkish International Cooperation and Development Agency (TIKA).



The meeting was attended by representatives of DCIs and some related ministries in the following 11 OIC Member States: Saudi Arabia (Saudi Fund for Development-SFD), United Arab Emirates (Abu Dhabi Fund for Development-ADFD), Kuwait (Kuwait Fund for Arab Economic Development-KFAED), Qatar (State Ministry for International Cooperation), Egypt (Egyptian Fund for Technical Cooperation with Africa), Pakistan (Government of Pakistan Planning Commission), Iran (National Cooperation Fund, Ministry of Cooperatives), Indonesia (National Development Planning Agency), Tunisia (Tunisian Agency for Technical Cooperation-ATCT), Malaysia and Turkey (State Planning Organisation and TIKA).

In addition to ministers from 4 OIC Member States (Turkey, Qatar, Iran and Pakistan), the Meeting was also attended by delegations from the OIC General Secretariat headed by H.E. Prof. Ekmeleddin İhsanoğlu, Secretary General of the

OIC, the Islamic Development Bank (IDB) Group headed by H.E. Dr. Ahmad Mohamed Ali, President of the IDB, the SESRIC headed by H.E. Dr. Savaş Alpay, Director General of the Centre and the TIKA headed by H.E. Mr. Musa Kulaklıkaya, President of TIKA.



At the opening session, inauguration speeches and statements were made by H.E. Mr. Musa Kulaklıkaya, President of TIKA, H.E. Dr. Savaş Alpay, Director General of SESRIC, H.E. Dr. Ahmad Mohamed Ali, President of the IDB, H.E. Prof. Ekmeleddin İhsanoğlu, Secretary General of the OIC, H.E. Dr. Khalid bin Muhammad Al-Attiya, State Minister for International Cooperation of the State of Qatar, H.E. Mr. Mohammad Abbasi, Minister of Cooperatives of the Islamic Republic of Iran, H.E. Mr. Asseff Ahmad Ali Sardar, Federal Minister of Planning Commission of the Islamic Republic of Pakistan and H.E. Mr. Faruk Çelik, State Minister of the Republic of Turkey.



The first session of the meeting, which was convened under the theme of “Development Cooperation in the Context of New Global Challenges”, was chaired by H.E. Mr. Cevdet Yılmaz, State Minister of the Republic of Turkey. Presentations related to the theme of the session have been made by H.E. Mr. Mohammad Abbasi, Minister of Cooperatives of the Islamic Republic of Iran, H.E. Mr. Assef Ahmad Ali Sardar, Federal Minister of the Planning Commission of the Republic of Pakistan and Mr. Bashir Omar M. Fadlalla, Policy Advisor at the IDB. Following the presentations, the participants made a valuable discussion and deliberated on the various issues included in the presentations through exchanging their experiences and views.



In the second session of the meeting, chaired by H.E. Dr. Savaş Alpay, Director General of the SESRIC, representatives of the State of Kuwait, the Kingdom of Saudi Arabia, the United Arab Emirates, Malaysia and the Organisation of the Islamic Conference presented speeches on the theme “Development Cooperation in the Context of the OIC-Ten Year Plan of Action”. The participants were also informed about the emergency aid programmes carried out by the OIC General Secretariat. The session resumed with a discussion on drafting the Istanbul Declaration where the participants presented their comments and views and then the Declaration has been finalized and adopted by all the participants.

The third and last session of the meeting, which was chaired by H.E. Mr. Musa Kulaklıkaya, President of TIKA, circulated around the theme of “Aid Effectiveness: Joining Hands for Higher Effectiveness and Quality”. The representatives of the Arab Republic of Egypt and the Republic of Tunisia made valuable presentations on the theme. The representative of Indonesia also made a presentation titled “Possible Cooperation”, which focused on the various cooperation activities between Indonesia and the OIC.

In the Istanbul Declaration, which has been adopted by the Meeting, the representatives of the DCIs of OIC Member States agreed upon the following points:

- Identifying joint development cooperation activities to achieve the common development goals.
- Implementing joint programmes, projects and activities towards poverty alleviation.
- Taking necessary measures to enhance the visibility of development assistance provided by OIC Member States.
- Convening annual meetings of the DCIs of the OIC Member States.
- Studying on the establishment of the OIC Development Assistance Committee (OIC-DAC).
- Forming an Experts Group to study and prepare guidelines and procedures for the OIC-DAC.

At the end of the Meeting, the representatives of the Member States that attended the meeting expressed their profound gratitude to the organizers and stated that this meeting was a very crucial step that would generate various beneficial results in the socio-economic development process in the OIC member countries.

## BRAINSTORMING WORKSHOP ON 'ENRICHMENT OF THE AGENDA OF THE STANDING COMMITTEE FOR ECONOMIC AND COMMERCIAL COOPERATION (COMCEC)' (ISTANBUL, 20-21 JULY 2009)

Within the framework of the initiative of the COMCEC to activate and enrich the Agenda of its annual ministerial sessions with a view to enhancing and accelerating the pace of economic and commercial cooperation among the OIC member countries and achieving more tangible end-results progress, COMCEC has assigned the SESRIC the task of preparing a comprehensive research project with the main objective of developing concrete, feasible and practical project proposals for increasing and enhancing commercial cooperation and investment among the OIC member countries in potential areas and sectors including, but not limited to, agriculture and tourism sectors. These proposals will be prepared in the light of the current and prospected global developments and challenges as well as the relative agenda of other regional and international organisations and based on the current state and level of cooperation among the OIC member countries in these sectors.

The work of SESRIC on this project is based on a methodology which includes relevant data analysis, findings of academic research, special questionnaires and interviews with eminent personalities and experts in OIC countries as well as on the outcome of the Brainstorming Workshop on the theme "Enrichment of the Agenda of the COMCEC".

The Brainstorming Workshop on "Enrichment of the Agenda of the Standing Committee for Economic and Commercial Cooperation (COMCEC)" was organised by the SESRIC, in Istanbul, Turkey, on 20-21 July 2009.

The main objective of the workshop was developing concrete, feasible and practical project proposals for increasing and enhancing commercial cooperation and investment among the OIC member countries focusing on potential areas of



cooperation in trade and investment including, but not limited to, agriculture and tourism sectors.

The Workshop was attended by a significant number of selected experts and academicians from various OIC countries working in different sectors, public/private entities and national/international institutions. The Workshop was also attended by some staff members of the SESRIC headed by Dr. Savaş ALPAY, the Director General of the Centre, and COMCEC Coordination Office headed by Mr. Ferruh TİĞLİ, General Director of the General Directorate of Foreign Economic Relations of the State Planning Organization of Turkey.

At the opening session, Mr. Nabil DABOUR, Director of Economic Research Department at SESRIC made a brief presentation on SESRIC activities. Dr. Savaş ALPAY and Mr. Ferruh TİĞLİ made welcoming statements. Assoc. Prof. Dr. Murat YÜLEK, made a presentation on the research project for which the Workshop is organised entitled "Enriching Economic and Commercial Cooperation among OIC Member Countries" and enlightened the participants on the format and expected outcome of the Workshop.

The Workshop was designed in a new format including three working sessions in which three background reports on issues related to the theme of the Workshop have been presented and discussed by the participants and two moderated sessions in which the participants discussed the possibility of enriching the COMCEC agenda in terms of new cooperation project proposals in priority sectors and areas of immediate concern to the member countries.

In first working session, a background report entitled "Economic and Commercial Cooperation

among the OIC Member Countries: COMCEC Experience” was presented by Assoc. Prof. Dr. Murat YÜLEK. Following the presentation, the participants discussed the achievements and shortcomings in initiating, designing, implementing and following up OIC economic cooperation activities/programmes/projects.



In the second working session, a background report entitled “What is ahead for OIC? A General Overview of the Regional Economic Integration Projects with a Focus on ANDEAN, ASEAN, MERCOSUR, ECOWAS, WAEMU and GCC” was presented by Assoc. Prof. Dr. Mustafa ACAR, Kırıkkale University, Turkey. Following the presentation, the participants discussed and elaborated on various views on what can OIC/COMCEC learn from the experiences of other regional cooperation schemes.

In the third working session, a background report entitled “Cooperation in the OIC and Non-OIC Countries in Selected Sectors: Agriculture and Tourism” was presented by Assoc. Prof. Dr. Erdal KARAGÖL, Balıkesir University, Turkey. Following the presentation, the participants discussed and elaborated on various views in an attempt to answer the question of what may be the potentials of agriculture and tourism sectors in enhancing OIC economic cooperation agenda in terms of expanding intra-trade and investment among the member countries.

In the first moderated session, the participants attempted to specify the prime sectors/areas/sub-sectors and various measures for economic and commercial cooperation agenda with the aim of expanding intra-trade and investment among the OIC countries. The discussions carried out by the groups of the participants was made in the light of the current and prospected global developments and challenges as well as the relative agenda of other regional and international organisations and based on the current state and level of cooperation among the OIC member countries in these sectors.

In the second moderated session, the participants made their suggestions of concrete, feasible and implementable project proposals together with their justifications with a view to enhancing OIC economic and commercial cooperation in different priority areas/sectors/sub-sectors. These project proposals could be used as new agenda items of COMCEC in the coming years.

The outcome of the Workshop was in terms of Recommended Measures and Project Proposals for Enhancing Economic and Commercial Cooperation among the OIC Member Countries in Priority Sectors and Areas of Cooperation. These areas include trade and investment, agriculture and food security, tourism, transportation, education and human resources, science and technology, IT and R&D and services.

These project proposals will be prepared in terms of project profiles. The outcome of the workshop will constitute one of the main parts of the final report of this research project, which will be submitted to the 25<sup>th</sup> Session of the COMCEC to be held in Istanbul on 5-9 November 2009 for consideration by the ministers of economy and trade of the OIC member countries.

## THE 2ND SESSION OF THE ISLAMIC CONFERENCE OF HEALTH MINISTERS (ICHM)



The 2nd Session of the Islamic Conference of Health Ministers (ICHM) was held on 1 - 4 March 2009 in Tehran, the Islamic Republic of Iran, under the patronage of H.E. Dr. Mahmoud Ahmadi Nejad, President of the Islamic Republic of Iran and hosted by the Ministry of Health and Medical Education. Forty-five OIC Member States were present and twenty-two of the delegations were led by their respective Ministers of Health. The OIC General Secretariat and the related OIC institutions such as SESRIC, COMSTech, IDB, ISESCO and health related international organisations such as WHO, UNICEF, UNAID, UNFPA, and the Global Fund were represented in the Conference.

The theme of the Conference was “Health Equity in Islamic Ummah”. Having reviewed the priority health issues facing the Muslim Ummah, different aspects of the status of health programs, developments and concerns, the Conference adopted six Resolutions on the following subjects:

1. Health equity in the Islamic Ummah;
2. Islamic solidarity with Palestinians in the occupied Palestine territories in the aftermath of the Israeli Regime atrocities in Gaza Strip and Syrian Arab inhabitants of the occupied Syrian Golan: health aspects;
3. Ways and means of strengthening health cooperation among the OIC Member States;
4. Combating communicable diseases;

5. Combating non-communicable diseases;
6. Emergency preparedness and response: common Islamic approach.

The Tehran Declaration adopted at the 2nd ICHM stresses on equity in health meaning people having access to the resources, capacities and capabilities they need to act upon the circumstances of their lives. Likewise, observance of principles of integrity, transparency, accountability and inclusion is of significant importance in realization of health equity and recognizes that international cooperation in health is not an option, but a must, since in the increasingly interconnected world, communicable diseases can spread much faster than in the past and the threat of newly emerging diseases is growing.

Therefore, unimpeded access to health technologies, vaccines, materials and knowledge at the international level is an integral part of the health equity. In this regard, Tehran Declaration calls for expeditious implementation of health-related part of the OIC 10-Year Program of Action (TYPOA) to draw up a program for combating diseases and epidemics.

The Conference welcomed the recent SESRIC initiative on Health Capacity Building Programme which aims at enhancing cooperation between the relevant health authorities in OIC Member States, and encouraged SESRIC in collaboration with IDB to conduct full-fledged surveys in order to identify the needs and capacities of Member States, and organise short training programmes. Furthermore, the Conference invited SESRIC to collaborate and coordinate with WHO and participate in WSIS follow-up activities in the area of ICT applications, to conduct e-health assessments in the Member States, to share best practices in this areas. The Conference also invited OIC Member States to cooperate with SESRIC to strengthen their national database to consolidate disaggregated data related to health inequalities and their related social determinants.



## THE 25TH MEETING OF THE FOLLOW-UP COMMITTEE OF THE COMCEC 12-14 MAY 2009, IZMIR, TURKEY



The 25th Meeting of the Follow-up Committee of the COMCEC was held on 12-14 May 2009 in Izmir, Turkey, with the participation of 11 member countries of the Committee, the OIC General Secretariat and the following OIC subsidiary, affiliated and specialised organs: SESRIC, ICDT, IDB, ICCI, IUT, ITFC, OISA and ICYF-DC.

The Committee reviewed and discussed the progress achieved in the implementation of the resolutions and decisions of the 24th COMCEC Session, which was held in October 2008 in Istanbul. The discussion included a set of common issues of concern to the member countries, which include, among others, expansion of intra-OIC trade and investment, progress in the establishment of Trade Preferential System among the OIC Member States (TPS-OIC), review of the implementation of the action plan for the OIC cotton producing countries, vocational education and training programme of action for OIC member states (OIC-VET), and preparations for the exchange of views on “Impact of food crisis on the economies of the OIC countries”. The Committee also prepared the Draft Agenda of the 25th COMCEC Session, which will be held in Istanbul in November 2009.

The representative of SESRIC briefed the Committee on the latest developments on the Agenda Item: “E-government applications and their impact on the OIC Member States”. He informed the Committee that the Centre has

recently prepared a report on “E-Government Readiness in the OIC Member Countries”, which evaluates the capability of the OIC member countries based on the data provided by the United Nations e-Government Survey 2008. He also informed the Committee that the Centre will organise, in collaboration with some relevant Turkish institutions the International Conference on Sharing Experiences in E-Government in Antalya, Turkey, on 8-11 December 2009. The Committee welcomed the offer of the Centre to organise the said Conference on this important area of cooperation and requested it to submit a comprehensive report on the subject including means and ways of cooperation to the 25th Session of the COMCEC.

The representative of SESRIC also briefed the Committee on the latest developments on the Agenda Item: “Vocational education and training programme of action for OIC member states (OIC-VET), particularly those related to the preparations and implementation of the programme. The Committee took note with satisfaction of the progress that has been achieved in the OIC-VET Programme since the 24th Session of the COMCEC. The Committee commended the efforts exerted by SESRIC to organize the Operational Meeting among the relevant OIC Institutions in the field of vocational education and training on 4 April 2009 in Jeddah, Kingdom of Saudi Arabia, as well as the First Meeting of the Monitoring and Advisory Committee (MAC) of the OIC-VET Programme in Izmir on 13 May 2009 with a view to initiating the Pilot Application Phase of the Programme in the Fall of 2009.

The Committee also called upon the Member States to cooperate and collaborate with SESRIC during the preparation period of the initial activities of the Pilot Application Phase scheduled to start in the Fall of 2009. In this context, the Committee requested SESRIC to

establish a common online platform for the National Focal Points (NFPs) of the OIC-VET Programme in order to facilitate the process of sharing their experience on their best practices in the field of vocational education and training and to exchange information about their relevant training activities, partner institutions or organizations and resource persons.

Under Agenda Item "Preparation for the exchange of views on the "Impact of food crisis on the economies of the OIC countries", the representative of the ICDT briefed the Committee on the preparations for the Workshop on the said theme which will be organised by the ICDT, in collaboration with the ITFC and SESRIC, as the coordinator

institution of the Exchange of Views sessions of the COMCEC, and held in Casablanca on 17-18 June 2009. Under the same Agenda Item, the Committee took note of the following proposals as possible themes for the exchange of views sessions to be held during the subsequent COMCEC Sessions: (1) The impact of exchange rate policies and currency harmonization on intra-OIC trade; (2) Development of financial architecture in OIC Member States; (3) Islamic Banking in the new financial system; and (4) Agricultural development and water related issues in the Member States. In this context, the Committee requested SESRIC to circulate a questionnaire to the Member States to explore their views on the above themes and report to the 25th Session of the COMCEC.

### 32ND SESSION OF THE ISLAMIC COMMISSION FOR ECONOMIC, CULTURAL AND SOCIAL AFFAIRS (ICECS)



The 32nd Session of the Islamic Commission for Economic, Cultural and Social Affairs (ICECS) was held in Jeddah, Saudi Arabia on 4-6 April 2009. Following the Speech of the Representative of the Republic of Uganda, chairman of the 31st Session of the ICECS, at the opening session, the Secretary General of the Organization of the Islamic Conference, His Excellency Prof. Ekmeleddin İhsanoğlu also delivered his statement where he expressed his great honour in continuing to serve as the OIC Secretary General while noting that this meeting constitutes the first one since his re-election as OIC Secretary General. In the area of economy, His Excellency the Secretary General

said that the Organization was trying hard to follow this contemporaneous logic and to create conditions to enhance joint Islamic action in the economic field by strengthening economic relations and mutual interests among the OIC Member States. He added that the current global financial crisis was a source of great concern to all Member States, the OIC General Secretariat and its institutions and expressed the hope that the Commission will closely monitor the phenomenon in collaboration with the OIC General Secretariat and the SESRIC, to study the impact of the crisis on the economies of the Member States, particularly as they relate to economic recession and restrictions on development assistance, especially to low-income countries.

The Committee commended the efforts of the General Secretariat and the Subsidiary Organs, each in their respective field of specialization, and particularly in strengthening cooperation among the Member States especially in the economic and commercial field with statistical indicators on intra-OIC trade showing that it is steadily increasing and the growth rate of the volume of intra-OIC trade increasing from 14.5% in 2004 to

16.67% in 2008. At this rate, the desired target of 20% will be reached well before the set date of 2015.

In the field of cultural and social affairs, the Committee commended the efforts exerted in combating Islamophobia, and considering the clear political dimension of this phenomenon, it decided to refer the issue to the Senior Officials Meeting. On economy, the Committee commended the efforts exerted by the General Secretariat and the Subsidiary Organs to develop cooperation among the Member States. On science and technology, the Committee commended the General Secretariat's efforts to launch projects in the fields of science and technology health and environment and commended the Organization of the OIC Water Forum in Istanbul, given the importance of water as the source of life and one of the present and future challenges of the Muslim world.

The Committee discussed Draft Resolutions on Dawa, Cultural, Social, and Economic Affairs, and Science and Technology, and adopted them

preparatory to their submission to the 36th Session of the Council of Foreign Ministers (CFM) held in Damascus, Syria on 23-25 May 2009.

The Joint General Assembly adopted general recommendations on the Subsidiary Organs, as follows:

- To commend the activities and studies carried out by the Subsidiary Organs, each in its respective field of specialization.
- To urge the Subsidiary Organs to exert greater efforts so as to publicize their activities and exhort the Member States to expand the scope and increase the prospects of their cooperation with the Subsidiary Organs by intensifying the effectiveness of their participation in the activities of the centres and providing them with the necessary data, with a view to building and publishing databases in all the Member States so as to achieve the greatest benefit, widest interaction, and deepest understanding amongst the peoples of the Muslim Ummah.

## THE 36TH SESSION OF THE COUNCIL OF FOREIGN MINISTERS (CFM) OF THE MEMBER STATES OF THE ORGANIZATION OF THE ISLAMIC CONFERENCE (OIC) 23 -25 MAY 2009 DAMASCUS SYRIA



The 36th Session of the Council of Foreign Ministers (CFM) of the Member States of the Organization of the Islamic Conference (OIC) was held in the Syrian capital Damascus, from 23 to 25 May 2009, under the theme '**Promoting Islamic Solidarity**'.

The meeting, which pooled together the foreign ministers of 57 Member States in the OIC, discussed a host of political issues, notably the issue of the Arab-Israeli conflict, latest developments in the Holy City of Al-Quds and Israeli relentless aggressions against Palestinians. Participating Ministers also explored other major political issues, such as the situation in Iraq, and the unfortunate developments in Somalia in the wake of worsening security conditions and the recent outbreak of deadly clashes on the outskirts of the Somali capital, Mogadishu. The unravelling developments in Sudan also figured high on the meeting's work agenda.

In parallel, the Ministers examined a conceptual paper on the OIC's future role in maintaining peace, security and resolving conflicts in the Member States. The paper sets out from the premise that the

Muslim world needs to have peacekeeping troops, as myriad conflicts are waged within Muslim territories, not to mention that OIC Member States provide the largest contribution to UN peacekeeping forces.

Combating Islamophobia and the fight against the defamation of Islam were also on the cards of the meeting. The OIC Islamophobia Observatory published on the occasion its Second Annual Report on Islamophobia. The report highlights the abuses perpetrated against Muslims and Islam, and features the reality of the phenomenon of Islamophobia across the world.

The Ministers also discussed the issue of Muslim communities and minorities in non-OIC Member States, such as the situation of Muslims in the Philippines, the situation of the Turkish Muslim minority in Western Thrace in Greece, the situation of Muslim groups in the Republic of Myanmar, and the situation of Muslims in southern Thailand.

Additionally, the Ministers looked in detail into the economic endeavours associated with the implementation of the OIC Ten-Year Programme of Action (TYPOA) as well as issues of science and technology, health-care, higher education, environment in the Muslim world, and media in the OIC Member States.

## CONFERENCE OF THE MINISTERS RESPONSIBLE FOR WATER FROM THE OIC MEMBER COUNTRIES 20 MARCH 2009 ISTANBUL TURKEY



The Conference of the Ministers Responsible for Water from the Organisation of the Islamic Conference (OIC) Member States was held as a side event of the 5th World Water Forum on March 20, 2009. The meeting was inaugurated by the OIC Secretary General, Prof. Dr. Ekmeleddin İhsanoğlu and Prof. Dr. Veysel Eroğlu, Minister of Environment and Forestry of the Republic of Turkey. Among the OIC institutions SESRIC, COMSTECH and IDB were represented at the Conference. Moreover, several other international organizations participated in the Conference as well. Dr. Savaş Alpay, Director General, represented SESRIC during the Conference.

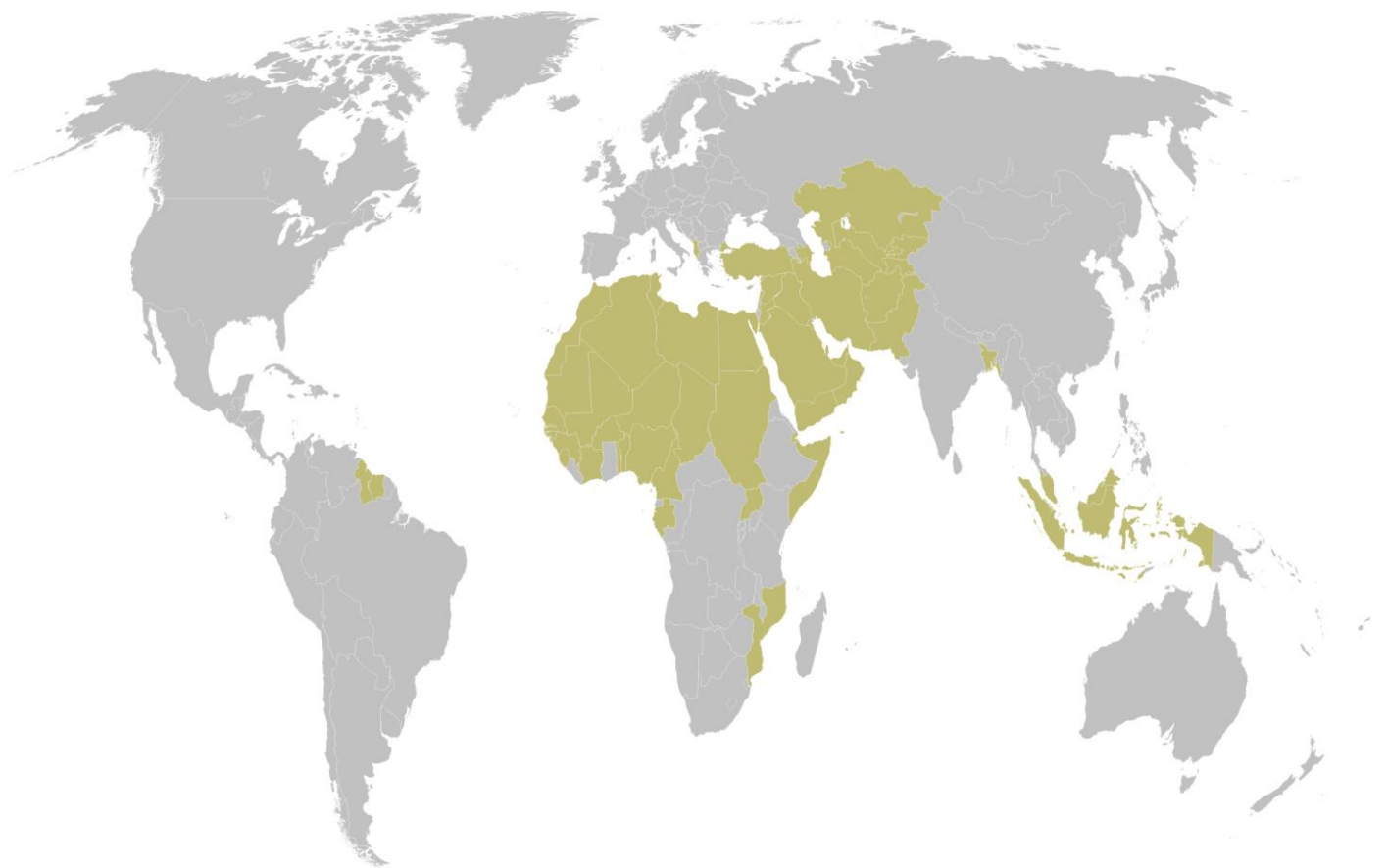
In the opening session, Prof. Dr. İhsanoğlu expressed, firstly, his appreciation for the great efforts exerted by the Turkish Government toward

the organization of the 5th World Water Forum. He, then, outlined the current status of water resources and the challenges the OIC Member States are facing due to overexploitation of water, increase of demand and impacts of climate change on water resource depletion. He also called for sustainable utilization of water resources and proposed OIC Water Vision 2025. As the second speaker of the opening session, Prof. Dr. Eroğlu welcomed the Ministers responsible for water from OIC Member States. He stressed the importance of water for development and the necessity of sustainable use of the renewable water resources.

During the working session, Concept Paper on preparation of OIC Water Vision 2025 had been presented and the ministers had been asked for their views on the proposal. The comments highlighted the necessity of collaboration among OIC Member States in political, technical and financial terms and emphasized the need to have a clear roadmap of transboundary water management.

In the closing session, views expressed in the OIC Water Vision 2025 had been approved and an expert group meeting on water issues had been suggested before the next Conference of the Ministers Responsible for Water.

# COUNTRY



# NEWS

## SAUDI FIRM TO INVEST \$3BN IN TURKEY'S AGRICULTURE SECTOR



The Saudi firm Planet Food World (PFWC) will invest around \$ 3bn in agriculture in Turkey over the next five years to export food products to the Gulf region, the head of its Turkish unit said. PFWC wants to build 20,000 industrial farms over the next five years, Mete Mutluoglu said in an interview.

Each farm is seen at 10,000 square metres and will raise vegetables and fruits as well as having fish, poultry, sheep and cattle-raising facilities. PFWC's total land usage in Turkey is seen at 200sqkm, he said yesterday. "This may all be increased, if it is possible. Most of the exports will go to Saudi Arabia and the Arabian Peninsula ... though we would also like to export to Russia and Europe."

He said turnover from the activities may be in the range of \$ 20bn in five years for the agricultural goods and could go even higher when additional planned food and animal-processing plants are functioning. Gulf investors have turned to Turkey's large swaths of arable land as a destination for agriculture investment, seen totalling billions of dollars in the next few years, in order to secure food resources for their populations.

A Gulf investment fund made up of Abu Dhabi Investment House, Gulf Finance House and Ithmaar Bank in October signed a \$ 6bn a memorandum of understanding for agriculture investments in Turkey. Food security is expected to be a major concern over the coming years, and the Group of Eight major industrialised nations have focused on raising billions of dollars for agricultural investments.

Saudi Arabian firms have been looking abroad to grow food for the country and Gulf region. PFWC also has a project in Ethiopia, while others are looking at Tanzania and Sudan. PFWC, which is registered in the United States, will bring its first five prototype farms on line next week in northwestern Turkey. Mutluoglu said the company would start land acquisition and leasing for the farms in the next four to five months.

Land acquisitions would be made from government agencies that own land, cooperatives, privately-held foundations that have arable land, or from subsistence farmers. "We made a study and saw that an average one-hectare farm makes about \$ 1,200 a year, that's \$100 a month. We could rent their land and they would get a salary," he said.

"If the farmers want to work with us, they would get free housing on the land, a salary, insurance all of which can help bring the younger generation back to their farmlands," he said. The company also plans to upgrade farms slowly in order to employ alternative farming methods including indoor, vertical soil-less and organic farming, Mutluoglu said.

**Source:** The Peninsula

## MALAYSIA REGISTERED 22.05 MILLION TOURISTS IN 2008, SURPASSING THE 21.5 MILLION TARGET UNDER THE NINTH MALAYSIA PLAN. THIS IS AN INCREASE OF 5.1% OVER 2007.



The month of December registered the highest number of arrivals of 2,058,684, +9.2% over December 2007. Singapore generated was the largest source market in 2008, contributing 49.9% of total arrivals. This was followed by Indonesia (11.0%), Thailand (6.8%), Brunei (4.9%), China (including Hong Kong & Macau) (4.3%), India (2.5%), Japan (2.0%), Australia (1.9%), the Philippines (1.8%) and the United

Kingdom (1.7%). Europe recorded the highest growth of 21.8% over 2007. Other regions that showed significant increase were North America (18.6%), Eastern Asia (15.9%), Southern Asia (15.7%) and Oceania (10.4%). Mr. Amirrudin Abu, Acting Director General, Tourism Malaysia, said: "I would like to take this opportunity to thank each and every one of our partners in the Malaysian travel trade industry and overseas, as well as members of the media, for doing an excellent job in attaining another milestone in the country's tourism history. We have achieved an all-time high figure of 22,052,488 tourist arrivals. This is certainly an accomplishment considering the fact that 2008 had been a very trying time for us and a very challenging one as well."

**Source:** Malaysian Ministry of Tourism

## DUBAI TOP CITY IN THE WORLD LAST YEAR FOR FDI



(MENAFN - Khaleej Times) In a special report published by the Financial Times on Foreign Direct Investment, Dubai has for the first time been classified as the top destination city in the world surpassing the likes of London and Shanghai. The UAE continues to lead the way in the Middle East and Africa accounting for 50 per cent of total projects in the region. Dubai is one of the seven emirates of the UAE. In its position

as the top destination city for FDI for 2008, Dubai attracted a total of 342 projects, had \$21b of capital investment and created over 58,000 new jobs. The UAE was once again the leading destination for FDI in the region with 480 projects, capital expenditure of \$35b and the creation of over 87,000 new jobs in 2008. Commenting on the report, Dr. Omar bin Sulaiman, Governor of the Dubai International Financial Centre and Vice Chairman of the Central Bank of the UAE, said: "This report is a testament to the strategy of both the UAE and Dubai under the directives of The President, His Highness Shaikh Khlaifa bin Zayed Al Nahyan, and His Highness Shaikh Mohammed bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai."

**Source:** Khaleej Times

## RIYADH TO HOST GCC CENTRAL BANK



Gulf Cooperation Council (GCC) leaders yesterday chose the Saudi capital to host the group's first regional central bank, a key step toward a push for

greater economic integration in the region.

GCC Secretary-General Abdul Rahman Al-Attiyah said Riyadh was chosen as the location for the region's Monetary Council, the precursor to the new central bank.

Speaking to reporters after the conclusion of a consultative summit, Al-Attiyah said details of the agreement would be released later. Custodian of the Two Holy Mosques King Abdullah chaired the meeting at Daraeya Palace. The announcement marked a major step toward advancing the Gulf's monetary union plan that also includes a unified currency. "No timetable has yet been established for monetary union" between the member states, Al-Attiyah said.

The effort, in the works for years, has stalled on a number of issues, including Oman's decision not to participate in the single currency and Kuwait's move to drop the US dollar as a currency peg. GCC officials had set a target of 2010 for the new currency, but they have since acknowledged that this deadline would not be met.

Following a meeting in December, the GCC set the end of this year as a deadline for ratifying the charter of the monetary council, which would subsequently work to establish a timetable for the unified currency. Qatari Emir Sheikh Hamad bin Khalifa Al-Thani, Kuwaiti Emir Sheikh Sabah Al-Ahmed Al-Sabah, UAE Vice President and Prime Minister and ruler of Dubai Sheikh Mohammed bin Rashid Al-Maktoum, Bahrain's Crown Prince Sheikh Salman bin Hamad Al-Khalifa and Oman's Deputy Prime Minister Fahd bin Mahmoud Al-Saeed attended the summit.

Saudi Arabia is the world's largest oil producer with an overall domestic product of about \$470 billion. A leading member of the Organization of the Petroleum Exporting Countries, the Kingdom is the only Arab member of the Group of 20 nations.

John Sfakianakis, chief economist at SABB (formerly Saudi British Bank), said: "The decision is an obvious proof of Saudi Arabia's undeniable importance in the whole GCC unification enterprise. Saudi Arabia's role as a driving force within the GCC is an opportunity and a challenge." Sfakianakis said Saudi Arabia is not only the biggest economy in the region but given its size the only one that demonstrates a solid financial sector without any excesses as currently witnessed by others in the region.

The challenge now will be for Saudi Arabia to push ahead and maintain the momentum toward unification and further customs harmonization. The next challenge for all would be to build the institutional capacity of the GCC central bank, he added.

Al-Attiyah said the summit discussed major political, economic and security issues including the situation in Palestine and Iraq, GCC-Iran relations and efforts to protect Arab interests.

"The summit discussed projects for strengthening GCC ties, most importantly a railway line linking the member countries, and the second phase of the GCC power grid," he said, adding that the power grid project would be launched during the upcoming GCC summit in Kuwait, scheduled for December.

Earlier in an arrival statement, Oman's deputy premier urged GCC states to adopt strategic decisions in order to cope with global developments and challenges.

**Source:** Arab News



## INDONESIA HAS POTENTIAL TO BECOME WORLD BIOFUEL PRODUCER



Indonesia, along with Brazil, has the potential to become a world bio-fuel producer, an Indonesian Farmers Association (HKTI) leader said.

Indonesia had a vast land

territory, a great number of workers, a good domestic and international market that could support its efforts to develop ethanol production and jatropha curcas plantations, Siswono Yudohusodo, chairman of HKTI's advisory board, said here Saturday.

"What is needed is a government policy which would enable villagers in rural areas to produce alternative energy," he said, adding that so far farmers only used jatropha curcas as fence plants for house yards and rice fields. Siswono said that based on a research, alternative energy that could be produced from Jatropha curcas has quality

equal to diesel oil. The research was done by the Bandung-based Institute of Technology (ITB) in cooperation with the Mitsubishi Research Institute.

In 2006, a team has also conducted a test on the use of jatropha curcas oil as fuel for motor vehicles and it found that this alternative energy was able to support a trip of more than 3,000 km from Atambua in East Nusa Tenggara province to Jakarta.

Siswono, who is also former HKTI chairman said that jatropha curcas nuts had 30 to 35% oil content so that each three kgs of nuts are able to yield one liter of bio-diesel. Seen from the economic aspect, he said, the price of bio-diesel which was produced from jatropha curcas nuts was about Rp4,500 per liter, cheaper than the price of diesel oil and premium gasoline.

**Source:** Jakarta (ANTARA News) -

## EURO 2.2 BILLION FOR RAILWAY LINES IN LIBYA

Yakunin's itinerary included talks with the head of Libyan railways, Said Rashid, on the status of the project to build a railway line from Sirte to Benghazi and a tour of a construction base site in the town of Ras Lanuf, a press release said on 7 July. The contract to build a railway line from Sirte to Benghazi was signed on 17 April 2008 in



Tripoli, and the work began on 18 December 2008.

The Sirte-Benghazi project is about building a modern high-speed (250 km/hour) broad-gauge (1435 mm) railway line along the shore of the Mediterranean to connect two major Libyan cities and, in future, to form part of an international transport corridor across northern Africa. The project will involve building 30 railway and 23 road crossings, as well as 67 major stations and 23 platform stations (for passengers, freight, freight and passengers, and operational needs). The contract has a total value of €2.2 billion.

**Source:** Tripoli Post -

## WHO CALLS GCC FOR A HIGHER TAX RATE ON CIGARETTES



Qatar and GCC countries can prevent millions of premature deaths if higher taxation and pricing is imposed on tobacco, according to the World

Health Organisation.

WHO Framework Convention on Tobacco Control has called for awareness on taxation and the myths and facts related to it. World wide, governments can collect revenues from taxes on a lethal product and diverting it for health promotion. Given the heavy burden of tobacco use, particularly in low-income countries where consumption is high, dedicating a portion of revenues from taxes for health promotion initiatives can be easily justified to reduce negative externalities.

The GCC countries can generate higher excise revenues from tobacco products as the currently low excise tax levels and the fact that demand in the region is static to price. This health promotion strategy would entail allocating a portion of their tobacco tax revenues to fund national and other lower income countries' health care systems.

WHO brushes away the myth that countries with a higher cigarette tax suffer more from the illicit trade. Illicit trade is not a significant factor to justify restricting higher pricing policies. The illicit trade provisions within the WHO Framework Convention on Tobacco Control have heightened governmental awareness of such smuggling activities.

Though increasing taxes on cigarettes is regarded as the main cause of smuggling and may increase the incentive for illicit trade of cigarettes, studies demonstrate that other factors may be playing more significant roles in the degree of smuggling activities than higher taxes alone. Higher

smuggling activities in low-taxed Mediterranean countries provide a strong example of the comparable illicit trade burden on countries whose tax rates on cigarette products are relatively low.

Any success in curbing the illicit trade rests largely on government's strong commitments to combating these activities: The higher the commitment, the lower the smuggling, according to WHO.

Cigarette smuggling does not directly apply to the GCC countries. However, WHO warns that these countries, including Qatar, may be at risk of organised long-distance international illicit trade.

Qatar along with other GCC countries relies only on import duties for cigarettes. The GCC customs officials have requested additional time to increase import duties of importers' prices during the last several years, according to WHO. A 200 percent import duty will increase the import cigarette prices of Qatar to \$3.12 per pack, which will be still lower than that of many high income countries' price levels. The total tax incidence in these countries in 2004-05 was 51percent of the retail price, which were lower than the average retail price and the total tax incidence of upper-middle-income countries.

The export prices per pack of cigarettes to the region vary between \$0.12/pack to \$0.40/pack.

In 2007, GCC countries received 1.9bn packs of cigarettes when the total population was 40m. Qatar alone received 50.7m packs or (55 packs/capita) in 2007.

Of the 1.1bn people who smoke worldwide, 61.8m live in the Middle East region. In the region, tobacco is predicted to kill about 221,880 people in 2010 and increase to 540,281 people in 2030 (World Bank 1999) if the current smoking

prevalence rates persist. In accordance with the WHO's MPOWER policies, governments in Middle East can prevent millions of premature deaths and if they adopt measures to reduce the demand for tobacco, including introducing

higher tax and pricing policies which are especially effective among children, adolescents, and the poor.

**Source:** The Peninsula

## MALDIVES: INNOVATION AND PRAGMATISM IN THE FACE OF CLIMATE THREATS



The United Nations International Strategy for Disaster Reduction (UNISDR) and the Maldives Government have reached agreement on a pragmatic and innovative approach to help protect the island nation from typhoons, droughts, and rising sea levels caused by changes to the world's climate. Maldives is already leading by example on climate change mitigation having adopted a radical economy-wide carbon neutral plan for the next 10 years, the first and most comprehensive in the world. The agreement will assist the island nation to adapt better to the changing climate through the development of a comprehensive disaster risk reduction strategy and implementation plan.

“We need to focus on what should be done, like moving towards a low carbon economy and risk reducing adaptation practices, instead of arguing on what shouldn't be done which has characterized the climate change negotiations,” said Mohamed Nasheed who was elected

President in 2008. President Nasheed received the UNISDR mission on 12 July, and agreed to immediate actions to address disaster risk reduction in the context of reducing climate change impacts. Senator Loren Legarda of the Philippines, the UN's Champion for disaster risk reduction and climate change adaptation for the Asia Pacific region led the mission.

As part of the agreement, UNISDR and partners will immediately assist the Government develop a Strategic National Action Plan on Disaster Risk Reduction (SNAP), which shall provide strategic direction, and actions for reducing disaster risks in the country. Moreover, a partners and donors forum to put the strategy into practice, and a leaders forum to place the issue atop the global agenda ahead of the climate negotiations this December in Copenhagen were also agreed upon. These activities are in addition to ongoing training for teachers, engineers and architects and government officials on practical ways to reduce the risks of disasters. Most of the Maldives is just 1.5 metres above water and combined with such issues as beach erosion, water shortages and limited shore defences, the tipping point for the Maldivians to leave the islands may come sooner than 2100 as a result of a particularly severe storm or drought. Disaster reduction action now can delay this inevitable event by decades.

**Source:** FAO

## BENIN PLANS TO BECOME SELF-SUFFICIENT IN RICE BY 2011



A two-pronged strategy based on intensifying production and marketing of high quality seeds will help Benin be self-sufficient in rice by 2011, the Food and Agriculture Organisation (FAO) said. Experts at FAO are forecasting that the West African country will even by then export its surplus rice output. As part of the campaign, a US\$500,000 FAO project, due to begin in September will help Benin achieve an ambitious goal: that of producing 300,000 tonnes of rice - more than double current output - by 2011. To do that, the country will have to produce more than 2,200 tonnes of high quality rice seeds each year.

The plan to intensify Benin's national rice production was conceived against a backdrop of rising food prices, with the situation made even more serious that, in common with other West African nations, domestic output is far from able to satisfy ever-growing demand. According to

FAO figures, West African rice imports reached 6 million tonnes in 2001 and forecasts suggest the figure is likely to rise to 11 million tonnes by 2010. The best way of reducing Benin's rice import bill (it bought nearly 240,000 tonnes in 2004, according to the latest official figures available), would be to exploit the country's rice cultivating potential to the full.

FAO experts say that such an approach would not only enable the country to satisfy local demand but would also put it in a position to export surplus output to sub-regional and regional markets. These same experts calculate that if Benin exploited its full rice production potential, the net gain would be more than US\$55 million. The country currently exploits just 8% of this potential, though it has more than 322,000 hectares of rice-growing land available, including 205,000 hectares of lowlands and 117,000 hectares of floodplains.

In the medium term, an increase in production of high quality rice seeds should lead to a sufficient rise in annual rice output to cover 70% of domestic demand. In addition, increased revenues would lead to better livelihoods for farmers and would make local rice cultivation production more competitive.

**Source:** FAO

## MALAYSIA EYES BOOM IN INVESTMENT FROM THE GULF

Malaysia is seeking to attract sizeable investments in the Gulf region and is targeting new investments of about Dh27.5 billion from the UAE alone this year. In its bid to lure companies from the Gulf Cooperation Council to set up operations, Malaysia has fully liberalised its Islamic finance



sector, and is now allowing 100 per cent foreign ownership for finance companies with enough financial muscle to raise the minimum paid-up capital of \$ 1 billion a piece for two "mega" banks. Aside from this, the government last

April freed up 27 services sub-sectors, with no

equity condition imposed. “We are working in a more proactive manner in promoting investments from this region, especially in the UAE,” Datuk Jalilah Baba, Director General of the Malaysian Industrial Development Authority (MIDA) told Khaleej Times at the recent launching of the MIDA Dubai office.

Baba said the opportunities for GCC investments in Malaysia’s services sectors include business and professional services; integrated logistics; ICT services; education and training; health services, and tourism services. Malaysia is also positioning itself as a global hub for the production and distribution of Halal products and services which include food, cosmetics, pharmaceuticals, and health products.

Another new sector being promoted is renewable energy where several global manufacturers from the US and Germany have already built production plants in Malaysia.

Malaysia is also aiming for a bigger push in its efforts to persuade UAE and other Gulf nations to set up Islamic financing institutions in the Southeast Asian country. “We are at the forefront of Islamic finance, and while Singapore and Hong Kong are also promoting it, they do not have the complete infrastructure that we have already established,” said Baba.

Malaysian Ambassador to the United Arab Emirates Dato Yahaya Abdul Jabar is confident that despite the economic slowdown, two UAE banks may establish their first Islamic banks in Malaysia before the end of the year. “We have approached the Emirates Islamic Bank and the Abu Dhabi Commercial Bank and they are looking at our proposal. We have offered attractive packages and incentives that would help them make good profits and make them very competitive.”

**Source:** Khaleej Times

## FIRST PHASE OF GCC POWER GRID COMPLETE

The first phase of a joint power grid for Gulf Cooperation Council countries was completed on 26 July 2009 with the linking of the grids of Saudi Arabia, Qatar, Bahrain and Kuwait. The United Arab Emirates and Oman will link to the grid in 2011.



The six GCC countries, which gave the go-ahead for the power grid in 2004 after the project was declared technically feasible, hope that the \$1.4 billion venture will help them meet rapidly rising power demand and avoid power outages. Various stages of the linking operation included the completion of the interconnection of the Qatar grid with Kuwait on 20 July 2009 and the commissioning of the first cycle of undersea cable between Bahrain and the main grid of GCCIA on July 21. The

first phase also included a double-circuit 400kV, 50Hz line from Al-Zour in Kuwait to Ghunan in Saudi Arabia with an intermediate connection at Fadhili in the Kingdom and associated substations and a back-to-back HVDC interconnection to the 380kV, 60Hz system at Fadhili. A double circuit 400kV comprises overhead lines and a submarine link from Ghunan to Al-Jasra in Bahrain and associated substations.

The work on the interconnection between the United Arab Emirates and the Sultanate of Oman is still under way and is scheduled to be completed in 2011. The resulting two mega-grids will be joined in the final phase. The formal inauguration of the GCC grid is scheduled for December when the 30<sup>th</sup> Session

of the Supreme Council of the GCC meets in Kuwait. Saudi Arabia offered to meet 40 percent of the cost of the first phase while Kuwait provided 36.5 percent, Qatar 13.5

percent and Bahrain 10 percent, according to an earlier report.

**Source:** Arab News

## LIBYA EYES \$2 BILLION IN NEW FDI



Libya's Privatization and Investment Secretary said in a press conference that Libya is expecting nearly \$2 billion in new foreign direct investment. Libya is also working on attracting investment totaling around \$2.7 billion in the downstream oil industry. International investors see huge untapped potential for growth in the

North African country, which was starved of investment during years of socialist policies and international sanctions. Libya's relations with the West took a leap forward in 2003 when it gave up banned weapons programs and again last year when it agreed with the United States to settle compensation claims for attacks, including the 1988 Lockerbie airliner bombing.

**Source:** MENAFN

## MAGHREB COUNTRIES SIGN THREE COOPERATION AGREEMENTS



The countries of the Maghreb Arab region have signed three agreements providing for the reinforcement of cooperation in the maritime and land

transport sectors. Signed on 23 July 2009 in Syrte, Libya, during the 12<sup>th</sup> Ordinary Session of the Maghreb Ministerial Council of Transport, these agreements relate mainly to passenger transport, the transport of dangerous substances and maritime transport. According to the Moroccan minister of transport, Karim Ghellab, the Maghreb transport ministers (from Morocco, Algeria, Tunisia and Libya), who signed the accords, also discussed cooperation in terms of air transport.

The minister also recalled that Morocco and Tunisia have already signed a bilateral

agreement for the liberation of this kind of transport. During this session, the Maghreb ministers also examined the implementation of the recommendations drawn up in the last session, which took place in March 2007 in Sekhirat, Morocco. On this occasion, the Moroccan official also met with the vice-President of the European Commission in charge of transport, Antonio Tajani who took part in the session. The two officials discussed coordination and cooperation between Europe and the Maghreb region in terms of transport, with special focus of the organisation of a conference on transport cooperation next autumn in Napoli, Italy. Though slow, it seems that the Maghreb region's economic integration is imposing itself despite certain political problems.

**Source:** Morocco Business News

## IDB PLEDGES \$500 MILLION FOR RECONSTRUCTION OF IRAQ



The Islamic Development Bank (IDB) has earmarked \$500 million U.S. dollars for reconstruction efforts in Iraq.

Finance Minister Bayan Jabr al-Zubeidi has received the director of the OIC office in Baghdad, Ambassador Hamid Ali

Mohammed, and discussed the organisation's role in supporting national unity in Iraq, according to a statement released by the Iraqi Ministry of Finance. The two officials also discussed the allocation of \$500 million U.S. dollars in assistance to the Iraqi government and people, the statement added.

**Source:** Aswat Al-Iraq

## ABU DHABI FUND TO INVEST \$1 BILLION IN MALAYSIA



Malaysian Prime Minister Najib Tun Razak announced a major initiative by the Abu Dhabi government whereby a sovereign wealth fund it wholly owns is set to make a \$1 billion investment in Malaysia

in the energy, real estate and hospitality sectors. Najib told that the proposed investment would be carried out in partnership with a new Malaysian sovereign wealth fund to be known as

(1Malaysia Development Berhad) (1MDB), which is the result of the government's decision to expand the Terengganu Investment Authority (TIA). The Malaysian Premier said 1MDB would be a fund created on the basis of transforming the TIA into a federal-based sovereign wealth fund instead of a state-based entity. The Prime Minister's Office said 1MDB would drive sustainable, long-term economic development for Malaysia by forging strategic global partnerships and promoting foreign direct investment for Malaysia to further enhance the multiplier effects for the Malaysian economy.

**Source:** MENAFN

## RENEWABLE ENERGY AGENCY SETS UP IN MIDDLE EAST



The International Renewable Energy Agency (IRENA) will have its headquarters in Masdar City in the United Arab Emirates (UAE),

making it the first major international agency to be based in the Middle East.

Masdar City, near the outskirts of UAE's capital Abu Dhabi, is planned to be the world's first carbon-neutral, zero-waste city, completely powered by renewable energy. Construction in Masdar City started in early 2008 and by completion in 2016, it is expected to house more than 1,500 international organisations. IRENA's headquarters will be one of the first buildings finished with staff due to move in by 2011. Until then, IRENA will operate from other offices in Masdar City.

The UAE beat off competition from Austria, Denmark and Germany to host IRENA, thanks to its ability to link the developed and the developing worlds. Basing IRENA in the UAE will also promote renewable energy in the region. New projects are already under construction in Algeria, Egypt, Libya, Morocco and the UAE. The Abu Dhabi Fund for Development has also pledged US\$50 million for clean energy projects in developing countries. By

2010, IRENA will be responsible for determining which projects get the funding. IRENA was founded in January 2009 and will promote the transition to renewable energy across the globe by providing advice and support to countries seeking to build their capacity in renewable energy. One of its main activities will be providing data on the potential of renewable energy sources, as well.

**Source:** Scidev.net

## FOOD SUMMIT TO BE FUNDED BY SAUDI ARABIA

**Saudi Arabia** has offered to fund the World Summit on Food Security to be held in Rome in **November 2009**. The cost of the meeting at the Food and Agriculture Organization's headquarters is estimated at \$2.5 million. Such summits are considered extraordinary events not covered by the FAO's operating budget, and countries can volunteer to fund them



agriculture with a view to eradicating extreme hunger and doubling food production.

In the context of global humanitarian funding, Saudi Arabia has also announced an SR70 million aid to support developmental and humanitarian projects in Darfur

in Sudan where the continuing war has killed more than 300,000 people so far and ravaged the economy.

**Source:** Arab News

The Nov. 16-18 summit at FAO headquarters aims to revive official development spending on

## SUDAN SET IT SIGHTS ON BIOFUELS

**Sudan's** first biofuel plant is located about 250 kilometres from the capital city Khartoum — was built in cooperation with the Brazilian company Dedini. It aims to produce 200 million litres of ethanol from sugar cane within the next two years.



— fuel produced using non-food plant sources, including agricultural waste such as the stalks and leaves of crops — can also reduce the polluting practice of burning agricultural waste.

Sudan is also collaborating with **Egypt** on the development of biofuels using non-edible crops. The second project, worth US\$150 million, will carry out research into the production of ethanol from rice straw. Such cellulosic ethanol

In Egypt, burning agricultural waste such as rice straw has produced thick smog across the country, causing record levels of nitrogen dioxide and carbon monoxide. The projects are considered to be good examples of South-South cooperation, which will lead to the transfer of technology and



knowledge between developing countries, the development of scientific human resources and eventually promote knowledge-based economic development.

Sudan is well-suited for biofuel production because of its vast, uncultivated land and low agricultural and labour costs — which will

provide new income for farmers and an alternative source of energy for Africa. Hence, producing biofuels from agricultural waste without sacrificing food supplies could positively impact Africa's food security and environment.

**Source:** Scidev.net

## A SELECTION OF RECENT TITLES

### Reconstructing Development Theory: International Inequality, Institutional Reform and Social Emancipation

E.A. Brett, 320 pages, Palgrave Macmillan, 17 July 2009



Since the beginning of development theory, many intellectuals tried to explore relentlessly for a comprehensive model to explain both development and underdevelopment. In his latest book, E. A. Brett provides a systematic assessment of

the evolution of development theory, its relationship to orthodox social science analysis and the liberal pluralistic orthodoxy that now dominates the mainstream approach to

international development, showing how to transcend its failure to address some key problems of late and uneven development.

The book synthesizes sociological, economic and political grand theory with global history over the last couple of centuries, and applies the result to a persuasive reconstruction of development analysis. The book offers a new synthetic paradigm that transcends the limits of both structuralist and neo-liberal theory. This work, focussing as it does on specific contexts and trajectories, makes an invaluable contribution to the debate, and guides it in another direction.

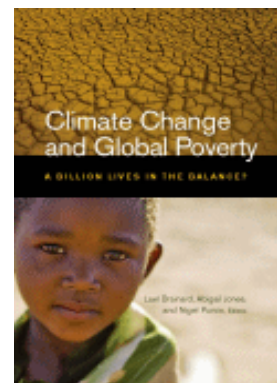
### Climate Change and Global Poverty: A Billion Lives in the Balance?

Lael Brainard (Editor), Nigel Purvis (Editor), Abigail Jones (Editor), 250 pages, Brookings Institution Press, 16 July 2009

Climate change will inflict damage on every continent, but it will hit the world's poor disproportionately hard. Whatever hard-fought human development gains have been made may be impeded or reversed by climate change as new threats emerge to water and food security, agricultural production and access, and nutrition and public health.

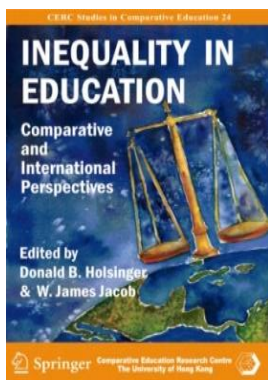
"Climate Change and Global Poverty: A Billion Lives in the Balance" draws on expertise from the climate change and development communities to ask how the public and private sectors can help the world's poor manage the global climate crisis. Increasingly, climate change and development are

two sides of the same coin. Effective climate solutions must empower global development by improving livelihoods, health, and economic prospects, while poverty alleviation itself must become a central strategy for both mitigating emissions and reducing global vulnerability to adverse climate impacts.



## Inequality in Education: Comparative and International Perspectives

Donald B. Holsinger (Editor), W. James Jacob (Editor), 612 pages, Hong Kong University Press, 15 July 2009



The book is a compilation of conceptual chapters and national case studies that includes a series of methods for measuring education inequalities. The book provides up-to-date scholarly research on global trends in the distribution of formal

schooling in national populations. It also offers a strategic comparative and international education policy statement on recent shifts in education inequality, and new approaches to explore, develop and improve comparative education and policy research globally. Contributing authors examine how education as a process interacts with

government finance policy to form patterns of access to education services. In addition to case perspectives from 18 countries across six geographic regions, the volume includes six conceptual chapters on topics that influence education inequality, such as gender, disability, language and economics, and a summary chapter that presents new evidence on the pernicious consequences of inequality in the distribution of education.

The book offers a better and more holistic understanding of ways to measure education inequalities; and strategies for facing the challenge of inequality in education in the processes of policy formation, planning and implementation at the local, regional, national and global levels.

## The Development Dimension: Internet Access for Development

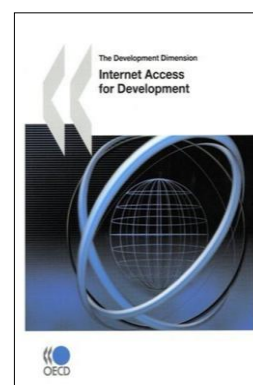
OECD Publishing, 110 pages, OECD, 2 July 2009

The Internet has been remarkably successful in developing greater opportunities for communication access, economic growth and social development for the first billion users. The majority of the next several billion users will be mainly from developing countries and will connect to the Internet principally via wireless networks. But there are substantial discrepancies in access to ICTs between developed and developing countries and also within countries, depending on factors such as gender, rural coverage, skills and educational levels.

The book examines how the market for internet traffic exchange has evolved and explores the coherence of policies pursued by developed and developing countries. It notes the increasing innovation occurring in a number of developing

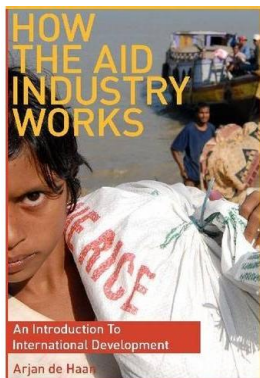
countries with competitive markets and discusses how liberalisation has helped to expand of access networks and make ICT services increasingly affordable and available to the poor. The report also highlights the employment, micro-entrepreneurial and social development opportunities

which have emerged as access levels have risen among low-income users. The study notes that gateway service monopolies - still in 70 countries - raise the prices for accessing international capacity and reduce the affordability of Internet access to business and end users.



## How the Aid Industry Works: an Introduction to International Development

Arjan de Haan, 256 pages, Kumarian Press, 1 July 2009



International development is big business. Official global aid flows from North to South are over \$100 billion annually. China and India, former aid recipients, are rapidly entering the field as aid providers themselves, and international charity is

being redefined with the resources of private donors like the Gates Foundation, for example, outstripping the annual budget of long-time donors like the UK, Canada or the World Health Organization.

Lacking in the literature on international development is an introductory text that provides an overview of the practices of the “business” of development.

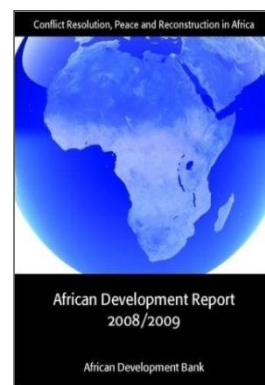
The book provides a basic description of what aid practices are and how they evolved. The arguments of both proponents and opponents of aid are presented and analyzed, along with real-life examples of projects and programs in context. Ideal for undergraduate and graduate students encountering the subject of development for the first time, the book also serves as an overview for development practitioners who want a handy reference covering the universe they inhabit.

## African Development Report 2008/2009: Conflict Resolution, Peace and Reconstruction in Africa

The African Development Bank, 128 pages, Oxford University Press-USA, 22 June 2009

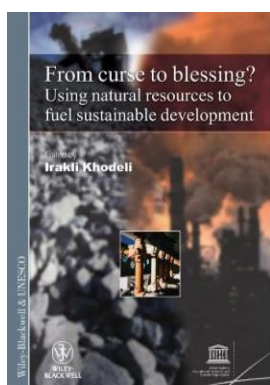
The *African Development Report* investigates the nature, causes and consequences of conflict in Africa. It assesses conflict-resolution and peacebuilding strategies and then focuses on policies to aid the transition from conflict to peace and economic recovery. Finally, it highlights the African Development Bank's support to fragile states, which are mostly countries emerging from conflict. The Report identifies large knowledge gaps and a lack of consensus on the causes of conflict in the continent. It shows that the consequences of conflict often spread well beyond national borders, and that regional and international efforts are critical to conflict resolution. The Report emphasizes the need

for strong national institutions to underpin the process of state building in general, and peacebuilding and economic recovery in particular. The Report contributes to the debate on effective strategies to prevent and end conflicts in Africa, and facilitate post-conflict recovery and reconstruction. It is a must-read for policymakers, practitioners and scholars, and indeed for all those with an interest in African development.



## From Curse to Blessing: Using Natural Resources to Fuel Sustainable Development

Irakli Khodeli (Editor), 176 pages, Wiley-Blackwell, 15 June 2009



How can revenues derived from natural resource exploitation be translated into real benefits for the citizens of resource-rich countries? This is an urgent question. Despite unprecedentedly high prices of natural resources such as oil and gas on the

global market, resource-rich countries are home to over 60% of the world's poorest people. Twelve of the world's 25 most mineral-dependent states, and six of the world's 25 most oil-dependent states, are classified by the World Bank as "highly indebted poor countries", with some of the world's worst Human Development Indicators. This counterintuitive phenomenon is known as the "resource curse". Mineral wealth, it seems, sometimes impoverishes countries. This presents a major obstacle for the international community in the fight against poverty and in the achievement of

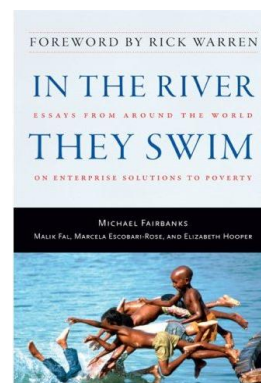
the Millennium Development Goals. By refining the insights into the relationship between natural resources and sustainable development, the authors in this volume contribute to the ongoing debate on ways to lift the curse, and suggest policy interventions to break the vicious circle. The articles, which derive from a wide range of academic disciplines such as political science, international relations, developmental economics, as well as from the practitioners in the field of energy, cover a broad range of topics, and employ different methods of inquiry. Some take an empirical approach and use cross-country comparisons to test various hypotheses on the relationship between natural wealth and growth, while others focus on particular countries, such as Azerbaijan, Democratic Republic of Congo, Nigeria and the Russian Federation. All converge on one point – that domestic institutions make a significant difference. With good governance, the exploitation of resources can generate revenues that will foster growth and reduce poverty.

## In the River They Swim: Essays From Around the World on Enterprise Solutions to Poverty

Michael Fairbanks (Editor), Malik Fal (Editor), Marcela Escobari-Rose (Editor), Elizabeth Hooper (Editor), Rick Warren (Foreword), 274 pages, Templeton Press, 1 May 2009

*In the River They Swim* gathers a unique mix of participants who reflect on their experiences in the struggle to close the global development gap. It tells the story of change in the microcosms of emerging businesses, industries, and governments. These authors demonstrate that eradicating poverty will not be achieved by sentimentality or a generic list of policy measures. The answers, we learn, are to be found in a heretical mix of history,

economic theory, business strategy and practice, culture, leadership, and the most precious of human activities, integrative thinking.



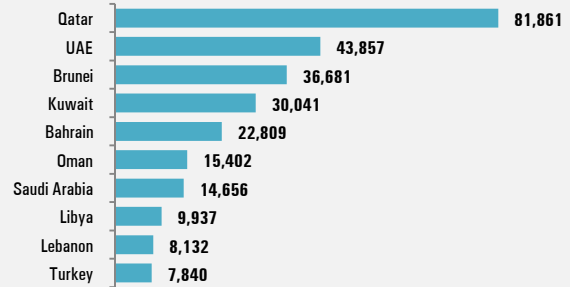
# ECONOMIC and FINANCIAL INDICATORS

Country	GDP Growth 2007	GDP Growth 2008 <sup>1</sup>	GDP Growth 2009 Est. <sup>1</sup>	Inflation Rate (CPI) 2007	Inflation Rate (CPI) 2008 <sup>1</sup>	Inflation Rate (CPI) 2009 Est. <sup>1</sup>
Afghanistan	12.10	3.35	8.96	13.03	27.22	5.52
Albania	6.26	6.77	0.38	2.94	3.36	1.47
Algeria	3.00	3.00	2.11	3.56	4.46	4.64
Azerbaijan	23.38	11.63	2.54	16.60	20.79	3.97
Bahrain	8.08	6.10	2.65	3.25	3.53	3.00
Bangladesh	6.32	5.59	5.00	9.11	8.36	6.43
Benin	4.65	4.98	3.84	1.26	7.96	3.96
Brunei	0.62	-1.51	0.24	0.30	2.70	1.20
Burkina Faso	3.60	5.00	3.53	-0.25	10.67	4.69
Cameroon	3.50	3.45	2.44	1.13	5.34	2.34
Chad	0.18	-0.41	2.83	-7.44	8.34	3.00
Comoros	0.49	0.97	0.84	4.49	4.80	4.88
Cote d'Ivoire	1.59	2.33	3.70	1.91	6.32	5.93
Djibouti	5.08	5.79	5.10	4.97	11.96	5.50
Egypt	7.09	7.15	3.56	10.95	11.70	16.45
Gabon	5.55	2.01	0.73	5.03	5.30	2.60
Gambia	6.31	5.85	3.99	5.37	4.45	6.42
Guinea	1.76	3.96	2.55	34.70	22.86	18.37
Guinea-Bissau	2.70	3.33	1.90	4.62	10.45	3.62
Guyana	5.36	3.23	2.60	12.20	8.10	3.64
Indonesia	6.28	6.06	2.50	6.03	9.78	6.11
Iran	7.83	4.51	3.21	18.40	26.00	18.00
Iraq	1.49	9.78	6.88	30.82	3.47	13.77
Jordan	6.58	6.01	3.00	5.39	14.93	3.97
Kazakhstan	8.90	3.20	-2.00	10.77	17.18	9.46
Kuwait	2.51	6.32	-1.14	5.47	10.50	5.97
Kyrgyzstan	8.50	7.60	0.94	10.20	24.53	12.44
Lebanon	7.50	8.50	3.00	4.06	10.76	3.63
Libya	6.80	6.72	1.08	6.20	10.45	6.50
Malaysia	6.35	4.64	-3.50	2.03	5.40	0.90
Maldives	7.21	5.68	-1.29	7.37	12.26	3.71
Mali	4.30	4.99	3.88	1.46	9.15	2.48
Mauritania	1.02	2.23	2.34	7.26	7.35	4.95
Morocco	2.72	5.44	4.40	2.04	3.89	3.00
Mozambique	7.02	6.18	4.30	8.16	10.33	5.42
Niger	3.30	9.52	3.02	0.06	11.29	5.00
Nigeria	6.45	5.29	2.86	5.47	11.24	14.24
Oman	6.37	6.18	3.01	5.89	12.61	6.20
Pakistan	6.01	5.95	2.50	7.77	12.00	20.00
Palestine	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Qatar	15.35	16.39	17.99	13.76	15.05	9.00
Saudi Arabia	3.52	4.63	-0.91	4.11	9.87	5.50
Senegal	4.75	2.49	3.12	5.87	5.76	1.07
Sierra-Leone	6.38	5.52	4.49	11.65	14.84	10.62
Somalia	2.68	n.a.	n.a.	n.a.	n.a.	n.a.
Sudan	10.16	6.84	3.96	7.98	14.30	9.00

Country	GDP Growth 2007	GDP Growth 2008 <sup>1</sup>	GDP Growth 2009 Est. <sup>1</sup>	Inflation Rate (CPI) 2007	Inflation Rate (CPI) 2008 <sup>1</sup>	Inflation Rate (CPI) 2009 Est. <sup>1</sup>
Suriname	5.50	6.50	2.80	6.43	14.64	4.84
Syria	4.24	5.15	3.03	4.68	14.53	7.50
Tajikistan	7.80	7.90	2.00	13.17	20.44	11.87
Togo	1.94	1.10	1.69	0.96	8.40	2.79
Tunisia	6.31	4.45	3.30	3.15	5.05	3.20
Turkey	4.67	1.06	-5.10	8.76	10.44	6.91
Turkmenistan	11.60	9.80	6.91	6.26	15.01	10.03
Uganda	8.59	9.53	6.20	6.80	7.30	13.70
UAE	6.34	7.41	-0.60	11.12	11.45	2.03
Uzbekistan	9.50	9.00	6.98	12.28	12.75	12.54
Yemen	3.34	3.89	7.67	7.91	18.98	12.01

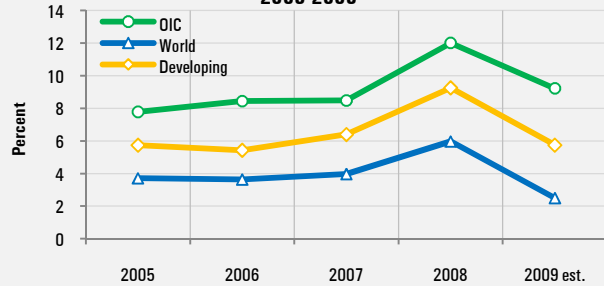
Source: BASEIND 1. IMF, World Economic Outlook, April 2009

## Top 10 OIC Member Countries, by GDP Per Capita, Current USD, 2009



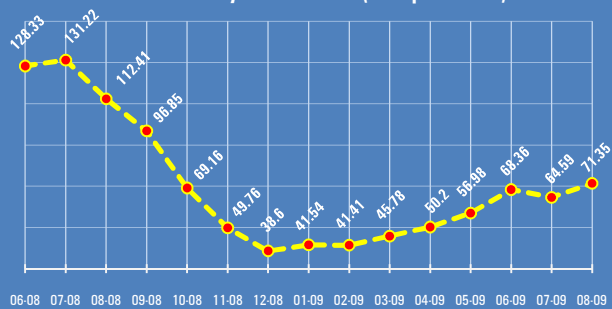
Source: BASEIND

## Inflation Rate: Average Consumer Prices, 2005-2009



Source: BASEIND, WEO April 2009 (IMF)

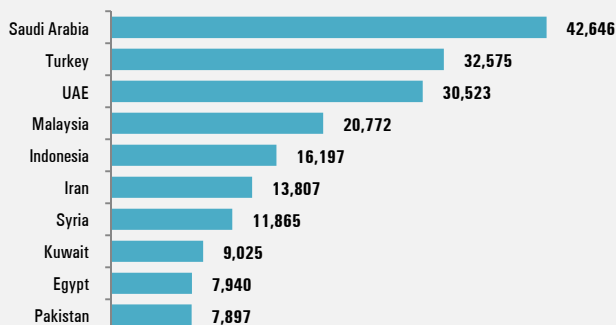
## OPEC Monthly Basket Price (USD per Barrel)



Source: OPEC

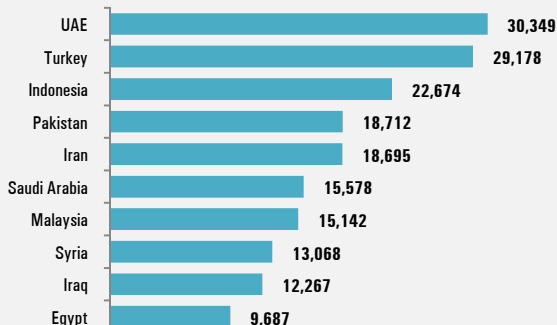
# ECONOMIC and FINANCIAL INDICATORS

**Top 10 Intra-OIC Exporters**  
Million USD, 2008



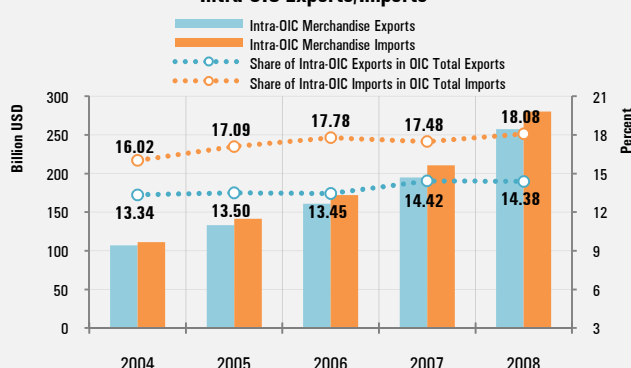
Source: BASEIND

**Top 10 Intra-OIC Importers**  
Million USD, 2008



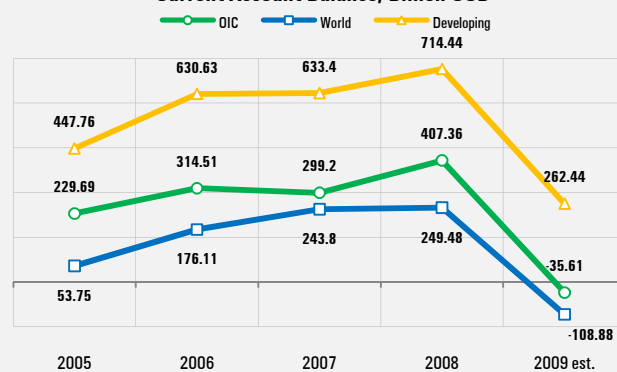
Source: BASEIND

**Intra-OIC Exports/Imports**



Source: BASEIND

**Current Account Balance, Billion USD**



Source: BASEIND, WEO April 2009 (IMF)

Country	Merchandise Trade Balance 2008 (Million USD)	Intra - OIC Trade 2008		Current Account Balance: 2008 (Million USD)	Current Account Balance: 2009 Est. (Million USD)
		% of Merchandise Trade	% of Merchandise Imports		
Afghanistan	-5,319	36.68	51.77	-181	-519
Albania	-3,775	3.07	8.07	-1,752	-1,244
Algeria	31,565	6.63	9.57	37,082	-2,166
Azerbaijan	13,059	8.01	24.33	16,454	4,111
Bahrain	16,261	12.86	38.87	2,256	288
Bangladesh	-9,910	4.64	22.21	768	748
Benin	-6,022	31.17	12.24	-575	-702
Brunei	6,833	24.33	22.23	7,366	5,173
Burkina Faso	-1,248	17.93	44.16	-892	-789
Cameroon	1,543	8.66	25.41	83	-1,188
Chad	2,667	0.34	31.76	-958	-955
Comoros	-211	23.18	20.43	-49	-45
Cote d'Ivoire	2,256	29.69	39.39	569	355
Djibouti	-1,891	72.33	36.03	-385	-175
Egypt	-33,545	27.08	15.41	888	-5,693
Gabon	5,676	8.09	9.93	2,512	147
Gambia	-907	5.60	36.70	-138	-140
Guinea	-1,910	3.19	10.17	-467	-56
Guinea-Bissau	-76	22.36	30.06	-9	-15
Guyana	-365	1.49	3.00	-235	-216
Indonesia	7,748	11.82	17.54	521	-1,886
Iran	38,737	12.78	26.97	17,799	-17,905
Iraq	27,275	4.88	58.71	17,355	-4,191
Jordan	-11,766	49.86	37.02	-2,541	-2,418
Kazakhstan	7,342	11.23	5.10	6,978	-6,561
Kuwait	40,184	13.64	22.13	70,594	27,402
Kyrgyzstan	-8,063	41.05	7.61	-330	-312
Lebanon	-12,853	70.85	28.30	-3,288	-3,290
Libya	40,626	4.68	18.68	39,217	5,238
Malaysia	34,217	9.45	8.16	38,760	27,344
Maldives	-1,224	9.76	31.64	-699	-229
Mali	-2,908	18.95	29.33	-721	-561
Mauritania	-131	10.66	14.10	-497	-293
Morocco	-20,554	9.09	17.67	-4,808	-2,100
Mozambique	-2,305	1.98	5.79	-1,213	-1,197
Niger	76	9.40	30.26	-676	-1,129
Nigeria	23,092	5.93	6.65	9,614	-15,107
Oman	9,413	17.66	27.89	3,198	-97
Pakistan	-24,267	36.28	40.65	-14,036	-9,643
Palestine	n.a.	n.a.	n.a.	n.a.	n.a.
Qatar	31,494	6.50	20.59	36,083	7,443
Saudi Arabia	168,827	15.26	14.07	139,041	-6,802
Senegal	-4,472	45.31	12.37	-1,645	-1,492
Sierra-Leone	-595	3.79	22.38	-163	-102
Somalia	-651	94.89	54.34	n.a.	n.a.
Sudan	2,088	9.64	28.55	-5,360	-6,082
Suriname	128	10.44	1.82	5	-259
Syria	-11,078	68.43	45.99	-2,177	-1,630
Tajikistan	-2,612	39.90	33.87	-453	-522
Togo	-2,760	37.59	13.35	-192	-161
Tunisia	-6,437	14.01	13.60	-1,798	-1,155
Turkey	-69,653	24.62	14.45	-41,416	-6,646
Turkmenistan	5,250	25.57	36.34	3,998	3,105
Uganda	-2,275	11.29	12.67	-469	-990
UAE	-21,199	18.30	16.14	41,090	-12,032
Uzbekistan	-2,704	36.82	13.68	3,789	2,396
Yemen	-945	12.14	43.84	-541	-660

Source: BASEIND

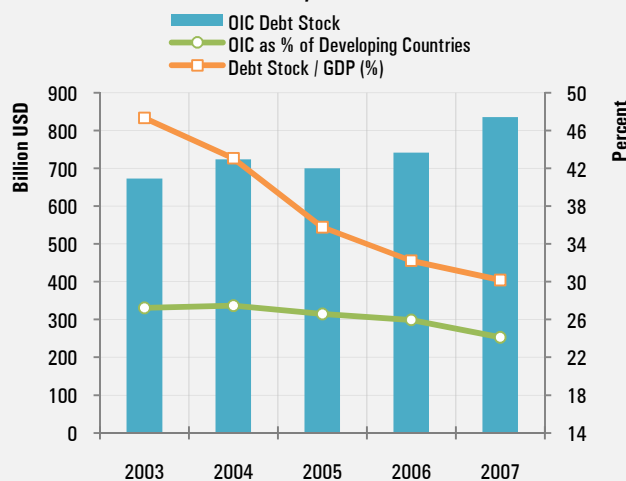
# ECONOMIC and FINANCIAL INDICATORS

Country	Total Reserves, Excluding Gold: 2008 (Million USD)	National Currency per USD 2008 Period Average	Foreign Direct Investment: 2007 (Million USD)	Total External Debt: 2007 (Million USD)
Afghanistan	n.a.	50.25	288.41	2,041
Albania	2,320	83.89	655.84	2,776
Algeria	143,243	64.58	1,664.60	5,541
Azerbaijan	6,467	0.82	-4,817.00	3,021
Bahrain	n.a.	0.38	1,756.00	-
Bangladesh	5,689	68.60	666.40	22,033
Benin	1,261	447.81	48.00	857
Brunei	749	1.42	183.90	-
Burkina Faso	926	447.81	600.00	1,461
Cameroon	3,086	447.81	284.33	3,162
Chad	1,345	447.81	602.77	1,797
Comoros	112	335.85	0.80	291
Cote d'Ivoire	2,252	447.81	426.90	13,938
Djibouti	175	177.72	195.35	472
Egypt	32,216	5.43	11,578.10	30,444
Gabon	1,923	447.81	269.32	5,746
Gambia	n.a.	n.a.	63.66	733
Guinea	n.a.	n.a.	111.00	3,268
Guinea-Bissau	124	447.81	7.00	744
Guyana	356	203.63	152.40	734
Indonesia	49,597	9,698.96	6,928.00	140,783
Iran	n.a.	9,428.53	754.50	20,577
Iraq	50,043	1,193.08	447.89	-
Jordan	8,562	0.71	1,835.40	8,368
Kazakhstan	17,872	120.30	10,259.42	96,133
Kuwait	17,113	0.27	123.00	-
Kyrgyzstan	1,153	36.57	207.92	2,401
Lebanon	20,245	1,507.50	2,844.56	24,634
Libya	92,313	1.22	2,541.00	-

Country	Total Reserves, Excluding Gold: 2008 (Million USD)	National Currency per USD 2008 Period Average	Foreign Direct Investment: 2007 (Million USD)	Total External Debt: 2007 (Million USD)
Malaysia	91,149	3.34	8,403.10	53,717
Maldives	241	12.80	15.00	562
Mali	1,071	447.81	360.00	2,018
Mauritania	n.a.	n.a.	152.88	1,704
Morocco	22,104	7.75	2,577.08	20,255
Mozambique	1,578	24.30	427.36	3,105
Niger	702	447.81	27.00	972
Nigeria	53,002	118.55	12,453.74	8,934
Oman	11,582	0.38	2,377.10	-
Pakistan	7,194	70.41	5,333.00	40,680
Palestine	n.a.	n.a.	20.86	-
Qatar	9,649	3.64	1,137.99	-
Saudi Arabia	30,342	3.75	24,318.40	-
Senegal	1,601	447.81	78.00	2,588
Sierra Leone	n.a.	2,981.51	81.00	348
Somalia	n.a.	n.a.	141.00	2,944
Sudan	1,399	2.09	2,436.34	19,126
Suriname	433	2.75	315.70	-
Syria	n.a.	11.23	885.00	-
Tajikistan	n.a.	3.43	400.58	1,228
Togo	580	447.81	69.00	1,968
Tunisia	8,849	1.23	1,617.90	20,231
Turkey	70,428	1.30	22,029.00	251,477
Turkmenistan	n.a.	n.a.	804.00	743
Uganda	2,301	1,720.44	367.90	1,611
UAE	31,695	3.67	13,253.12	-
Uzbekistan	n.a.	n.a.	262.00	3,876
Yemen	8,111	199.76	464.27	5,926

Source: BASEIND

## Total Debt Situation of the OIC Member Countries, 2003-2007



Source: BASEIND, WDI (World Bank)

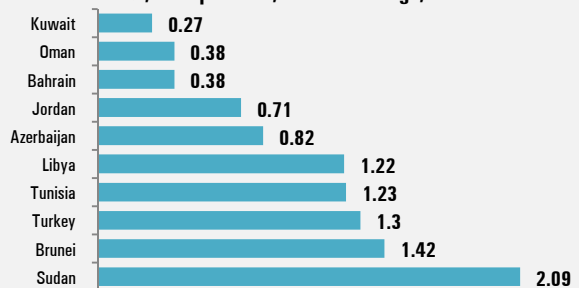
## Stock Exchange Performance

	Last (31 Aug '09)	3-Months <sup>1</sup>	Year to Date <sup>1</sup>	1 Year <sup>1</sup>
Bahrain	381.79	-14.99%	-26.15%	-66.73%
Egypt	827.67	20.76%	39.89%	-22.37%
Indonesia	542.38	28.96%	88.66%	-1.56%
Jordan	153.20	-7.51%	-5.69%	-44.59%
Kazakhstan	623.44	2.68%	43.18%	-19.27%
Kuwait	717.91	17.91%	15.72%	-38.69%
Lebanon	1,020.17	23.21%	27.56%	-23.32%
Malaysia	310.58	12.67%	34.29%	4.62%
Morocco	452.72	-1.02%	-0.20%	-25.38%
Nigeria	329.76	-28.04%	-22.47%	-61.11%
Oman	845.43	17.82%	20.67%	-36.07%
Pakistan	79.65	19.36%	72.96%	-19.17%
Qatar	623.38	10.45%	2.42%	-32.21%
Saudi Arabia	356.64	0.94%	22.36%	-35.96%
Tunisia	1,106.25	1.17%	20.99%	-0.58%
Turkey	469.88	34.97%	70.84%	-8.56%
UAE	238.47	16.68%	38.75%	-52.43%
GCC Countries	414.70	7.31%	20.03%	-39.02%
Arabian Markets	481.47	7.86%	19.95%	-37.07%
Emerging Markets	839.46	8.58%	48.04%	-12.21%

Source: Morgan Stanley Capital International

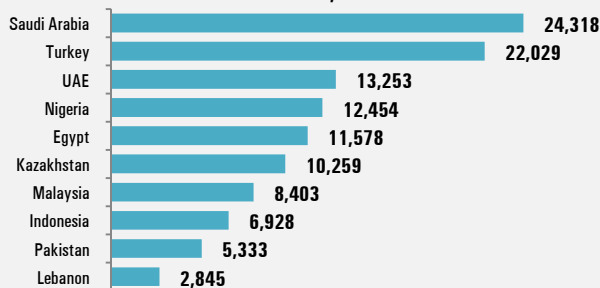
1. in US\$ terms

## Top 10 OIC Member Countries, by Lowest Exchange Rate, NCU per USD, Period Average, 2008



Source: BASEIND

## Top 10 OIC Countries, by FDI Flows, Million USD, 2007



Source: BASEIND