OPEC FUND NEWSLETTER

Vol. XI, No. 3, Sept. – Dec. 2003

New Director-General outlines vision

Fund co-hosts Arab Aid Symposium

IsDB welcomes new member

Libya: Moving towards economic liberalization

Mangroves: A weapon against poverty and hunger

EDITORIAL

Disaster relief: Should moral hazard be a concern?

With the toll of human and material losses caused by natural disasters rising sharply over the past few years, disaster relief policy has received an increasing share of public attention[1]. Many issues are being brought into question. What are the underlying causes for this alarming trend, who are the victims, could disasters be alleviated or minimized, and if yes, at what cost, and how? At the same time, a minority of voices has strayed in another direction, citing the issue of moral hazard as a reason for limiting disaster relief and diverting scarce resources to other forms of development assistance – or better yet, ceasing them altogether.

Taking the latter issue first, critics argue that disaster relief efforts are counter-productive. Aid to disaster victims, apart from possibly not reaching the intended recipients and falling into the hands of corrupt officials, may in the long run intensify the number of casualties of droughts, earthquakes, floods and epidemics. Aid recipients, some maintain, may take fewer precautions if they know that they will be bailed out every time a disaster strikes. Hence, houses may be built insecurely and in dangerous areas such as flood plains and fault lines, crops may continue to be grown without due regard for food security, and efforts to contain environmental degradation and soil erosion may fail to be regarded as a priority.

While such an argument could find some empirical support, it is logically and morally flawed. Disaster relief and for that matter development assistance in general – is bound to generate some moral hazard effects on the part of the recipients. The point often forgotten is that in most cases, aid recipients, be they individuals or communities, are living in conditions of extreme poverty. Resources not spent on constructing stronger houses or better flood control will not necessarily be wasted. More likely, they will be used to meet some other unsatisfied basic need such as education, nutrition or clean water.

More importantly, disaster victims should receive help, irrespective of the underlying causes or circumstances. After all, they are by and large the casualties of conditions beyond their personal control. To deny them aid on the grounds of imprudent government policies or individual ignorance is morally wrong.

The moral obligation on the part of the developed world to provide sufficient and timely relief in the case of both man-made and natural catastrophes is even more pressing if one considers that the international community bears some direct responsibility for many of today's disasters. Globalization, for instance, while creating wealth, appears to have condemned significant numbers to poverty. Many developing countries have been forced to move towards trade liberalization, only to find their domestic markets flooded with cheap produce from richer countries operating subsidized agriculture sectors. To redress the balance, the poor nations have shifted production from food to cash crops, leaving themselves susceptible to shortages in times of drought or floods.

While help to people in distress must continue to be provided, such efforts must go hand-in-hand with schemes to reduce disaster vulnerability and make it an integral part of the development assistance policies of international donors. These efforts would not only save more lives, but would from an economic point of view be more cost effective than relying on band-aid policies alone. Many disasters could be mitigated by taking simple measures, such as establishing better early warning and emergency response systems, imposing improved building codes and more effective management of land use, establishing grain storage silos, and employing techniques to reverse soil erosion and control floods. Aid donors must encourage such projects by providing favorable financing terms and awarding them a priority status.

The undertaking of disaster alleviation measures, both as capital projects and legislative reforms, will help to curb the damage associated with some catastrophes but will not eliminate it altogether. Natural disasters affect primarily the livelihoods of the poor, and they will continue to cause significant damage as long as poverty lingers.[2] To contain the damage caused by nature, it would be necessary to treat the roots of poverty that have led to urban congestion, unsustainable population growth and environmental degradation.

The OPEC Fund has always considered emergency aid a necessary part of its operations. Over and above its core work, much of which is infrastructure projects that directly help to mitigate vulnerability to disasters, the Fund has maintained a swift response in providing emergency relief to disaster areas. The Fund's efforts in emergency aid date back to 1984 with the first grant of US$5 million for the alleviation of food shortages in 13 African countries. Since then, the Fund has approved more than 63 emergency grant operations worth some US$47 million. These grants covered humanitarian aid to victims of droughts and famines, cyclones and floods, earthquakes and volcanic eruptions, wars, and other natural and man-made disasters. Many of the grants were distributed directly to national governments, while others were channeled through specialized relief agencies such as the United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA) and the International Federation of Red Cross and Red Crescent Societies (IFRC). ■

1 Estimated material losses associated with natural disasters have increased substantially during the past ten years. According to insurance industry figures, average annual losses from natural disasters amounted to about US$65 billion for the period 1992-2001, a seven-fold increase over the 1960s. Paul K. Freeman, Michael Keen, and Muthukumara Mani , "Being Prepared" in *Finance and Development*, September 2003, Volume 40, Number 3.

2 An often cited example occurred in 1999, when landslides struck Venezuela and storms hit France at about the same time, causing similar direct economic losses. However, whereas 123 died in France, there were 50,000 deaths in Venezuela.

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Contents

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The **Newsletter** is available free of charge. If you are not on the mailing list and wish to receive future issues, please send your complete address to the following address:

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The **Newsletter** welcomes articles, reviews and photos on development-related topics, but cannot guarantee publication. Manuscripts should be typed and double-spaced, and should include a brief biographical note on the author. Unsolicited material will be acknowledged only if accepted for publication and will not be returned. Please direct letters to the Editor at the above address.

Front Cover:
At a market in Peru. Only three Arab aid institutions are active in Latin America and the Caribbean, namely, the Kuwait Fund, Saudi Fund and OPEC Fund. Together, these organizations have channelled some US$1 billion in development assistance to this region.
Photo: O. Ortiz/CIP n Edwards

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New Director-General assumes office

Al-Herbish outlines aspirations

November 1, 2003, saw the Fund's new Director-General and Chief Executive Officer, Mr. Suleiman Jasir Al-Herbish, take up his duties at the institution's headquarters in Vienna. At the handover ceremony, and addressing Fund management and staff, Mr. Al-Herbish pledged to ensure that the Fund retained its hard-won position in the development finance community and that it continued to be guided by the goals and vision that had inspired its creation.

In an interview with the OPEC Fund *Newsletter*, Mr. Al-Herbish later outlined his aspirations for the 27-year-old institution, revealing three priority areas of focus: safeguarding the Fund's long-term sustainability, fostering greater cooperation between the Fund and its sister institution OPEC, and enhancing the Fund's public profile. The following are excerpts from the interview:

NL *You have a long and distinguished career in the oil industry, most notably as Governor of Saudi Arabia at OPEC. Working in an institution like the OPEC Fund is a considerable change. How do you feel about pursuing this new direction?*

I can understand how my oil industry background may give the impression that my new appointment as Director-General of the OPEC Fund is taking me into quite a different area of work, but in fact it is by virtue of my long-standing involvement in the oil industry that I have been closely linked to the fields of finance, economics and the various aspects of development. So, in a sense, my position at the Fund is more of a natural progression than a change of direction.

As a matter of fact, my work within an organization of global importance like OPEC will actually serve as a foundation for the goals set within my new role, which I believe will bring to the fore common factors shared between OPEC and the mission of the OPEC Fund. Indeed, if you look at OPEC as a concept comprising the Fund and the Organization, you will see that the two entities complement each other.

I will also be able to draw on lessons learned from previous encounters at United Nations Conferences and similar gatherings on development issues and North-South dialogue. You may recall that my first external assignment was to attend the second session of UNCTAD in New Delhi, where I came into direct contact with representatives from many different developing countries who emphasized the needs and aspirations of their regions.

The overriding challenge is to strike a balance between faithfully adhering to the mandate of the Fund and at the same time ensuring the Fund's sustainability well into the future.

NL *Given your background, heading a development finance institution presents a completely different set of challenges. How would you describe these challenges and how has your experience in the private sector prepared you for tackling them?*

The overriding challenge is to strike a balance between faithfully adhering to the mandate of the Fund and at the same time ensuring the Fund's sustainability well into the future.

Perhaps I can best illustrate what I mean by quoting some figures: Cumulatively, the Fund has committed close to US$6.9 billion in development assistance. That is a remarkable sum for what is, after all, a relatively small institution – and, moreover, an institution owned by a group of countries that are themselves classified as developing. In keeping with our mandate, the lion's share of this financing (around 79%) has been delivered in highly concessional public sector loans, primarily to the poorest countries of the world. The bulk of the remainder comprises outright grants for technical assistance, research and emergency aid, as well as contributions to the resources of other development institutions. In terms of income that can be ploughed back in to our operations, the returns on our commitments are, therefore, modest.

The OPEC Fund, with its many accomplishments, can serve to offset the often disparaging view of OPEC and its member countries.

This is why the Fund has taken steps to diversify its activities, and is one of reasons, among many others of importance, why its private sector window was set up. Here, although still containing elements of concessionality, the Fund's investments are market-oriented. The challenge remains, nevertheless, to find the right balance, and I firmly believe that prudent management of the Fund's resources will be essential if the institution is to maintain its level of assistance while maintaining its viability. This will be quite a challenge, but I hope that my experience both in the public and private sectors, coupled with the valuable input of colleagues, will help me assess and prioritize these sometimes conflicting objectives.

NL *You have the advantage of coming into the Fund with "fresh eyes" yet at the same time having an intimate knowledge of OPEC and its member countries. In what way will this unique perspective assist you in managing the institution in the years ahead?*

Firstly, my knowledge of OPEC and its member countries should serve to build and strengthen existing relations between OPEC member countries and other developing countries in the spirit of South-South cooperation as enshrined in the Fund's Agreement.

PHOTO: D. Golpashin/OPEC

Mr. Suleiman Jasir Al-Herbish, the new Director-General of the OPEC Fund.

Let me take you back to the period when OPEC was created in September 1960 by a group of developing countries. Even before its charter was drafted, the Western media had characterized the Organisation as doomed to fail. OPEC continued to be maligned by the media and was forced to remain on the defensive for 15 years. In early 1975, the Organization held its first summit conference in Algiers and outlined to the world its agenda through the Algiers Solemn Declaration, in which the Sovereigns and Heads of State of OPEC member countries pledged to promote the economic and social development of all developing countries. It was through this positive approach that the OPEC Fund was born. Unlike OPEC, the Fund stayed out of the limelight for reasons which I believe are very obvious. But this is not the issue here. The point is that the OPEC Fund, with its many accomplishments, can serve to offset the often disparaging view of OPEC and its member countries by highlighting their generosity and commitment to assisting the poor countries of the South. This is a message I will be trying to get across.

I believe also that my long engagement with OPEC will help me guide the Fund through any tough times that might lie ahead. OPEC survived the upheavals of the eighties and nineties because of its resilience and its ability to rise to difficult challenges, and I believe that the Fund too will have to move through this path.

NL *You have indicated elsewhere that the Fund should move closer to its sister institution OPEC. Given the distinct missions of the two institutions, what, in your opinion, would be the basis for and the nature of such cooperation?*

The fundamental mandate of the Fund is to reinforce financial cooperation between OPEC member countries and other developing countries. And I believe that the Fund, while strictly adhering to its mandate as stated in its main agreement, should work together with OPEC to strengthen the ties that bind OPEC nations to the rest of the developing world. Let us remember in this respect that a major share of future incremental oil demand will be assumed by developing countries. This will increase the interdependence between those countries (the oil consumers) and OPEC states (the oil producers). When we add the OPEC Fund to the equation, with its mandate to foster the social and economic advancement of developing countries, there is a further convergence of interests. It seems to me, therefore, that there are strong grounds for cooperation and that the two organizations should work together to identify and realize the true potential of their constituencies.

There are of course other areas of cooperation too, such as joint research on clean energy, for example, or sharing information and public relations activities.

NL *The OPEC Fund is largely overshadowed by OPEC, with the name OPEC more readily associated with oil than with development. How do you feel about this?*

Yes, this is true and the reasons are many. The Fund was born under the umbrella of OPEC and remained for a while a guest of the OPEC Secretariat, occupying space within OPEC Headquarters.

Also, although complementary, the two organizations in many respects face different realities and deal with two different audiences. OPEC is engaged in the management of oil supply and as such attracts a very high level of media attention. In the Fund, we build schools, hospitals, roads and dams in many underprivileged parts of the world. We contribute to the eradication of disease, and we fight HIV/AIDS along with other organizations, and so on. Unlike our sister institution, however, our noble efforts do not seem to attract the attention they truly deserve. This is indeed unfortunate.

It is vital to further raise the image of the Fund, not only at the global level, but specifically among member countries and indeed the recipient countries.

It would seem that the Fund needs to take a more pro-active stance in this area. I believe that a great deal of work needs to be done from within the OPEC Fund to significantly enhance its profile. It is vital to further raise the image of the Fund, not only at the global level, but specifically among member countries and indeed the recipient countries. This is a challenge which in my opinion deserves more coordinated and sustained attention. I strongly believe that this should be looked at as a priority and I am confident that we have the resources to deal with this challenge. ■

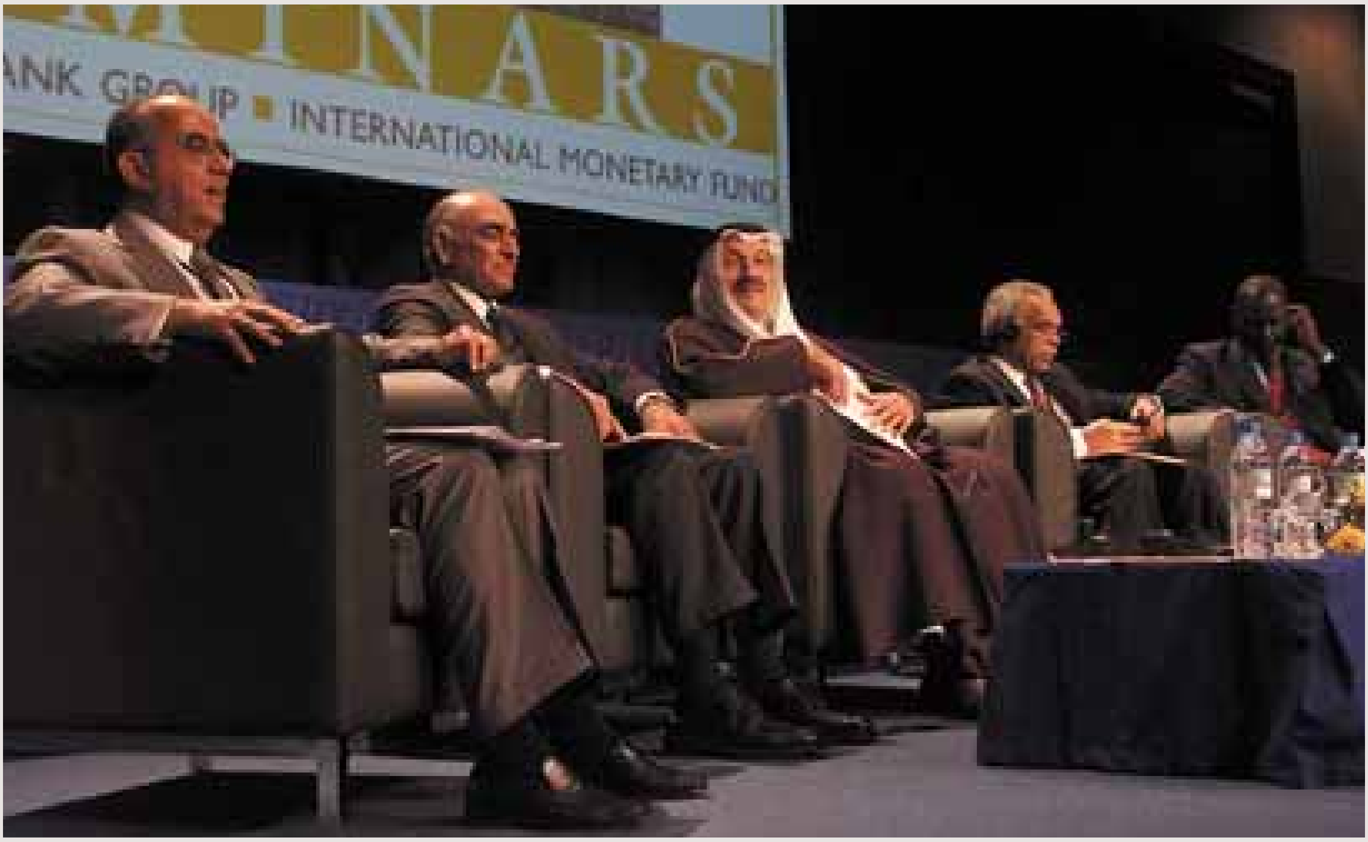


PHOTO: Bates Pangulf

From left to right: **Mr. Abdlatif Al-Hamad, Director-General and Chairman of the Board of Directors of the Arab Fund, Mr. Moeen Qureshi, former Prime Minister of Pakistan, HRH Prince Talal bin Abdul Aziz Al Saud, founder and President of AGFUND, Dr. Omar Davies, Minister of Finance and Planning of Jamaica, and Mr. Famara L. Jatta, Secretary of State for Finance and Economic Affairs of The Gambia.**

OPEC FUND EVENTS

Fund co-hosts Arab Aid Symposium

As part of the official side-events of the World Bank and IMF annual meetings in Dubai, UAE, at the end of September, the OPEC Fund, along with other financial institutions of the eight-member *Coordination Group of Arab National and Regional Development Institutions*, hosted a high profile *Symposium on Arab Development Aid*. The aim of the meeting was to enhance international awareness of Arab aid and to engage in dialogue with other key players in the global development arena.

The event, which was the first of its kind, was attended by a host of distinguished participants, including senior government ministers and high-ranking officials from the World Bank, IMF, United Nations agencies and regional development banks. Also present were private sector chief executive officers, representatives from leading non-governmental organizations and the media. Followed by a reception which allowed for networking and further discussion, the event was an outstanding success.

The symposium was moderated by Mr. Abdlatif Al-Hamad, Director-General and Chairman of the Board of Directors of the Arab Fund, and included a keynote address by HRH Prince Talal bin Abdul Aziz Al Saud, founder and President of AGFUND (see box), as well as interventions from a panel of eminent regional speakers.

Arab donors - a unique aid record

In his opening speech, Mr. Al-Hamad noted that Arab development assistance was an "important source of development financing" and that it was both "welcomed and appreciated" by beneficiary countries. He went on to disclose that over the years the member institutions of the Coordination Group had collectively provided over US$76 billion in development assistance to more than 140 developing countries. He cited the Group's "no strings attached" approach and its record of efficient delivery as two of the main reasons behind its standing as one of the largest and most successful providers of development aid.

Mr. Al-Hamad paid tribute to the "ideals of cooperation and partnership" practised by the Arab donors. "By pooling resources, coordinating efforts and drawing on the combined skills and expertise of its members, they [the Arab aid institutions] have succeeded to a measurable degree in eliminating duplication and waste," he declared. He noted also the Group's "special affinity" with its beneficiary countries. Coming from developing nations themselves, he said, the Arab aid institutions had a unique perspective on the problems associated with development and were particularly attuned to the needs of their partners. Alliances with cooperating countries, he noted, were there-

The Coordination Group – an overview

The Coordination Group of Arab National and Regional Development Institutions is a collective body of three bilateral and five multilateral agencies set up to provide greater cohesion and effectiveness in the delivery of Arab aid, especially in regard to large-scale projects and programs that are beyond the capacity of any single member institution. Its members are the Abu Dhabi Fund for Development, the Arab Bank for Economic Development in Africa (BADEA), the Arab Fund for Economic and Social Development, the Arab Gulf Program for United Nations Development Organizations (AGFUND), the Islamic Development Bank, the Kuwait Fund for Arab Economic Development, the OPEC Fund for International Development and the Saudi Fund for Development.

Established in 1975, the Group meets twice a year at the level of Director of Operations to share initiatives, synchronize programs, and harmonize approaches and best practices. Together, they seek to forge a unified framework for action, achieve greater policy coherence, ensure the pursuit of common goals, and establish clear links between development assistance and other economic relations with recipient countries. By pooling information and resources, coordinating efforts and drawing on the combined skills and expertise of its members, the Group has maximized aid effectiveness and cost efficiency, and succeeded to a measurable degree in eliminating duplication and waste.

By year-end 2002, the Group's members had jointly delivered more than US$76 billion in development assistance to 147 poor countries in all corners of the globe. This sum has supported projects across a wide spectrum of sectors, from agriculture and transportation to telecommunications and industry. Significant funding has also gone to the social sectors. Trade financing too is becoming an important part of the portfolio of these agencies as are lending to and equity investment in private sector enterprises.

fore "built on foundations of solidarity and equality."

Elaborating on the relationship between the Arab donors and the countries they help, Mr. Al-Hamad emphasized the Group's commitment to the growing shift away from donor-driven development policies towards participatory processes and procedures. "This principle – that beneficiaries should ultimately own and be responsible for the implementation of their own development strategies – has always been central to the Group's policies," he stressed. Moreover, it was an approach that had only recently been recognized by the international donor community.

Arab aid in Africa

Presenting an African perspective on Arab aid, Mr. Famara L. Jatta, Secretary of State for Finance and Economic Affairs of The Gambia, noted the strong historical affinity between the continent and the Arab world. Their geographical proximity, he said, had nurtured strong trade, cultural and social links. More significantly, there existed also a natural empathy based on their common status as developing regions: "Possibly nowhere else on earth does the expression 'South-South solidarity' carry truer meaning," Mr. Jatta said.

By year-end 2002, Africa had received Arab aid amounting to almost US$38 billion, a sum representing close to half of the total commitments channelled through the Coordination Group institutions. Mr. Jatta traced the evolution of Arab aid over the years, noting its constant re-positioning to accommodate the changing priorities of beneficiary countries. He described, in particular, the shift in focus over the past decade from large-scale infrastructure projects to smaller, community-oriented activities within the context of government poverty reduction programs. Mr. Jatta welcomed the Coordination Group's response to NEPAD, the New Partnership for Africa's Development: "The Arab donors have put on record their approval of the initiative and are looking at ways to re-align their lending policies and operational strategies to best support it."

Arab aid in Asia

Mr. Moeen Qreshi, former Prime Minister of Pakistan, spoke about Arab aid in Asia and the Middle East, describing the Arab aid institutions as a "familiar part of the development landscape." He revealed that on a cumulative basis the Coordination Group had collectively extended more than US$36 billion in assistance to 36 countries across the region, "with the bulk going to the ▶

PHOTO: International Development Enterprises

Demonstrating a pump to Zambian farmers. Over the years, Arab regional and national aid institutions have provided nearly US$38 billion in development financing to 52 African countries.

Arab aid is here to stay

Prince Talal urges greater cooperation

In an outspoken keynote address, Prince Talal bin Abdul Aziz Al Saud of AGFUND called on Western donors to face up to their responsibilities and honor their commitment to helping the world's poor.

Painting a harsh picture of poverty and destitution, starvation and disease, inequality and marginalization, Prince Talal said, "more than 800 million people suffer from hunger; thousands perish daily from preventable diseases; and vast numbers of children – the future custodians of our society – are growing up unable to read or write."

PHOTO: AGFUND

HRH Prince Talal bin Abdul Aziz Al Saud.

He condemned the "deplorable excess and waste" which had become "all too common" in the wealthy countries. "It would seem that more than ever before we are living in a world starkly divided into the 'haves' and 'have-nots' That such polarized disparity continues to persist in what is, after all, a time of unprecedented prosperity, is indeed shameful," Prince Talal declared.

The AGFUND President was also highly critical of the 2000 UN Millennium Summit at which 150 world leaders signed a declaration committing them to achieving several important development goals by the year 2015, including cutting poverty by half.

"Subsequently, there has certainly been no shortage of dialogue, or of lofty promises and noble resolutions. And are we delivering? Obviously not. Here we are, almost a quarter of the way through the proposed time frame, and still with very little in the way of concrete achievement to show for our efforts," he challenged.

Prince Talal noted that the Arab aid track record was better than that of the richer, industrialized nations. With 0.85% of their gross national product offered in official development assistance, Arab donors had "consistently outstripped" the 0.3% provided by OECD countries and were well above the internationally set target of 0.7%. "Given their own domestic economic difficulties, this contribution is more than generous – it is a *true sacrifice*, because these resources could equally well be spent at home," he declared.

Highlighting the global nature of Arab aid, Prince Talal stated that it reached "far beyond immediate neighbors" to countries as far flung as Papua New Guinea, Honduras, Grenada and Belize – nations with little in the way of religious, cultural, economic or political ties with the donor group.

Prince Talal noted that over the years Arab aid had been both consistent and timely: "They [the Arab donors] have moved with the times, adapting and responding swiftly to new concerns and initiatives." Arab aid, he said, would continue to flow. "No-one can deny that the oil resources of Arab donors are finite and subject to depletion; but Arab aid is here to stay. Countries in need can count on a predictable and continuous flow of Arab development financing for years to come."

It was the primary concern of the Arab aid institutions, Prince Talal said, that their contribution remained "relevant" and continued to address the areas of greatest need. "Today the development agenda is dominated by the issues of debt relief, HIV/AIDS, the private sector, NEPAD and the Millennium Goals. Tomorrow we could be facing a completely new set of challenges."

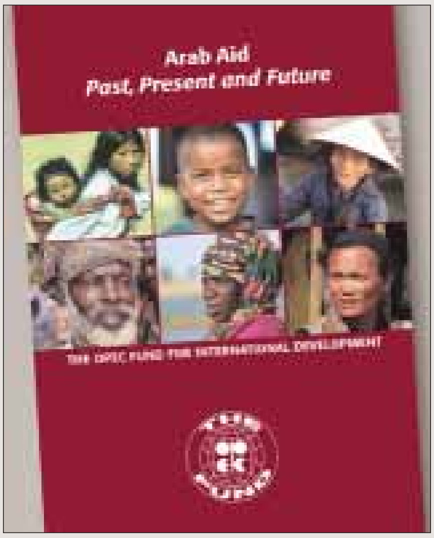
Prince Talal urged the international donor community to come together and form a united front in the battle against poverty. "The Arab aid institutions are ready and willing to play their part, and welcome a deepening of cooperation with other bilateral and multilateral agencies, the United Nations development organizations and, of course, recipient countries," he concluded. ■

◄ needier nations." In general, this aid had concentrated on providing basic infrastructure and in meeting essential needs in the social sectors.

Mr. Qreshi noted the "remarkable economic and social progress" experienced across the region in the past decade, but cautioned against use of the term "Asian Miracle.""For every country that has been swept away on a tide of prosperity, several others have been left high and dry," he asserted. With a staggering 768 million people living on less than a dollar a day, Asia still has more poor people than any other region. For the foreseeable future, therefore, Arab aid should continue to concentrate on alleviating poverty and fulfilling basic needs. Mr. Qreshi, did, however, point to another critical role for the Arab donors – that of catalysing private sector development – and noted with satisfaction that several of the Coordination Group institutions had already sponsored private initiatives in the region, ranging from financial services and manufacturing to trading and tourism.

Arab aid in Latin America and the Caribbean

The speaker from Latin America and the Caribbean was Dr. Omar Davies, Minister of Finance and Planning of Jamaica. Dr. Davies observed that three of the Coordination Group institutions – the Kuwait Fund, the Saudi Fund and the OPEC Fund – were active in the region and together had channelled cumulative assistance totalling some US$1 billion. The bulk of this had been concentrated on the poorest nations, representing a *per capita* distribution of around US$17, "a sum equal to that



The Symposium speeches, in English or Arabic, may be obtained free from the OPEC Fund, or viewed in PDF at www.opecfund.org.

received by similar low-income countries in Asia." The Minister made particular mention of the OPEC Fund which he described as having a special link with the region by virtue of Venezuela being one of its member countries. "Together, Venezuela and the OPEC Fund have worked to bring increased resources to Latin America and the Caribbean, more than quadrupling flows over the past decade or so."

Referring to the future of Arab aid, Dr. Davies noted that requirements in Latin America and the Caribbean were slowly changing and becoming "more sophisticated," with a growing number of countries seeking to enhance the role of the private sector. Arab agencies were stepping up efforts to support this need and had approved several operations, mostly in the form of lines of credit for small- and medium-sized enterprise development. ■

PHOTO: M. Wessely

The bulk of Arab aid assistance to Latin America and the Caribbean has been concentrated on the poorest nations, Haiti, Bolivia, Peru, Honduras, Nicaragua and Guatemala.

Burkina Faso honors Fund Assistant Director

Jumana Dejany, an Assistant Director for the Africa region at the OPEC Fund, has been made a *Knight of the National Order* by the President of Burkina Faso, in recognition of her outstanding services to the republic. The decoration was presented by Jean-Baptiste Compaore, Minister of Finance and Budget, at a special dinner in Ouagadougou on December 15, which was attended, among others, by a host of senior government ministers and directors of ongoing Fund-financed projects.

Ms. Dejany, a Saudi national, has worked at the Fund for 19 years, and coordinated operations in Burkina Faso for the past nine. "I am very touched to have received this honor since it was extended on a very exceptional basis," she said. "The award represents the friendship between the OPEC Fund and Burkina Faso…and bears witness to the multiple efforts of the government and the Fund to accelerate development in the country."

The Fund has worked closely with Burkina Faso since 1976, providing development assistance totaling over US$105 million in the form of balance of payments support as well as in financing for projects in the agriculture, education, health, transportation, and water supply and sewerage sectors. The country has also received debt relief in the amount of US$10.5 million from within the framework of the *Heavily Indebted Poor Countries Initiative*.

PHOTO: Joseph Yamaego

Ms. Jumana Dejany and HE Mrs. Miriam Lamizana, the Minister of Social and Family Affairs of Burkina Faso, at the awards ceremony.

"The relationship [between the Fund and Burkina Faso] has always been both cordial and meaningful," stated Ms. Dejany. It had been maintained not only through an exchange of correspondence but through "regular personal contact," a situation that had allowed for a quick resolution to any problems.

Ms. Dejany paid tribute to the "determination of the government [of Burkina Faso] to combat poverty and ensure a future that is more prosperous for generations to come." The country had succeeded in making real advances in a relatively short period of time and was now facing an exciting future with many challenges and opportunities. Ms. Dejany indicated that she was looking forward to continuing her work with the country. "I will continue to serve Burkina Faso to the best of my abilities in accordance with the directives of the highest authorities of the OPEC Fund," she said. ■

September 16

104th Session of the Governing Board held in Vienna

- Approval of six loans worth a total of US$58.3 million and three grants totaling US$1.93 million.
- Discussion of various matters related to the Private Sector Facility, including new investment and pipeline proposals.
- Consideration of various financial matters and operations under active consideration.

Project/program loans approved

BURKINA FASO. US$7 million. Kaya-Dori National Road.

CAMEROON. US$6.7 million. Sangmelima District Hospital.

SIERRA LEONE. US$9.5 million. Commodity Imports Program.

SYRIA. US$13.2 million. Mehardeh Power Plant Cooling System.

TUNISIA. US$12 million. Beja Higher Institute of Technology.

TURKEY. US$9.9 million. Sivas-Erzincan Development.

The above loans have a 20-year maturity, including a grace period of five years, and carry interest rates ranging from 1% to 3%. There is an annual service charge of 1% on amounts withdrawn and outstanding.

Technical assistance grants approved

Food and Agriculture Organization of the United Nations (FAO). US$700,000. This grant will support the *Special Program for Food Security (SPFS)* in the following countries: **Cambodia,** where activities will be expanded to include two additional provinces; in **Haiti's** North, South and Southeast departments, where a new SPFS will be established, local capacity-building measures implemented and rural infrastructure constructed; and, in North Kordofan, **the Sudan,** where an SPFS will be created and focus on improving water management techniques, introducing crop intensification measures and diversifying agricultural activities.

Global Mechanism of the United Nations Convention to Combat Desertification (GM-UNCCD). US$300,000. This grant will support a program to help protect dryland countries in the West Asia and North Africa (WANA) region. Primary components entail *Development of an Enabling Environment Conducive to Investment in the Drylands* to promote opportunities for public and private sector investment; *Technological Innovations*, including the promotion of water management and soil conservation practices; *Approaches to Funding Mechanisms*, with the objective of maximizing the use of financial resources; *Regional Networking and Knowledge Sharing* to organize partnerships for the exchange of information; and, *Capacity Building of National, Regional and Sub-Regional Institutions*, to promote the exchange of best practices and knowledge within and among WANA member countries.

Grant approved from Special Account for Palestine

Assistance to Social Projects in Palestine. US$930,000. This grant will help finance the following social projects to aid communities in the West Bank and Gaza Strip: US$200,000 to the Spanish *Foundation for the Social Promotion of Culture*; US$200,000 to the *Abu Raya Rehabilitation Center*, Ramallah, West Bank; US$150,000 to *Education Action International* of the UK; US$250,000 to the *Arab Organization for Agricultural Development* of the Sudan; US$50,000 to the *El Wafa Medical Rehabilitation Hospital*, Gaza Strip; US$30,000 to the *Center for Agricultural Services*, Hebron, West Bank; and US$50,000 to the *Women's Association for Child Care*, Beit Jala, West Bank.

PHOTO: Palestinian Agricultural Relief Committees

A grant to FPSC will help finance skills training for Palestinian farmers, especially women.

Research grant approved

FLAME. US$50,000. This grant was used to procure urgently-needed supplies for a community school and an orphanage run by the non-governmental organization FLAME in Zambia. Proceeds purchased a school bus, furniture, educational materials and other items.

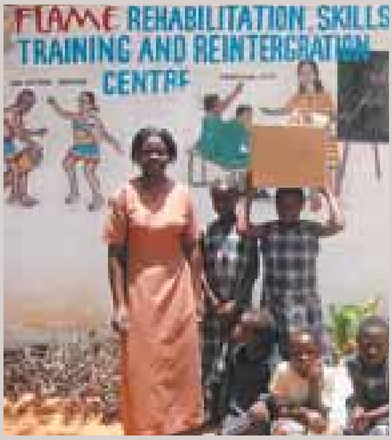


PHOTO: FLAME

FLAME operates community schools and an orphanage for former street children in Zambia.

September 29

Fund Director-General receives award

Dr. Abdulai receives *Grand Decoration of Honor* from President Klestil of Austria.

October 9

Agreement signed

CÔTE D'IVOIRE. Encouragement and protection of investment agreement.

October 15

Program loan agreement signed

SIERRA LEONE. US$9.5 million. Commodity Imports. Interest rate of 1% *per annum*. Executing agencies:

Treasury Department, Ministry of Finance, Bank of Sierra Leone. Loan administrator: OPEC Fund. Total cost: US$26 million.
This loan will provide Sierra Leone with much-needed foreign currency to help release funds for debt servicing and support government's aim to promote socio-economic development. As this scheme is of a multi-sectoral nature, no emphasis will be placed on any particular item, although petroleum products, food and medical supplies have been earmarked by government as a priority. Other eligible goods include textiles, building and industrial materials, processing machinery, insecticides and replacement parts.

Private sector loan agreements signed

Central American Bank for Economic Integration (CABEI). US$15 million. The line of credit will allow CABEI to maintain and expand its ability to provide longer-term financing, concentrating primarily on the medium-sized business sector. This will assist in the maintenance and creation of employment opportunities and increase economic growth in the Bank's countries of operation.

Maldives Finance Leasing Company Private Limited (MFLC).
US$3 million. The loan will help provide financing for MFLC's leasing activities, which represent a significant step towards the development of the non-bank financial sector in the Maldives.

October 22

Fund Director-General receives award

Dr. Abdulai receives *Order of the Two Niles* from Republic of the Sudan.

October 29

Fund Director-General receives award

Dr. Abdulai receives *Golden Vienna City Hall Recognition* from the Mayor of Vienna.

November 1

Saudi Arabia's Al-Herbish assumes office as Director-General of the OPEC Fund

See story page 4

November 6

Research grant approved

African Center for Development and Strategic Studies (ACDESS). US$100,000. This grant will help finance the second phase of a research study: *The Search for Sustainable Peace and Good Governance in Africa: Comprehending and Mastering African Conflicts, Phase II.* The original five pilot case studies on Burundi, Liberia, Rwanda, Sierra Leone and Angola will be reviewed, and the scope expanded to include Guinea Bissau, the Congo, Congo D.R. and Côte d'Ivoire. Other objectives will entail defining indicators for monitoring conflicts and examining the mechanisms for establishing and operating national, sub-regional and regional early-warning systems.

December 2

105th Session of the Governing Board held in Vienna

- Approval of 11 loans worth a total of US$84.8 million and four grants totaling US$1.17 million.
- Discussion of various matters related to the Private Sector Facility, including new investment and pipeline proposals.
- Consideration of various financial matters and operations under active consideration.

Project loans approved

AZERBAIJAN. US$6 million. Udjar-Yevlakh Road.

CAPE VERDE. US$6.1 million. Health Centers.

ETHIOPIA. US$15 million. Azezo-Awulalameda Road.

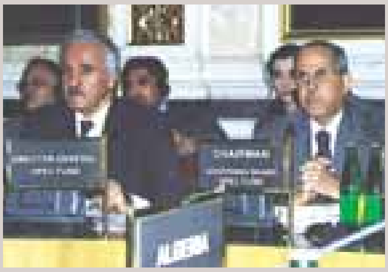


PHOTO: B. Babajide

Left to right: **Mr. Suleiman Jasir Al-Herbish, Director-General, and Dr. Saleh A. Al-Omair, Chairman of the Governing Board, at the meeting.**

GHANA. US$5 million. Rehabilitation of Accra-Tema Rail.

GUATEMALA. US$10 million. Western Region Rural Development.

MADAGASCAR. US$7.7 million. Rural Income Promotion.

MALAWI. US$5 million. Karonga-Lufilya Road.

PAPUA NEW GUINEA. US$4 million. Water Transport Development.

SIERRA LEONE. US$7 million. Tokeh-Lumley Road.

TAJIKISTAN. US$6 million. Dushanbe-Kyrgyz Border Road.

YEMEN. US$13 million. Social Fund for Development (Phase III).

The above loans have a 20-year maturity, including a grace period of five years, and carry interest rates ranging from 1% to 2.25%. There is an annual service charge of 1% on amounts withdrawn and outstanding.

Technical assistance grants approved

Inter-American Agency for Cooperation and Development (IACD). US$100,000. This grant will help finance the establishment of three pilot *School-based Telecenters* in rural Guatemala that will serve as core models for an envisaged national program. Each will be provided with computers, telecommunication equipment and software, as well as educational videos and printed materials. As many rural areas lack a reliable source of electricity, the facilities will be designed to run on solar energy. Training to the centers' directors, teachers, students and other users is also envisaged.

International Atomic Energy Agency (IAEA). US$200,000. This grant will support the first phase of a tsetse fly ▶


PHOTO: Peter Rickwood/IAEA

Farmers in southern Ethiopia set a trap for tsetse flies as part of an IAEA program to eradicate the fly in the Rift Valley.

◀ elimination initiative in Ethiopia's Southern Rift Valley. The project will use the *sterile insect technique (SIT)*, whereby flies are reared and sterilized via irradiation and released to mate with wild insects, thereby breaking the reproductive cycle. This process is repeated over several generations so that reproductive capability is progressively reduced until the fly population is eliminated. Initial eradication efforts will focus on 10,500 km^2 of heavily infested land, with the long-term goal to expand coverage to encompass an additional 15,000 km^2.

Grant approved from Special Account for Palestine

Assistance for Capacity Building. US$570,000. This grant will help finance four capacity-building projects designed to assist the most impoverished areas in the West Bank. Proceeds were divided as follows: US$150,000 to the **Society of Ina'sh El-Usra** in Al-Bireh; US$150,000 to the **Early Child Resource Center** in Jerusalem; US$120,000 to the **Bethlehem Arab Society for Rehabilitation (BASR)**; and US$150,000 to the **Hawwa Center for Culture and Arts,** Nablus.

Grant approved under the HIV/AIDS Special Grant Account

Commission for HIV/AIDS and Governance in Africa (CHGA). US$300,000. This grant will assist CHGA, a UN policy advisory body set up to complement the HIV/AIDS mitigation efforts of other UN agencies on the African continent. Its first objective is to work with policy makers to fully grasp the nature of the long-term development challenges posed by HIV/AIDS, and assist in providing appropriate treatment for those already living with the virus. Another theme will concentrate on "best practice" mitigation strategies.

Research grants approved

Ibrahim Shihata Memorial LL.M Degree Program in International and Comparative Law. US$300,000. The late Dr. Ibrahim Shihata, the first Director-General of the OPEC Fund, committed the last few years of his life to creating an advanced law program for the Arab world. Dr. Shihata's widow has continued to work towards realizing this aim, and approached the Fund to help establish the *Ibrahim Shihata Memorial LL.M Degree Program in International and Comparative Law.* The program will be developed in cooperation with the Harvard Law School and hosted by the American University in Cairo, Egypt.

Islamische Glaubensgemeinschaft in Österreich (IGGiÖ). US$250,000. This grant will help fund the establishment of an Islamic cemetery in Vienna, Austria in order to provide an appropriate environment for conducting traditional prayers and burial rites. Proceeds will be specifically utilized for the construction of a prayer room.


PHOTO: BASR

BASR provides physical and occupational therapy for physically handicapped Palestinians.

December 3

Loan agreements signed

CHAD. US$7.5 million. Pastoral Livestock Support. Interest rate of 1% *per annum*. Executing Agency: Project Implementation Unit, under the aegis of the Ministry of Livestock. Loan administrator: African Development Bank. Total cost: US$31.56 million.

This loan will help finance a multi-faceted project aimed at increasing livestock production and raising incomes among pastoral herders in 16 provinces. Activities will include institution strengthening across the livestock sub-sector, and construction of abattoirs, butchers' stalls, livestock markets and meat hangars. Trails will be rehabilitated, wells and water points drilled, and trees, fodder plants and shrubs planted. A training component will comprise literacy programs, livestock management courses and food processing techniques, with a strong emphasis on the participation of women.

PHOTO: B. Babajide

Left to right: **HE Mr. Mahamat Abdelrassoul, Ambassador of Chad, Dr. Saleh A. Al-Omair, Governing Board Chairman, and Director-General Mr. Suleiman J. Al-Herbish.**

VIETNAM. US$9 million. Multipurpose Poverty Reduction. Interest rate of 1.25% *per annum*. Executing Agency: Provincial People's Committee Ha Tinh Province. Loan administrator: OPEC Fund. Total cost: US$11 million.

This loan will cofinance a multi-faceted rural development scheme in the Ha Tinh Province. Rural roads will be upgraded, bridges rehabilitated/constructed and culverts built. Primary and secondary school classrooms will be constructed and refurbished, and a small-scale irrigation scheme installed. Water storage capacity will be enhanced by building earth dams and rehabilitating canals. The province's

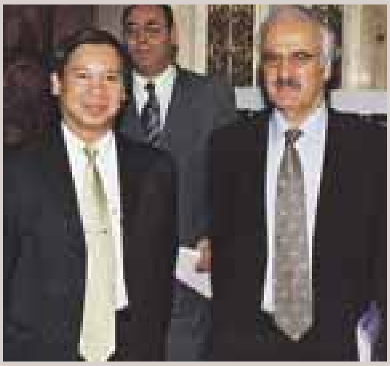


PHOTO: B. Babajide

HE Mr. Nguyen Truong Giang, Ambassador of Vietnam *(left),* and Director-General Suleiman J. Al-Herbish met to sign a loan.

local power grid system will be expanded through the construction of transformer substations and the installation of power transmission lines to communes and villages. Additionally, a 15,000 m² marketplace, which will accommodate around 200 small merchants in the Vu Quang district, will be constructed.

December 17

Private sector loan agreement signed

UPI Banka d.d. US$1.73 million. The line of credit will help UPI Banka of Sarajevo with its on-lending to existing and new small and medium-sized enterprises in Bosnia and Herzegovina.

December 18

Private sector loan agreement signed

Bursel Tashkent. US$5 million. The loan will help finance the establishment of a textile factory at Chirchik, some 35 km northeast of Tashkent, Uzbekistan.

PHOTO: B. Babajide

Dr. Selim Kaptanoglu, Chairman of Bursel Tashkent Textile *(left)*, and Fund Director-General Suleiman J. Al-Herbish signing the agreement.

December 29

Emergency assistance grant approved

Iran. US$750,000. This grant helped purchase emergency supplies for victims of an earthquake that struck the Kerman Province on December 26. Urgently-needed items such as tents, blankets, plastic sheeting, medical kits and food were requested from the international community. The Fund's contribution to the aid effort was used to help procure relief items and was channeled through the International Federation of Red Cross and Red Crescent Societies.

PHOTO: Farooq Burney/International Federation

A dazed survivor at Bam. A Fund grant helped rush emergency relief to hundreds of thousands made homeless by the earthquake.

Meetings attended by the Fund

September 2-3

ALMATY, KAZAKHSTAN.
Twenty-eighth Annual Meeting of the Islamic Development Bank.

September 11

RIYADH, SAUDI ARABIA.
Arab Gulf Program for United Nations Development Organizations' International Prize for Pioneering Development Projects committee meeting.

September 20

DUBAI, UNITED ARAB EMIRATES.
Symposium on Arab Development Aid (see story, page 6).

September 23-24

DUBAI, UNITED ARAB EMIRATES.

- Eighty-second meeting of the Deputies of the G-24 (the Inter-governmental Group of 24 on International Monetary Affairs).
- Sixty-eighth meeting of the Ministers of the G-24.
- Seventieth meeting of the Development Committee (Joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries).

October 6-10

JEDDAH, SAUDI ARABIA.
FAO workshop: *Regional Programs for Food Security in the Near East.*

October 13-15

AMSTERDAM, THE NETHERLANDS.
Thirty-sixth Executive Board Meeting of the Common Fund for Commodities.

October 20-21

VIENNA, AUSTRIA.
Twenty-fourth Semi-Annual Meeting of the Multilateral Development Banks (see story, page 16).

December 8-9

THE HAGUE, THE NETHERLANDS.
Fifteenth Annual Meeting of the Governing Council of the Common Fund for Commodities.

African Development Report highlights poverty reduction in rural areas

Most studies show that annual regional growth rates averaging 6-8% will be required to reach the United Nations millennium development goal (MDG) of reducing extreme poverty by half by 2015. For the continent of Africa, home to the highest number of least developed countries, the chances of achieving this target are slim, according to the *African Development Report 2002*, an annual publication by the African Development Bank.

Aggregate growth in the Africa region tapered off to 3.1% in 2002, slightly down from the 3.5% registered in 2001, as output growth was restrained by a combination of external and internal developments, including commodity price fluctuations, regional droughts and political instability. Medium-term growth prospects for the region will depend on several factors, including sound political governance and macro-economic policies, as well as the deepening of structural and institutional reforms.

Rural poverty worsening

According to the Report, which focuses on the issue of rural development, the incidence of poverty in many African countries is most severe among the rural population, which represents an average of 60% of the total population on the continent. Progress in rural areas towards the MDGs as related to poverty reduction, education, health and social well-being has generally lagged behind in comparison to that achieved in urban areas, and the central issue facing African countries today is to improve the standards of living and well-being of the rural poor.

Rural people are not only income-poor, they are also deprived of basic needs and the essential tools to lead a decent and meaningful life. This deprivation is reflected in, among others, low literacy and school enrollment rates, inadequate access to sanitation and potable water, high infant and maternal mortality, food shortages, and low access to productive assets, as well as vulnerability to both natural and man-made disasters and to the spread of diseases such as malaria, tuberculosis and HIV/AIDS.

Extensive empowerment required

A combination of effective strategies will need to be implemented to fight poverty and empower Africa's rural poor. These include the development of human and social capital through education and widespread knowledge sharing, facilitating access to land, and improving the legal and financial status of women in rural areas. It would also require further encouragement of the private sector as an engine of employment creation, income generation and poverty alleviation, especially for those involved in agricultural production and trade.

Among the many issues facing African countries today is how to provide the rural poor with the basic needs, essential tools and access to land or jobs they need to escape poverty.

The Report further recommends measures that could make globalization, markets and institutions work for the rural poor. These include institutional reform, improvements in infrastructure, and easier access to markets, information, technology, fertilizers and improved crop varieties.

Africa focus of Fund operations

In keeping with the institution's mandate to help the poorer, low-income countries in pursuit of their social and economic advancement, the OPEC Fund in its operations has given special importance to Africa. Support has been provided in the form of concessional, untied development assistance to finance public sector loans in a wide variety of sectors, as well as balance of payments support and debt relief under the *Heavily Indebted Poor Countries Initiative*. The Fund has also provided substantial grant aid to finance capacity building and the transfer of adequate technologies and know-how, and to help African countries face food crises and provide care and support to individuals and families affected by HIV/AIDS.

The Fund's assistance to African nations has been supplemented by indirect assistance via financial resource transfers to organizations such as the *International Fund for Agricultural Development,* and the *Common Fund for Commodities,* in whose establishment the OPEC Fund played a significant role. In addition, the Fund has actively encouraged the development of the private sector in Africa by providing lines of credit to regional development banks for on-lending to small-, medium- and micro-enterprises, as well as loans and equity investment directly to private initiatives.

Fund approval of NEPAD

In the same vein, the Fund has welcomed the *New Partnership for Africa's Development (NEPAD),* an African-inspired initiative launched in October 2001 and aimed at helping African countries overcome poverty and underdevelopment by accelerating equitable and sustainable growth and development in the region. The OPEC Fund stands ready to help African countries realize the ideals of NEPAD, which are consistent with the principles of South-South collaboration and solidarity that lie at the heart of the institution, and which are expected to guide its activities well into the 21st century. ■

Faster reform needed in Arab countries

The *Arab World Competitiveness Report* 2002-2003, a publication by the Geneva-based World Economic Forum, highlights the need for countries in the Middle East and North Africa (MENA) to undertake economic and social reform in response to the growing challenges facing the region. The 400-page Report – the first of its kind – covers 16 countries[1], and assesses measures that could be taken to enhance the region's competitiveness in the global economy at a particularly critical time.

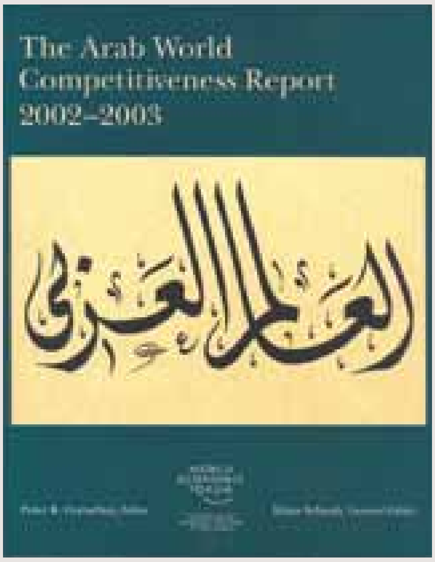
The Report notes that a number of countries in the region have made considerable headway towards stabilizing, reforming and liberalizing their economies. Inter- and intra-regional trade integration has been promoted through the Pan Arab Free Trade Area (PAFTA), the Gulf Cooperation Council customs union, the Euro-MED trade agreements, and the establishment of bilateral trade agreements. Several countries have joined the World Trade Organization (Egypt, Tunisia, Kuwait, Qatar and the UAE), while others are in the process of accession (Saudi Arabia, Lebanon, and Yemen).

Growth slow despite potential

Nevertheless, the region's overall economic and social performance during the past two decades has been disappointing. Despite abundant national resources and high public investments, countries experienced slow economic growth, low private domestic savings and investment rates, widening economic disparities, and stagnant or declining shares in world trade and foreign direct investment (FDI). At the end of 2001, the MENA region accounted for a mere 3.5% of world exports and a meager 2.5% of total global imports, and its share in total net FDI inflows to developing countries stood at less than 2%.

Widespread modernization necessary

To reverse this trend, policy-makers are advised to accelerate structural reform and make the transition from an old economic model, led by the state and supported by oil, aid and workers' remittances, to a development strategy where growth is driven by the private sector, export expansion and economic diversification. Measures recommended to enhance regional growth and competitiveness include privatization and liberalization of trade and investment regimes, reforming financial systems, improving public and private sector governance and gender equity, and building a knowledge-based society and economy.



The Report cautions against unfounded pessimism about the region's growth potential, and warns of the high cost of delaying reform in view of rising unemployment rates – particularly among the youth – reduced labor migration opportunities, declining trends in foreign aid flows and *per capita* oil revenues, and mounting competition in world markets in labor-intensive sectors such as garments, textiles and light manufacturing.

Greater investment in human resources and jobs

The most salient challenge facing the MENA region will be to create sufficient employment opportunities and improve the quantity and quality of education systems in order to prepare its rapidly growing population for an increasingly competitive 21st century. Regional unemployment stood at 18% in 2002, the highest among all regions in the world, and in the coming two decades, some 4.2 million adults will enter the labor force each year. The private sector will need to absorb most new entrants into the labor market, and there is an urgent need to implement labor market reform and encourage the development of the private sector in the region by speeding up privatization, facilitating start-up, accelerating tax reform, improving the environment for innovation, and stimulating science and the transfer of adequate technologies.

The Report also stresses the need for sound environmental management in order to safeguard wildlife, habitat and bio-diversity conservation, and to address rising challenges to the region's environmental sustainability emanating from freshwater shortages, air pollution and climate change. With a population of 295 million people, the MENA region controls only 1.2% of global water reserves and relies on imports for 60% of its freshwater needs. Meeting the region's growing water requirements will become an increasingly worrisome geo-political issue.

Per capita GDP could increase fourfold

Many countries have already embarked upon reforms, and the region is currently in a state of transition. Countries that have made most progress towards change include Egypt, Jordan, Tunisia and Morocco, followed by Algeria and IR Iran. The UAE and smaller Gulf states have also pursued outward-oriented growth strategies. This reform process now needs to be broadened and deepened to realize the region's tremendous potential for trade expansion and investment promotion. Even if only half the region's trade and private investment potential were to be realized over the next ten years, *per capita* GDP could rise from 1% to about 4% a year, the Report says. Half of this growth could come from increases in domestic and foreign private investment, while the other half could come from productivity gains. ■

1 Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, the Syrian Arab Republic, Tunisia, the United Arab Emirates (UAE), and the Republic of Yemen.

Fund hosts meeting on debt sustainability and reporting

On October 22-23, the OPEC Fund hosted the 24th semi-annual meeting of multilateral development banks (MDBs) at its headquarters in Vienna, Austria. Bringing together senior representatives from 15 MDBs, the meeting was the latest in a series of gatherings organized to engage the international community in achieving and maintaining debt sustainability in low-income countries beyond the implementation of the Heavily Indebted Poor Countries (HIPC) Initiative. Items featuring on the agenda included approaches for debt analysis and debt relief reporting, the role of borrowers, donors and the world community in enhancing debt sustainability, and operational implications for MDBs.

Debt management a special challenge

In an opening statement on behalf of OPEC Fund Director-General, Dr. Y. Seyyid Abdulai, Mr. Saeid Niazi, Assistant Director-General, Financial Operations, noted that debt sustainability represented a special challenge to low-income countries, many of which were characterized by a narrow export base, low savings and investment rates, weak institutional and debt management capacities, and a vulnerability to externally induced and largely unpredictable financial shocks. Mr. Niazi stressed the need to maintain the external debt of these countries at levels consistent with their capacity to repay, and urged participants to focus on the role of MDBs in helping reach the millennium development goals (MDGs) by enhancing debt relief and sustainability in the spirit of the Monterrey Consensus.

Mr. Niazi described the active role of the OPEC Fund in both the design and implementation of the HIPC Initiative. The Fund, he said, was carrying "its fair share of the burden" in close cooperation with all partners in development. Of the 22 countries for which the Fund had approved debt relief by the end of 2002, eight had received full disbursement, including Benin, Bolivia, Chad, The Gambia, Mali, Mauritania, Niger and Senegal, Mr. Niazi noted. "This relief was extended in addition to the concessional financing provided by our institution, particularly to countries that are most in need: the resource-deficient and structurally-weak, low-income countries, which receive the bulk of our assistance," he added.

Fund committed to debt reduction

Since its establishment in 1996, the HIPC Initiative has been continuously refined and expanded in a collective effort to ease the external debt burden of the world's poorest countries, which remains a huge constraint on their development. Mr. Niazi pointed out that the OPEC Fund had "maintained its full support for the Initiative, even as the eligibility criteria were *broadened* to enable more countries to participate, and as measures were taken to provide *deeper* and *faster* debt relief." He also stressed that "further action" would be required "to deal decisively with the problem of external debt".

Participants agreed on the importance of achieving debt sustainability in low-income countries within the context of development sustainability. They concluded that the true challenge facing the international development finance community was to help these poor countries attain the MDGs while ensuring that the level of their external debt and debt-service burdens were kept in line with their capacity to repay. They concluded that any further rounds of debt reduction would have serious costs to both borrowers and lenders. In addition, they called for the establishment of a framework for analysis of debt sustainability that could help reduce the risk of debt crises in low-income countries and identify the implications for debtors, creditors and the world community at large. Once established, the proposed framework would be subject to periodic review as information became available.

Reporting mechanism for greater visibility

Apart from issues relating to debt sustainability, participants discussed the need to create a reporting mechanism that could more adequately reflect the debt relief operations undertaken by MDBs. The relief currently provided is not properly reported in international statistics on aid flows. To address this issue, participants proposed to share a provisional working template and draw up instructions for filling it as soon as possible. They requested the World Bank to prepare guidelines on MDB debt reporting and to continue its discussions with the Organization for Economic Cooperation and Development to ensure that information collected through this undertaking would conform with the data requirements of the Development Assistance Committee and not disrupt the existing reporting arrangements on official development finance. They also agreed that, after an initial test phase, the proposed reporting template would be finalized and used on an annual basis.

The conclusions of the meeting will be reflected in a joint World Bank-International Monetary Fund paper on the policy implications for maintaining debt sustainability in low-income countries due to be presented to the Boards of the World Bank and IMF in early 2004. ■

PHOTO: B. Babajide

Senior representatives from leading multilateral development banks gathered at the Fund's headquarters for a two-day meeting on *Debt Sustainability in Low-Income Countries.*

Remittances a growing source of development financing

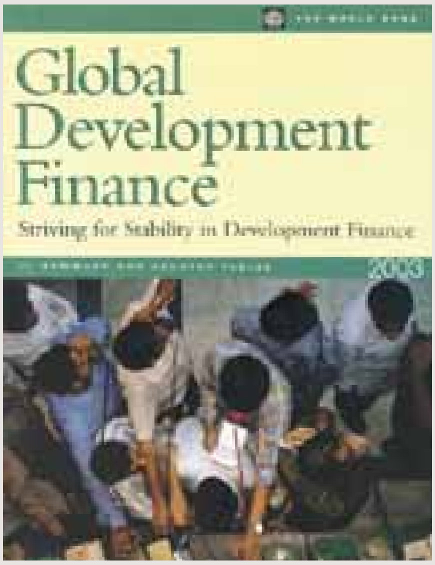
According to *Global Development Finance 2003 – Striving for Stability in Development Finance* (GDF 2003*)*, a publication by the World Bank, foreign direct investment (FDI) and workers' remittances outpaced debt as a source of external financing for development in 2002.

Aggregate long-term net capital inflows to developing countries dropped for a second year in a row to US$192 billion, from US$210 billion in 2001 and US$215 billion in 2000, reflecting two years of sluggish global economic activity. Net private debt flows (bonds and bank loans) to emerging markets were again negative in 2002, with developing countries' repayments to private-sector creditors exceeding new debt by US$9 billion. The declining trend in private debt inflows to developing countries has two main causes. First, investors have become more averse to holding debt claims on developing countries since the 1997/98 East Asian financial crisis. Second, developing nations have repaid more external debt to private-sector creditors since 1998 and acquired additional foreign assets in industrialized nations.

Investors shun risky economies

FDI inflows to developing countries also fell significantly in 2002, to US$143 billion, from US$171.7 billion in 2001, reflecting the slump in economic growth and the winding down of privatization. The overall drop in FDI masks differences among countries and regions, with Latin America accounting for a large share of the decline. As in previous years, FDI inflows remained concentrated in a few countries (China, Brazil, Mexico, India and Malaysia). Investors have become increasingly risk-averse, re-directing private capital flows to developing nations with favorable investment climates and relatively large, rapidly growing and stable economies. Nevertheless, FDI remained the dominant and most stable source of external financing for development in 2002. Net portfolio equity inflows rose to US$9.4 billion, from US$6 billion in 2001, bringing total equity inflows (FDI and portfolio) to developing countries to US$152.4 billion in 2002.

GDF 2003 highlights the growing importance of workers' remittances as a source of development financing. Remittances to developing countries from overseas residents and non-resident workers rose to US$80 billion in 2002, up from US$72.3 billion in 2001, ranking second only to FDI in the overall external financing of developing countries, and exceeding the volume of official development assistance. The United States and Saudi Arabia are the largest remittance providers to the developing world, followed by Germany, Belgium and Switzerland.



Gap widens between ODA and millennium goal requirements

Net official capital flows to developing countries – defined as foreign aid plus debt financing from official sources – fell back to US$49.1 billion in 2002, from US$57.5 billion in the previous year. Much remains to be done to address the key challenge of financing development and mobilizing the estimated US$100 billion required each year to reach the poverty reduction and related Millennium Development Goals, a problem which for many low-income countries is compounded by low commodity prices and unsustainably high debt levels. Net lending by official creditors dropped to US$16.2 billion, from US$28 billion in 2001, reflecting in part a noticeable reduction in lending by the Bretton Woods Institutions. By contrast, official grant aid (excluding technical cooperation grants) picked up somewhat to US$32.9 billion, from US$29.5 billion in 2001, and is expected to be sustained at that level in 2003.

The growing importance of FDI and workers' remittances as sources of external development financing has given rise to cautious optimism that capital flows to developing nations could become less volatile in the future, creating a more stable financial environment for growth and poverty reduction in those developing economies that have learned to live with less external debt.

GDF 2003 encourages policy makers in developing countries to respond to the opportunities and policy challenges posed by the global shift from debt to equity observed in private financial markets since 1998 by creating an enabling environment that can help sustain FDI flows, which can have important benefits, including the transfer of technology, skills, and know-how.

Pro-poor trade policies encouraged

However, although much of the policy and institutional reforms needed to stabilize development financing must come from developing country governments, authorities in the North can support sustainable growth and development in the South, particularly by adopting coherent pro-poor aid and trade policies. These include policies to reduce the US$300 billion they spend each year in agricultural subsidies that discriminate against developing countries' exports – a figure that dwarfs the amount these same countries spend on foreign aid – as well as measures to increase the volume and effectiveness of development aid. ■

IsDB welcomes new member

The Republic of Uzbekistan has recently become the 55th member of the Islamic Development Bank (IsDB). This decision was announced by the President of Kazakhstan HE Mr. Nursultan Nazarbayev at the 28th Annual Meeting of the Board of Governors of the IsDB Group,[1] which was held in Almaty in September.

Uzbekistan becomes the sixth Central Asian country to join the IsDB, after Azerbaijan (1992), the Kyrgyz Republic (1993), Turkmenistan (1994), Kazakhstan (1995), and Tajikistan (1996). Counting Albania (1994), Uzbekistan is the seventh former "socialist republic" to join the IsDB since the collapse of the Soviet Union.

CIS Group

In accordance with a Board of Governors decision, these predominantly Moslem countries have been designated a "country group" within the IsDB and are represented by an executive director. Although Albania is a Balkan state, it was also assigned to the "Commonwealth of Independent States (CIS) Group," since at present there are no other Eastern European members of the Organization of the Islamic Conference (OIC)[2], and OIC membership is a prerequisite for IsDB membership.

Between 1992, when Azerbaijan became an IsDB member and the end of FY 2003, the Bank approved 101 operations, worth over US$420 million, within CIS Group countries. Of this amount, 48 development projects, valued at nearly US$397.7 million, accounted for the largest share of total financing. Thirty-two technical assistance operations commanded over US$8.1 million, followed by two trade financing operations totaling US$8 million and 19 special assistance operations claiming nearly US$6.3 million. Total approvals for FY 2003[3] reached US$82 million, up 21% over the preceding year.

In consideration of the extremely difficult economic situations confronting the CIS republics and Albania since independence, the IsDB accorded them least developed member country (LDMC) status, thereby entitling them to development financing under the same soft terms and conditions granted the Bank's other LDMCs.

As of March 2003, 70% of all IsDB operations within the CIS Group had been financed either with concessional loans or grants. To date, all of the assistance extended to Albania and Tajikistan has been in the form of soft loans, grants or "special assistance," while over 70% of the total financing approved for Azerbaijan (78%) and the Kyrgyz Republic (71%) has been concessional.

As the region's better endowed countries, Kazakhstan and Turkmenistan have received primarily nonconcessional forms of IsDB financing, such as import trade financing, installment sale/leasing operations and *Istisna'a* financing, and the percentage of concessional assistance, at 30% and 39% respectively, has subsequently been much lower.

Geographical and sectoral distribution

Cumulative approvals for the individual member countries in the CIS Group are as follows: Albania, US$59.84 million; Azerbaijan, US$81.66 million; Kazakhstan, US$76.28 million; the Kyrgyz Republic, US$64.84 million; Tajikistan, US$63.14 million; and Turkmenistan, US$74.35 million. As of March 2003, the IsDB had also approved three regional operations in the CIS area, valued at US$5.67 million, including US$5 million in equity for the *International Company for Investment in Central Asian Republics.*

The sectoral distribution of ordinary operations in the CIS Group has been determined to a large degree by geographical and infrastructural constraints. Approximately 60% of the operations in these countries have been in the sectors of transportation (particularly road construction), energy (especially rural electrification) and water supply, followed by agriculture (19%) and the social sectors (14.2%). Technical assistance and other sectors account for the remaining 7%.

At a market in Bukhara. After over 60 years as a soviet republic, Uzbekistan is struggling to replace central planning with a market economy.

PHOTO: Aramco World

The Mir-i Arab Madrasa in Bukhara is one of the tourist attractions from Uzbekistan's glorious past. The Central Asian country recently joined the IsDB as its 55th member.

Private sector development

In an effort to stimulate private sector development in the CIS Group, the Bank has organized a number of regional investment seminars, meetings of the Islamic Chambers of Commerce, trade fairs and investment conferences. Lines of financing have been approved for three commercial banks in Kazakhstan, and training and expert assistance on Islamic banking has been provided to various banks, including the National Banks of Kazakhstan and the Kyrgyz Republic. Nevertheless, private sector operations in the CIS Group countries continue to lag for a host of historical reasons, and to date the IsDB has participated in only six private sector operations in two countries, Albania and Kazakhstan.

Cooperation with other organizations

Cooperation with other international and regional development finance institutions has proven more fruitful. Over the past seven years, the IsDB has joined forces with the Asian Development Bank, the European Bank for Reconstruction and Development, the Kuwait Fund for Arab Economic Development, the Saudi Fund for Development and the OPEC Fund to co-finance 10 major projects, worth a total of US$410.35 million, within the CIS Group. ■

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1 The IsDB Group now comprises eleven affiliated entities, windows and schemes that have been created over the years for specific purposes, mostly under the auspices of the Bank. These include the *IsDB Unit Investment Fund* (1989); the *IsDB Portfolio for Investment and Development* (1987); the *IsDB Infrastructure Fund*; the *Islamic Corporation for the Development of the Private Sector* (1999); the *Islamic Corporation for Insurance of Investment and Export Credit* (1994); the *Islamic Research and Training Institute* (1981); the *World Waqf Foundation* (1979); *the Awqaf Properties Investment Fund* (2002); the *International Center for Biosaline Agriculture* (1996); *OIC Networks* (an information communications technology joint venture in Malaysia); and the *Sacrificial Meat Utilization Project* (1983), which is implemented by the IsDB for the Kingdom of Saudi Arabia.

2 Bosnia and Herzegovina, the other predominantly Moslem country in the Balkans, currently has observer status in the OIC.

3 Since the IsDB uses the Hijra calendar, the Bank's most recently completed fiscal year was 1423H, which ended on March 4, 2003.

Diary of other OPEC aid institutions +++ September – December 2003

BADEA

October 15-17

Board of Directors' meeting held

Project loans approved

ETHIOPIA. US$6.24 million.
Kibre Mengist Water Supply.

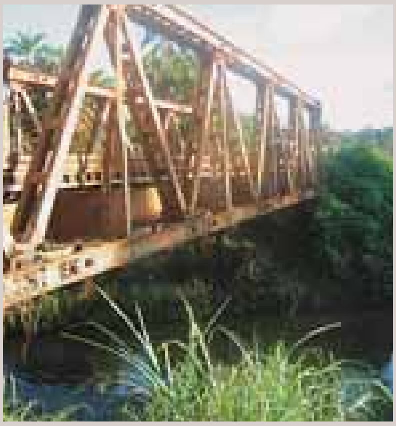
CAPE VERDE. US$0.850 million.
Sucla Cannel Fish Factory.

CAMEROON. US$10 million.
Yaoundi-Olama-Kirby Road, Phase I.

CHAD. US$9 million.
Raising Pastoral Livestock.

GHANA. US$1.2 million (additional loan). Bolgatanga Regional Hospital.

MALAWI. US$6.4 million.
Lilongwe International Airport.


A bridge in Cameroon, where BADEA will help finance Phase I of the Yaoundi-Olama Kirby Road.

MALI. US$2.1 million (additional loan). Rehabilitation of Internal Airport Infrastructure.

MOZAMBIQUE. US$6.4 million.
Beira Fishing Port.

Technical assistance grants approved

BENIN. US$120,000.
Training course in the procurement of goods and services.

NIGER. US$300,000.
Institutional support for the Cabinet of the Presidency.

THE GAMBIA. US$215,000.
Institutional support for the Ministry of Agriculture.

ZAMBIA. US$290,000.
Preparation of a feasibility study on the Shibata-Loundazi Road Project.

REGIONAL. US$135,000. Training course on *Environmental Management for Francophone African Countries.*

REGIONAL. US$135,000. Training course on *Irrigation Management for Francophone African Countries.*

December 1-4

Board of Directors' meeting held

The Board of Directors discussed and approved the Director-General's report on the Bank's activities in FY 2003, the financial report on the third quarter of 2003 and a report on portfolio management performance. It also reviewed the 2003 administrative expenditures and approved the administrative budget for 2004.

As of the end of 2003, the Bank's cumulative commitments amounted to US$2,699.7 million. In 2003 alone, BADEA approved 22 project loans and 22 technical assistance grants to 25 African countries for a total amount of US$140 million, up US$5 million over 2002.

Islamic Development Bank

October 20

218th session of the Board of Executive Directors held

Project loans approved

AFGHANISTAN. US$4.5 million (as a grant). Construction of five primary and secondary schools.

ALBANIA. US$7 million. Durres General Hospital, Phase II.

AZERBAIJAN. US$22 million (as *Istisna'a),* Reconstruction of the Ujar-yevlakh Road.

BAHRAIN. US$46 million (as *Istisna'a*). Khalifa Bin Salman Sea Port.

GUINEA. US$9.5 million. Kakossa Rural Development.

GUINEA. US$6.2 million (as leasing). Acquisition of a third diesel generator.

NIGER. US$9.1 million. Franco-Arabic Education Development.

PAKISTAN. US$9.6 million. Construction of 200 primary schools.

SENEGAL. US$9.65 million. Fourth Educational Development.

Import trade financing operations approved

ALGERIA. € 20 million. Telecommunications equipment for *Algerietelecom SPA.*

BANGLADESH. US$25 million. Crude oil and refined petroleum products for the Ministry of Power, Energy and Mineral Resources.

JORDAN. US$10 million. For the Housing Bank for Trade and Finance.

IRAN, IR € 10 million. Raw materials needed for tire production at the Iran Tire Manufacturing Company.

IRAN, IR € 8 million. Raw materials for petrochemical products at the Farbi Petrochemical Company.

IRAN, IR € 4 million. Motorcycle parts and components for the Tizro Manufacturing Company.

IRAN, IR € 3.5 million. Raw materials for steel production at the Suliran Company.

IRAN, IR € 10 million. Raw materials needed for textile production at the Golbaft Industrial Group.

IRAN, IR € 10 million. Raw materials for cable production at the Abhar Wire and Cable Company.

IRAN, IR € 12 million. Materials for the production of pipes and profiles at the Sadid Pipe and Profile Company.

IRAN, IR € 22 million. Raw materials for steel production at the Ahwaz Rolling and Pipe Mills Company.

SAUDI ARABIA. US$25 million. Raw materials for the Savola Group.

SENEGAL. US$7.5 million. Sulphur for *Industries Chimiques du Senegal.*

SUDAN, THE. € 10 million. Agricultural equipment for the Ministry of Agriculture and Forestry.

TUNISIA. € 5.31 million. Raw materials for the *Société Nationale de Cellulose et de Papier Alfa.*

TUNISIA. € 8.7 million. Raw materials for the *Société Tunisienne des Industries de Pneumatiques.*

TURKEY. US$10 million. Fertilizer and fertilizer raw materials for the Turkish Fertilizer Industry Corporation.

TURKEY. US$25 million. Iron ore, slabs and coal for *Eregli Demir Celik Fabrikalari.*

TURKEY. € 8 million. Aluminum ingots and slabs for *Assan Demir Ve Sac Sanayi.*

TURKEY. € 5 million. Raw materials for the production of air-conditioning systems at *Teba Isitma Sogutma Klima Teknolojileri Sanayi Ve Ticaret.*

Export financing operations approved

BANGLADESH. US$60 million (as four separate operations). Refined petroleum from Kuwait.

SENEGAL. US$2 million (as co-financing). Sulphur from Saudi Arabia.

SENEGAL. US$5 million (within the Arab Bank for Economic Development in Africa (BADEA) Trade Financing Scheme, managed by the IsDB). Sulphur from Arab countries.

Technical assistance grants approved

KYRGYZ REPUBLIC. US$130,000. Strengthening the institutional capacity of the International Meerim Charitable Foundation.

PALESTINE. US$1.7 million (as a loan). Printing school textbooks for the academic year 2003-2004.

SAUDI ARABIA. US$250,000. For the Ebsar Center for Rehabilitation and Service for the Visually Handicapped and for assisting the Ebsar Philanthropic Foundation in the development of comprehensive and sustainable services for the visually handicapped in Saudi Arabia and other Gulf States.

ALL PHOTOS ON THIS PAGE: Dubai Municipality

With traffic congestion a growing problem and other means of public transportation, such as ferries and buses, already operating near capacity, Dubai has decided to build a rapid rail system, the first mass transit system in the GCC region.

Dubai to adopt mass rapid transit system

A new state-of-the-art mass rapid transit (MRT) system is due to start construction in Dubai in 2004. The system, the first of its kind in the GCC region, is expected to carry around 86,000 passengers per hour and meet the demand for public transport in the Emirate through 2017 and beyond.

Officials have been contemplating an improved mass transit system in Dubai for a number of years to cope with increased traffic congestion and population growth. The decision to opt for a rapid rail transit system as the best strategic choice is based on the results of an extensive consulting survey which considered a number of alternatives, including light rail transits and metros. The study showed that, over the next twenty years, vehicle numbers in Dubai are likely to treble and the population to exceed three million.

70 km to be completed by 2013

The electricity-powered, noise-free and environmentally friendly system will be implemented in two phases. The initial phase, concentrating on the city of Dubai, is expected to be completed in around 2009 at an estimated cost of over US$2 billion. Phase Two will take another four years and expand the service to Sharjah and Abu Dhabi at an additional cost of about US$1.9 billion.

Construction is scheduled to start in the early months of 2004 under the supervision of a committee chaired by the Director-General of the Dubai Municipality, Mr. Qassim Sultan. Phase One will comprise two lines, totaling almost 70 km in length and passing through 57 stations, the majority underground, but a few elevated. Some 100 lightweight, operator-free trains will run on a two-minute headway basis to accommodate an anticipated 240,000 passengers per day. The proposed fare is Dh 2.75 (US$0.75) per person, similar to the bus service of the municipality. Revenues will cover 148% of the operating and the maintenance costs, which are expected to reach around US$15.5 million per annum. Profits will be devoted to paying off the capital expenses, a task predicted to take nearly 50 years.

Urban transportation in Dubai has been dominated by private cars, but space for further roads is now limited.

Added boost to trade and commerce

The project will substantially strengthen the transport sector in Dubai and reinforce the Emirate's position as the regions' main trading hub. Transport links in the UAE are already world class, by sea, air and road. Jebel Ali Port's recently announced expansion will make it the largest of its kind, although it already handles vast quantities of container and other traffic effortlessly. Dubai International Airport, conveniently located downtown, is also undergoing further expansion, with the creation of a dedicated terminal for Emirates, customized so that it can handle the airline's new, double-decker A-360 Airbus, the first of which will be ▶

◀ delivered in 2006. Over 100 airlines already operate out of the airport, taking advantage of its "open skies" policy.

Trendsetter for other GCC countries

By setting a successful example, the project could induce urban planners in other major Gulf cities to rethink their strategies and accelerate the move towards adopting similar mass transit systems. For a variety of historical and socio-economic reasons, urban transportation in the GCC has been dominated until now by roads and private automobiles. Efforts to promote public transportation services in the past have not been very successful, and as a result most of the major cities in the GCC region such as Kuwait, Riyadh and Abu-Dhabi are now facing an alarming increase in the level of traffic congestion, while running out of physical space for further roads expansion. In the Saudi capital, Riyadh, for example, it was announced recently by the Arriyadh Development Authority that a final decision has been reached with regard to implementing plans for a metro system to replace the old mini-bus service. The proposed light train system will operate between Olaya and Batha districts and along Prince Abdullah Road. Also, municipality officials for the city of Abu-Dhabi have recently revealed a new US$7 billion master plan up to the year 2020 that has at its center an elevated monorail system.

The project could also expedite plans for the establishment of conventional rail systems in the GCC countries, where a number of projects are already under consideration. Among the proposals is an ambitious US$4 billion project to build a rail network connecting Bahrain, Saudi Arabia and Qatar. Another scheme in Saudi Arabia aims to establish rail links between Riyadh and Jeddah and between Dammam and Jubail. A further project linking Mecca with Jeddah Madina and Yanbu is under consideration. ■

MEMBER STATES' ROUNDUP

Libya: Moving towards economic liberalization

The Libyan economy witnessed important developments in 2003, heralding change towards greater liberalization and a reduced role for the state. The June cabinet reshuffle and the appointment of a pro-liberalization economist as Prime Minister lent significant momentum to the reform efforts sparked by the 1999 reversal of the UN sanctions.

Plans to bring privatization and economic liberalization to Libya date back to September 1992 when the Privatization Law No. 9 was passed. It was a law that could not come in to force immediately, however, because of the sanctions imposed by the UN the following year. The sanctions led to the freezing of Libya's external assets and suspension of its trade and travel links, creating acute shortages and driving the country back into a tightly controlled economy.

The economic structure that emerged during the sanction years was characterized by structural weaknesses, including rigidity in production and labor markets, excessive bureaucracy, and extensive barriers against the free movement of trade and capital. As a result, the economy stagnated during the 1990s, leading to the deterioration of competitiveness and a rise in inflation and unemployment rates. The direct effects of the sanctions were estimated by the World Bank at around US$18 billion in lost revenue alone (mostly as oil income). The loss to the economy arising from the enforced delays in structural reforms could far exceed this figure.

Post-sanction years: laying the foundations for economic reform

A shift in economic paradigm has gradually emerged since the termination of sanctions in 1999. As early as 2002, Libya announced its intention to open up its economy and create the necessary environment for attracting foreign capital. The announcement was accompanied by a unification of the country's multi-tier exchange rate system and a devaluation of the official exchange rate by 51%. This measure, which was accompanied by a 50% cut in the duty rate on the majority of imports and the abolition of most quantitative restrictions on trade, aimed at improving the cost competitiveness of Libyan firms and laying the ground for further economic liberalization.

Other reforms in 2002 targeted primarily the financial sector. New measures were taken to strengthen banking supervision and reduce the size of non-performing loans. A committee was formed to manage the restructuring of the banking sector, leading in subsequent months to the establishment of two new private commercial banks and one private regional bank. In the meantime, an anti-money laundering decree was issued and specialized units were established in all banks to track suspicious accounts or transactions.

Improved economic performance

In view of the new reforms, Libya's economy experienced an improved performance over the period 2000-2002. Real non-oil gross domestic product grew by around 3.1% in 2000, 2.5% in 2001, and 2.9% in 2002. Despite these improvements, however, the economy was still considered to be operating below its potential, and progress in implementing reforms was considered to be slower than anticipated. More fundamentally, the authorities recognized the limitations of state-led devel-

PHOTO: D. Golpashin/OPEC

HE Dr. Shukri Ghanim, Libyan Prime Minister.

opment financed by oil revenues and the need to promote private activities in the economy in order to create sustainable growth and jobs.

Reform efforts gain momentum in 2003

As a result of the need to accelerate reforms, a Cabinet reshuffle took place in early summer 2003. The post of Prime Minster was assigned to former Trade Minister, Dr. Shukri Ghanim. On taking office, Dr. Ghanim, who was Director of Research at the OPEC Secretariat for many years, remarked that his government intended to "introduce liberalism to the economy and encourage an active participatory approach to both the private and public sectors to boost them." Referring to the pace of reform, he added, "The private sector will carry out a greater role but that does not mean the role of the public sector will end [abruptly] in a single day. They will complement each other."

Among the sectors that will remain out of reach in the current privatization plans is the oil sector; the aim for now is to attract private investment (and technology) into new ventures instead of divesting the existing state assets. In the longer run, however, the government anticipates privatizing some of the components of the oil industry as well, and listing them on the Bourse. Dr. Ghanim also revealed his government's intent to take more steps towards joining the World Trade Organization.

Large-scale privatization planned

In September 2003, the Libyan Prime Minister announced that his government had prepared a large scale privatization, covering some 360 state entities in the sectors of manufacturing and agriculture. The plan will be executed in three phases over the period 2004 - 2008, and "the Central Bank will sell shares of these companies and factories until a stock market is founded."

The government will also exempt the privatized firms from income and trade taxes for a period of five years. The announcement in effect revitalizes and broadens the scope of an earlier plan revealed in summer 2002 aimed at bringing in foreign and local capital of about US$35 billion for the period 2002-2005, and boosting the diversification of production and fiscal revenues. ■

Saudi Arabia: Capital Market Law approved

The Saudi Cabinet has endorsed the long-awaited Capital Market Law, paving the way for full liberalization of the country's financial markets. The law, which provides the legal and regulatory framework for all capital market related activities, such as trading in stocks and bonds, calls for the establishment of a five-member independent commission reporting directly to the Prime Minister. The Commission will regulate the market and develop rules and procedures to protect investors' interests and ensure a level playing field. It is also expected that a company will be established to run the daily exchange activities.

The rise of the Saudi Stock Market

Along with expanding the role of the banking sector, Saudi authorities have made considerable efforts to develop the capital market, particularly the stock market. Stock trading in Saudi Arabia began in 1935, but did not become organized until the mid-1980s when the government assigned its supervision and control to the Saudi Arabian Monetary Agency and authorized commercial banks to act as brokers. In 1997, foreigners were allowed to participate in the equity market through a closed fund, the Saudi Arabian Investment Fund, incorporated in London. Two years later, rules were further relaxed, allowing non-national residents to invest through open-ended mutual funds offered by Saudi banks. Gulf Cooperation Council citizens are permitted to participate directly in the Saudi equity market. Another major development was the introduction in 2001 of an electronic stock trading system.

Today, the Saudi Stock Market is considered to be the largest in the Arab world, with a total capitalization of about US$100 billion. Over 1.6 million individuals, representing over 10% of the national population, have invested in the shares of Saudi Arabian joint stock companies. At the same time, the mutual funds industry has grown significantly with the number of participants increasing at an annual rate of 23% between 1992 and 2001. In the same period, the number of mutual funds offered by banks more than doubled and total assets under their management increased from SR 12.4 billion (US$3.3 billion) to SR 50 billion (US$13.3 billion).[1] The government bond and Treasury bill market is expanding gradually and the recent emergence of a corporate bonds market is progressing satisfactorily.

Increased stock market activity expected

The approval of the Capital Market Law has removed the final hurdle for setting up a full Saudi Arabian Stock Exchange to replace the current inter-bank bourse. Currently, there are some 70 listed companies with a total average daily trading volume of about SR 2 billion (US$500 million), representing two million shares. The new law is likely to encourage more active trading and increased company listing, both of existing family-owned and new start-up firms. In general, formalization of the stock market is expected to contribute to raising funds to finance new enterprises and projects in the country.

Stimulus to economic reform

Creating a formal stock market is seen as an important step towards boosting Saudi Arabia's current economic reform efforts. The Capital Market Law will accelerate the privatization of state-owned enterprises (thus helping to reduce the vast public debt estimated at about US$ 10 billion), promote foreign and private sector investment, and create an environment of total accountability and transparency for capital-related activities. The initiative will also help efforts to generate employment, both in the financial sector (including stockbrokerage, mortgage, trust and custody firms), and in other sectors by boosting investment and growth. The increased transparency of the Saudi ▶

◀ stock market will enhance its attractiveness to foreign investors, thus complementing the investment law of 2000.

Further developments ahead

Creating the so-called 'real' stock market is just the first step in strengthening the country's financial market. A number of other developments are likely to follow. The newly created Securities Commission is expected to lay down the legal foundation for the market in line with international best practice for financial reporting, corporate governance and market regulation. Efforts to strengthen electronic and cross border trading are already in progress: New laws and regulations for electronic or online commerce and e-banking are being formulated, while appropriate technology that will initially permit investors in any of the GCC countries to seamlessly trade stocks in any of the Gulf markets is in the final stages. This would encourage greater cross-border flows within the region and thereby help mobilize savings into investments. This new technology will also boost the transparency of the market, with issuers submitting regulatory announcements – such as financial statements – for immediate release via the Internet to the public. ■

1 Al-Jasser, M., "Financial sector development: For better growth," a working paper presented at the symposium on "A Future Vision for the Saudi Economy until 2020," 19-23 October, 2002 Riyadh, Saudi Arabia.

RESEARCH

Mangroves: Salt-resistant allies in the fight against hunger and poverty

Planting mangrove forests along the coasts of arid countries would contribute significantly to food security and help eradicate poverty and combat environmental degradation according to Dr. Gordon H. Sato (76), the founder of the Eritrea-based Manzanar Project, which has recently planted 600,000 mangroves near the Red Sea port of Massawa.

Sato could hardly have picked a better place to test his ideas. Located on the Horn at the northeast edge of the Sahel, Eritrea is particularly prone to drought and famine. Even in good years, conventional agricultural activity is limited, and over half of the food consumed comes from food aid.

Ravaged by 30 years of war, Eritrea is one of the world's poorest countries, with a per capita income under US$200. Although much progress has been made since independence, social indicators continue to reflect the long years of neglect, deprivation and destruction. Life expectancy is only 46 years, infant mortality is shockingly high, and much of the population is chronically hungry.

Eritrea is also one of Africa's barest countries, with forests covering less than 1% of the total land area,[1] but this was not always the case. In 1900, 30% of the land was still forested despite massive logging during the colonial era. Today, however, nearly all forest products must be imported.

The Manzanar Project

After conducting hands-on research in aquaculture and biosaline agriculture in Eritrea's coastal region for over a decade, Dr. Sato is convinced that mangrove plantations hold the key to putting Eritrea and other arid countries with desert coasts on the road to sustainable development and prosperity. Incensed by photos of starving children, Sato traveled to rebel-held areas in 1987 and began converting algae into protein, "making do" with ingenuous "low-tech biotech" methods and the only resources available: sunshine and seawater. Sato dubbed this undertaking "the Manzanar Project" after the detention camp in eastern California, where, as a Japanese-American teenager, he first began dreaming of growing food in the desert.

Adapting ancient Asian fish-farming methods, Sato raised mullet in seawater ponds spiked with fertilizer to stimulate algae growth. Within four weeks, the mullet were harvestable. Sato's fish produced 15 tons of fast, inexpensive protein per hectare. Similar methods for cultivating brine shrimp *(Artemia salina)* yielded the equivalent of 10-15 tons per hectare of these tiny creatures, which can be fed to fish and shrimp, or used to supplement poultry and livestock feed.

No rest for Sato

After retirement, Sato returned to Eritrea determined to pump up the Manzanar Project and develop more novel ways to increase food production. Equally important, he resolved to train Eritrean scientists and local villagers in his methods. Sato began recruiting science graduates from Asmara University and set up headquarters at the Ministry of Fisheries in Massawa, close to the project area.

Eritrea's 1,150 kilometer-long coastal plain accounts for a third of the country's land area, but virtually none of its agricultural production. With climate conditions like a frying pan, this is the poorest part of a poor country and almost completely barren except for patches of semi-desert or salt-tolerant vegetation and scattered mangrove thickets.

Thousand of young mangroves growing near the port of Massawa, reputedly the hottest inhabited city in the world.

ALL PHOTOS: The Manzanar Project

Sato's helpers, mostly women, have already planted over 600,000 mangroves on Eritrea's Red Sea coast. The trees grow up to 1.5 meters per year.

Only 15% of the inter-tidal zone is blessed with mangroves, the only trees that flourish in the searing heat and negligible rainfall of this desert coast, since mangroves occur naturally only in *mersas*, low-lying basins where the seasonal rains flow into the sea. Analyzing this problem, Sato made a discovery that soon changed the primary focus of the Manzanar Project from aquaculture to silvaculture. The reason mangroves thrive in mersas but fail to grow elsewhere is one of simple plant nutrition. Rainwater and renewed silt deposits in the mersas furnish three essential elements that seawater lacks: nitrogen, phosphorus and iron.

How to grow mangroves

Sato reasoned that mangroves would grow outside the mersas, if they had a time-release capsule with the missing nutrients. Experiments with various delivery systems showed that the simplest, most effective way to nourish mangrove seedlings was to seal 500 grams of diammonium phosphate (DAP) and a few grams of ferric oxide (FeO_2) into a plastic bag, punch a few holes on one side and plant the bag with the seedling. Seeping slowly through the holes, the DAP/FeO_2 mixture supplied the little tree with just the right amount of nourishment without wasting any fertilizer. Sato's team also discovered that seedlings got an optimal start if they were first rooted in six-liter plastic bags filled with sand. Holes in the bottom of the bag ensured drainage and facilitated root development. Transplanting the trees was a simple matter of putting the bags where the trees should grow.[2] Using this method, Sato and his helpers, mostly women, have planted hundreds of thousands of mangroves at seven locations near Massawa where no mangroves had ever grown before.

Mangroves grow rapidly, and the ones planted at Hirgigo[3] three years ago are already well-developed trees, four to five meters tall. Their shiny green leaves are a refreshing sight against the rust-colored sand. In time, their spreading crowns will provide welcome shade and help create a more temperate micro-climate. In the tangled labyrinth of their roots, a "magic muck" of decaying leaves and other organic matter will provide a perfect medium for myriad tiny organisms, including algae and plankton. Innumerable fish, shellfish, reptiles and birds will find food and sanctuary among the roots. By filtering out silt, excessive nutrients and pollution, the mangroves will also encourage the growth of nearby seagrass beds and coral reefs, thus ensuring ideal habitats for fish and marine animals, and protecting fishing and tourism revenues.▶

1 Acacia thickets and mangroves are excluded from this estimate.

2 Nursery-raised seedlings are not necessary for success. Mangrove propagules can be planted directly, provided the DAP/FeO_2 time-release capsule is planted with them. Mangroves are viviparous: the seed germinates on the parent tree, where the propagules remain until they have become well developed little trees with the strong roots they need to anchor themselves in shifting tidal sediments.

3 Hirgigo made headlines briefly in May 2000 when the new power plant there was heavily bombed shortly before it could be commissioned. Reconstruction was co-financed by the OPEC Fund and other Arab aid institutions.

◀ In addition to their economic importance as tidal ecosystems, mangrove forests have great commercial potential. The list of saleable products directly derived from mangroves includes cork, paper pulp, tannin, dyes and medicines. Many species are also excellent sources of fodder and wood, characteristics that make these trees particularly attractive for desert countries like Eritrea.

Forest riches

One of Eritrea's native species, *Rhizophera mucronata,* is such a valuable source of lumber and fuelwood that it has become quite rare. Considering that Eritrea currently spends US$20 million per year on lumber imports and consumes 1.5 million tons of fuelwood annually, *Rhizophera* farms could bring great economic benefits both to the communities that owned them and the country as a whole.

Sato estimates that a single *Rhizophera* would yield lumber worth US$400 in 20 years at a cost of only US$3 per tree for labor and fertilizer. And there are additional rewards, some of them inestimable. Besides providing employment and income for thousands of local people, mangrove plantations would help reverse the environmental damage and soil degradation caused by burning dung and crop residue for lack of firewood.

Greening the coast

Since Eritrea's coast is characterized by gradually sloping beaches, shallow bays, and low-energy waves, mangrove forests could be established on at least 10,000 hectares of the intertidal zone. Sato proposes planting 10 million trees on this area to ensure thick canopies at maturity.[4] Since the tidal zone extends inland for about 500 m, the forests could eventually cover 50,000 hectares. Sato estimates that harvesting these trees for lumber in a sustainable way would bring annual revenues of US$200 million and significantly boost the Eritrean economy.

But this is only the beginning. Sato has shown that mangroves can also be grown outside their natural habitat on dead coral reefs or even in the desert if the trees have adequate drainage, nourishment and seawater. He envisages vast mangrove plantations on the coastal plain, with seawater supplied by gravity irrigation, and salt-resistant fodder grasses, such as *Distichlis spicata* or *Spartina* planted as ground cover.

Fine fodder indeed

Generations of Bedouins have fed their camels on juicy mangrove foliage, and Sato learned quickly that mangrove seedlings must be protected from wild camels. The leaves of Eritrea's most common mangrove, *Avicenna marina,* are 15% protein by dry weight, and thus more nutritious than alfafa. Sato observed that goats and other small ruminants prefer mangrove leaves to acacia and other desert fodder, and do well even on a steady diet of the leaves.

ALL PHOTOS: The Manzanar Project

Camels, goats and other ruminants can thrive on mangrove leaves, which offer more protein than alfalfa.

Experiments with sun-dried mangrove seeds showed they are a good food for goats. Like dried peas, the seeds are easy to transport and can be stored indefinitely, advantages that make them particularly valuable in times of drought when other food is not available and many animals would starve. Mature mangroves produce 3-4 tons (by dry weight) of seeds and 18.5 tons of leaves per hectare, ensuring quantities of fodder that would help pastoralists increase their livestock production considerably. The economic benefits would be enormous, particularly in regions where animal husbandry is the only productive form of agriculture.

Tomorrow the world?

Are Sato's plans Utopian? Probably not. Projects with similar aims are already underway. The International Center for Biosaline Agriculture in Dubai, U.A.E., for example, also conducts research on mangroves and other halophytes with the aim of greening the deserts. In any case, the success of the Manzanar Project in Eritrea points to the feasibility of similar operations elsewhere, particularly in extremely arid regions where rural populations dependent on foraging and livestock herding are frequently threatened by drought and famine. Introducing innovative, low-tech biotech strategies like Sato's that exploit hardy native plants and local resources could break the deadlock conventional agriculture faces in such areas to make food security a reality. ■

4 Considering that Eritrea succeeded in planting 61 million trees on 205,000 hectares between 1991 and 2001, Sato's figures are not unrealistic.

Algeria and Indonesia to expand bilateral trade

Algeria and Indonesia propose to boost bilateral trade and work to improve their trade balance. The Indonesian and Algerian Chambers of Commerce and Industry are to assist in this undertaking. Indonesian businesses would like to export more products to Algeria, particularly consumer goods, foods and beverages, textiles, timber products and building materials. Indonesia considers its volume of export to Algeria still relatively small, while the potential for increase is huge. Indonesian exports to Algeria amounted to only US$40 million in 2002, while imports from Algeria totaled US$450 million, mostly in petroleum and phosphate products. Indonesian businessmen would also want to participate in various infrastructure projects across Algeria, including road construction, rail networks and housing. For its part, Algeria welcomes Indonesian businessmen, declaring that there is no discrimination between local and foreign investors in Algeria. The national law on foreign investment provides equal tax breaks and relevant facilities and is liberal on the acquisition of land. ■

UAE and Nigeria: Nigerian investors welcome

The UAE is inviting Nigerian businessmen and enterprises to take advantage of incentives offered by the Jebel Ali Free-Zone Authority (JAFZA) of Dubai and set up company branches at the Jebel Ali free trade zone. The call was made by a 15-man UAE delegation to Abuja, Nigeria, to discuss the promotion of Nigerian companies and products. The delegation described Nigeria's economy as one of the most viable and vibrant in the world, and assured Nigerian businessmen of tax breaks. There will be neither personal income taxes nor corporate taxes for a period of 50 years; a concession that is renewable. The assurance was also given that setting up a company in Jebel Ali did not require local partners; thus, companies could retain 100% control of their business at all times. In addition, there would be no import and export duties within the free trade zone and all profits could be transferred out of the country. Nigeria is also looking into the possibility of creating a similar free trade zone in the country. ■

Venezuela and Bolivia: gas development

Venezuela is to extend technical and legal assistance to Bolivia to help the country improve upon the exploitation, efficiency and utilization of gas resources to the benefit of the people of Bolivia. The decision followed a round-table dialogue attended by Presidents Hugo Chavez and Carlos Mesa. Following high level meetings of both sides, a cooperation agreement between the countries was drafted in Bolivia and is due for signature in Caracas. Venezuela is pursuing a policy of enhancing and promoting closer cooperation among countries of the Latin America region. ■

Algeria and Nigeria to finance study on Trans-Saharan Highway (Niger segment)

As Africa works to bring to fruition the objective of an eventual Trans-African Highway, Algeria and Nigeria, major supporters of the *Trans-Saharan Highway*, have agreed to finance studies covering the section of the road which traverses the bordering country of Niger. On completion, the road link between Algiers and Lagos, the former Nigerian capital, will, among other things, ease trade, traffic and the movement of people. The Trans-Saharan Highway is a major undertaking to which Algeria and Nigeria are contributing financial resources, skills and material. Several international organizations, including the OPEC Fund, the Saudi Fund for Development and the Arab Bank for Economic Development in Africa are also contributing. The OPEC Fund has, thus far, made three grants to assist research on the road. For the Niger study, Algeria is extending a US$300,000 grant, while Nigeria provides US$600,000. The Algerian and Nigerian sections of the road are almost completed. ■

Saudi Arabia and IR Iran discuss investment and trade expansion

Saudi Arabia and IR Iran would like to see an expansion in bilateral trade and investment. In 2002, Tehran/ Riyadh trade totaled some US$230 million, which officials said could grow significantly if sustained effort was made. A Saudi delegation of investors and industrialists visited Tehran to meet with officials of the Iran Investment Company and declared a willingness to establish an office in the Kish Island Free Trade Zone, which would work exclusively at boosting Saudi Arabian trade, tourism and shipping with Iran. Reforms of tax laws and the law on the promotion and support of investments would be a factor in supporting expansion in mutual investments. A committee would be established for the promotion and support of joint investments. The two sides signed an ad-hoc memorandum-of-understanding. Saudi Arabia is reported to have, thus far, invested over US$600 billion abroad, and to be currently studying investment opportunities in several countries, including Iran.

Qatar and UAE to build joint aluminum smelter

Qatar and the UAE have signed an agreement to build, jointly own and operate a primary aluminum smelter, to be sited at the Ras Laffen Industrial City, north of Doha. The smelter will enhance industry in both States and will produce an initial 516,000 tons a year of primary aluminum, with a potential to expand to more than one million tons *per annum* over many phases. The smelter will utilize technology developed jointly by the UAE and Australia, and will benefit from expertise and best practices gained at the older Jebel Ali Smelter in Dubai, one of the world's major aluminum plants. Jebel Ali consists of six potlines (with a current capacity of 536,000 tons *per annum)*, a power station and a desalination plant, capable of producing 30 million gallons of fresh water per day. ■

Director-General visits Gulf countries

The OPEC Fund's new Director-General, Mr. Suleiman Jasir Al-Herbish, flew to the Gulf in late December on a whirlwind tour of member states Saudi Arabia, Kuwait, the IR Iran[1] and the United Arab Emirates, where he planned to meet with finance ministers and other important government officials, and with the heads of several sister organizations with the aim of renewing ties and paving "a common path towards shared objectives."

Mr. Al-Herbish's first stop was his native Saudi Arabia, where the highlight of his Gulf visit was a brief audience with HRH Crown Prince Abdullah, the Kingdom's First Deputy Prime Minister and de facto leader. The Crown Prince congratulated Mr. Al-Herbish on his appointment and offered his encouragement and best wishes. He also commended the OPEC Fund for "helping our brothers in developing countries."

Mr. Al-Herbish was accompanied to the royal court by HE Dr. Ibrahim Bin Abdel Aziz Al-Assaf, the Minister of Finance and National Economy, who had arranged the meeting with the Crown Prince. While in Riyadh, Mr. Al-Herbish also met with the incumbent Chairman of the OPEC Fund's Governing Board, HE Dr. Saleh A. Al-Omair, and visited the Saudi Fund for Development, where he spoke with that organization's Vice-Chairman and Managing Director, HE Eng. Yousef bin Ibrahim Al-Bassam.

In Kuwait, Mr. Al-Herbish called on HE Sheikh Muhammad Sabah Al-Salem Al Sabah, the Minister of Foreign Affairs, and HE Mr. Mahmoud Abdelkhaliq Al-Nouri, the Minister of Finance. As in Riyadh, the discussion focused on issues for consideration at the Governing Board in March 2004, including the growing needs of recipient countries and the desirability of augmenting the Fund's financial resources.

The Director-General also visited the heads of two Coordination Group[2] institutions located in Kuwait, Mr. Bader Mishari Al-Humaidhi, the Director-General of the Kuwait Fund for Arab Economic Development, and HE Mr. Abdulatif Yousef Al-Hamad, the Chairman of the Board and Director-General of the Arab Fund for Economic and Social Development.

At the Arab Fund, Mr. Al-Herbish signed the agreement for a US$570,000 grant from the OPEC Fund to Palestine. The grant, which will be administered by the Arab Fund, will support four capacity-building projects in some of the poorest, worst affected communities in the West Bank.

In Abu Dhabi, Mr. Al-Herbish met with the designated Chairman of the OPEC Governing Board, HE Dr. Mohammed Khalfan bin Kharbash, UAE Minister of State for Financial and Industrial Affairs, and with the Alternate Governor from the UAE, Mr. Jamal Nasir Lootah, Assistant Undersecretary for Industry. Together, they examined avenues for increased cooperation between the UAE and the Fund, and reviewed the agenda for the coming Board meeting.

HRH Crown Prince Abdullah, Saudi Arabia's First Deputy Prime Minister *(left)*, receiving HE Dr. Ibrahim Bin Abdel Aziz Al-Assaf, the Minister of Finance and National Economy *(center)*, and Mr. Suleiman Jasir Al-Herbish, OPEC Fund Director-General, at the royal palace.

PHOTO: Arab Fund

During his visit to the Arab Fund, Mr. Al-Herbish *(left)* met with Mr. Abdlatif Y. Al-Hamad, Chairman of the Board and Director-General, and signed a grant agreement.

The next day, accompanied by Mr. Lootah, the Director-General visited the International Center for Biosaline Agriculture (ICBA) at Seeh Al Ruwayah, 22 km southwest of Dubai. There, he was warmly welcomed by Director General Dr. Mohammad H. Al Attar and senior scientists, who were eager to present their projects, many of which have been co-financed by the OPEC Fund. To date, the Fund has donated US$1.45 million to the Center, including an initial contribution to its establishment.

After touring the Center, Mr. Al-Herbish praised the organization's efforts and pledged the Fund's continued support. ICBA works to identify drought- and salt-resistant plants, and to develop irrigation methods that will benefit arid countries not only in the Gulf, but also worldwide.

Mr. Al-Herbish, 61, took office on November 1st as the third Director-General of the OPEC Fund. Prior to his election, he served as the Governor of Saudi Arabia to OPEC for 11 years. (For an interview with Mr. Al-Herbish, see page 4)

1 Talks with the Iranian Minister of Finance and Economic Affairs, HE Tahmasb Mazaheri, originally scheduled for early January, were postponed after a devastating earthquake struck the ancient city of Bam on December 26th, causing great loss of life. The OPEC Fund responded to this disaster by immediately approving a US$750,000 emergency assistance grant to provide relief supplies to the survivors.

2 The Coordination Group of Arab National and Regional Development Institutions