Report Week # 96

BUSINESS AND POLITICS IN THE MUSLIM WORLD

Weekly Report on Global Islamic Finance and Business in the Muslim World,

Period: Nov 29 – Dec 05, 2009.

Submitted By: Muhammad Ibrahim

Presentation: December 09, 2009

Report Outline 01

❖ *GLOBAL ISLAMIC FINANCE* *05*

- Islamic finance is growing at a phenomenal pace: Al-Jasser 05
- Islamic finance in North Asia 07
- Launch of 2009/2010 WIBC Competitiveness Report 11
- Global markets bounce as Dubai fears ease 12
- Dubai Debts Test Islamic Finance 13
- Moody's: Dubai World Uncertainty Has No Immediate Effect On Asian Government-Related Ratings 15
- Malaysian Government to Keep Track on the Impact of the Dubai Debt Crisis - Muhyiddin 16
- Dubai Crisis Tests Laws of Islamic Financing 17
- Head of Largest Islamic Mutual Fund on Dubai's Debt Problems 18
- Dubai's debt standstill redefines Gulf lending - bankers 19
- Dubai assets could be 'untouchable', lawyers warn embattled bond holders 21

• *ISLAMIC BANKING & INSTITUTIONS* *21*

- Swiss minaret ban may irk some Muslim bank clients 21
- Malaysian Islamic banks not affected by Dubai crisis 23
- HSBC Amanah Inks MOU with Development Bank of Kazakhstan To Up Investments in Kazakhstan 25
- OCBC Al-Amin Unveils fourth branch 26
- NBAD will invest in Dubai but 'with caution' 26

- Gulf investment: Central government considering Islamic banking 26
- Bahrain's Ithmaar Bank to invest in Malaysia 27
- Islamic Bank expected to ride out Dubai troubles 28
- Bank Islam Eyes 5,000 New Cardholders with World Master Card 30

- *SUKUK (ISLAMIC BONDS) 30*
- Dubai World Shock Sends Asian Sukuk Yields Higher 30
- Nakheel 5-Year Sukuk Jumps 1% After Dubai's $5 Billion Bond Sale 32
- Nakheel Seeks Sukuk Suspension until Further Information 32
- Creditors join forces as Sukuk deadline looms 33
- Nakheel Sukuk Saw Unusual Selling 33
- Sukuk to Remain Upbeat In 2010 34
- Bursa Scores another First with Inaugural Foreign Sukuk Listing 35

- *TAKAFUL (ISLAMIC INSURANCE) 35*
- SALAMA Ties Up With Allfunds Bank for World-Class Takaful Products 35
- Pakistan-Kuwait Takaful rights offer fully allocated 37
- Takaful IKHLAS' 11th Branch to be opened In Terengganu 37

- *ISLAMIC INVESTMENTS; EQUITIES/SECURITIES & FUNDS 38*
- Dubai World to Restructure $26 Billion of Debt 38
- Hong Kong Financial Firm Plans Shariah-Compliant Green Investment Vehicle 40
- Islamic Income Fund launched 41
- Malaysian regulator updates Islamic stocks list 41
- SC Releases Issuer Eligibility Guidelines on Structured Warrants 42

- *ISLAMIC FINANCE EVENTS; SEMINARS, WORKSHOPS &CONFERENCES 42*
- Seminar discusses role of Shariah auditors 42
- ACCA Pakistan hosts Islamic finance debate 43

❖ *GENERAL ECONOMIC & BUSINESS DEVELOPMENTS* 44
- Low spending marks US holidays 44
- India GDP growth beats forecasts 44
- Asia Stocks up as Dubai Fears Ease 45
- Caracas 'closes compromised banks' 46
- UAE stocks see further falls 47
- General Motors CEO resigns 48
- Gold sets new price record 50
- Dubai companies given 'junk status' 50
- Bank of America to repay bailout 51
- China, GM eye India auto market 52
- Obama seeks help on jobs slump 53
- Obama to attend climate talk climax 54
- Aviation firm moots 'green' fuels 55
- US slashes bailout cost estimate 55
- Minarets and Europe crisis 57
- What will climate summit achieve? 60
- Climate change: Minority report 61

❖ *WORLD FINANCIAL INSTITUTIONS; ADB, ISDB, WORLD BANK & OTHERS* 63
- *ASIAN DEVELOPMENT BANK* 63
- ADB Announces 1 Billion Yuan Panda Bonds Issuance in PRC 63
- ADB Joins Multilateral Development Banks in Call for Equitable Climate Pact 64
- PNG to Improve Border Links with Indonesia to Aid Poor Provinces 65
- Asia's Bonds Markets Must Tackle Trio of Challenges, ADB Says 66
- ADB to Help Tonga Maintain Social Spending, Reforms, in Face of Crisis 67
- ADB to Tap $700 Million from Two New Funds to Combat Climate Change 68
- Road Project in India's Jharkhand State to Boost Growth, Cut Poverty 69
- ADB, DFID sign five-year strategic partnership to fight poverty in India 70
- ADB Prices 1 Billion Yuan Panda Bonds in PRC 71
- TAJIKISTAN: Road Out of Poverty 72

o INDIA: Boosting India's Wind Power 74

• ISLAMIC DEVELOPMENT BANK AND ITS CONSTITUENT UNITS 77
o More than 12 Million Carcasses to Benefit the Poor all over the World from the Adahi project 77
o Fitch Ratings Affirms 'AAA' Long Term/F1+ Short Term Issuer Rating for IsDB 78

• WORLD BANK 79
o World Bank Partners with the Government of Singapore and the Financial Times to establish the Annual World Bank-Singapore Infrastructure Finance Summit 79
o World Bank Group Debars Limited Liability Company Siemens (OOO Siemens) for Engaging in Fraud and Corruption in a World Bank-Financed Project in Russia 81
o Kenya Development Partners Forum Closing Statement 81
o India: Achieving Rapid and Inclusive Growth, Sustainable Development 84
o World AIDS Day: STOP AIDS, Keeping the Promise, Investing in the Future 88
o World Bank Says Greater Prevention Efforts Needed to Reverse Course Of HIV/AIDS Epidemic 90
o Why is South Asia Vulnerable to Climate Change? 91
o Latin America: Aids Epidemic under Control but Prevention Still a Challenge 94
o Ibero-American Summit Backs World Bank's Recapitalization 96
o Ibero-American Heads of State Support World Bank's Recapitalization 97
o The Global Financial "Crisis Hits Home" in Europe and Central Asia 99
o India could be a New Pole of Global Growth 100
o Leading International Financial Institutions Commit to Fight against Climate Change and Call for Comprehensive Copenhagen Agreement 102
o Climate Change: Are South Asia's Ecosystems at the brink of extinction? 105
o World Bank Promotes Landmark Oil and Gas Dialogue 107
o Op-ed: Is Ethiopia in a low productivity trap? 108
o Multi-Country Poll Reveals that Majority of People Want Action on Climate Change, Even If It Entails Costs 111
o Finance Ministers Meet to Tackle Challenges of Financial Crisis in

South East Europe through Strengthened Financial Reporting 112
- Key Findings from World Bank Trade Research in 2009 114
- Opening remarks at the 2009 IC4D South Asia Regional Launch, Colombo Sri Lanka 117
- How to further boost consumption? 118
- Building Knowledge Economies for Job Creation, Increased Competitiveness, and Balanced Development in MENA region 120
- World Bank President Zoellick Visits India 122

GLOBAL FINANCE & GLOBAL ISLAMIC FINANCE

Islamic finance is growing at a phenomenal pace: Al-Jasser

Monday, 30 November 2009

Muhammed Al-Jasser, governor of the Saudi Arabian Monetary Agency (SAMA), is the new kid on the block, taking over as the new Saudi banking regulator in April this year. With his stint as an IMF executive director for Saudi Arabia and his postgraduate education in the US, he has indeed become a sophisticated and savvy operator.

He brims with confidence and he talks the talk and walks the walk as the gatekeeper of the Saudi financial and economic sector, potentially one of the most influential in global finance because of its huge petrodollar surpluses and the fact that the Kingdom is the world's largest oil producer and exporter, and as such exercises a vital role as swing producer in global oil market dynamics.

At the "Bank Negara Malaysia High Level Conference on Financial Stability" held in Kuala Lumpur last week, Gov. Al-Jasser spoke passionately on "Enhancing the Resilience and Stability of the Islamic Financial System: Fostering Global Integration in Islamic Finance - Strengthening the Home Host Supervisory Framework". With the globalization of banking, the relationship between regulators and foreign banks or subsidiaries of foreign banks operating in their jurisdictions has come under greater scrutiny.

"The stability of the financial system," stressed Al-Jasser, "is critical to a healthy economy. Generally speaking, financial stability encompasses the safety and soundness of financial institutions and the stability of the overall financial system. But this does not mean that the central bank and supervisory authorities must prevent the failure of every institution to achieve financial stability. The central banks must set clearly defined objectives (in the above respect). The ultimate objective should be to promote a resilient financial system and reduce the systemic risks that may be created by failure of a systematically important institution."

The governor's remarks on Islamic finance however attracted much attention, for it is usually a rare occasion that a Saudi regulator or minister talks openly about Islamic finance at an international platform, albeit more about the global Islamic financial system than the specific market in Saudi Arabia.

Nevertheless, it gave a valuable insight into the thinking of the top Saudi regulator, arguably the most influential regulator in Islamic finance given that the largest pool of funds in the estimated $1.2 trillion Islamic finance market comes from the Kingdom.

Unfortunately, Al-Jasser's remarks courted controversy. Some Malaysian officials and market players, in private, were disappointed and livid by his remarks.

"As a Muslim," he stressed, "it is offensive to me talk about 'we against them.' We have richness in diversity. The essence in Islam is permissibility. The genesis of things is permissibility. Everything is permissible unless it is shown to contravene Islamic tenets. Someone has to tell me if and how it contravenes explicitly. In fact, most conventional financial products are fine as long as they do not contravene Islamic tenets. Regulators and supervisors are not religious scholars. They are in charge of financial stability. The safety of the institution is paramount."

Al-Jasser rightly warned that Shariah-compliance on its own can never be a buffer against risk. "If a Shariah-compliant bank has heavy exposure to say the real estate market, it can go belly up," he added.

What was disappointing is the lack of clarity with regards to Islamic finance regulation and supervision. Although his remarks pertaining to the permissibility of things unless they are shown to contravene Islamic principles are accurate, its application to a modern scientific and systemic financial system is implicit.

As the Malaysians have shown with their dual banking model, this has to be ingrained in the financial regulatory and legal framework of a jurisdiction. There is no other way expect the entire Islamization of the banking system which has failed in countries such as Pakistan, Sudan and Iran, because of the global nature of finance, the implications for cross-border financing especially correspondent banking, and the sheer dominance of the interest-based system. Pakistan has since adopted the Malaysian dual banking model, which only a few weeks ago was enshrined in Malaysian law by the government of Prime Minister Mohd Najib Abdul Razak.

The implications of Al-Jasser's remarks effectively rule out a standalone Islamic banking law in the Kingdom, and a separate but equally rigorous supervisory regime for Islamic financial institutions, to take into account the specificities and special characteristics of Islamic finance. The governor's views may also be perceived as a slap in the face for the Malaysian model, which most Islamic finance market players agree is the most systemic and advanced approach to regulating and supervising the sector.

This would also be against the trend in the GCC (Gulf Cooperation Council) countries where Bahrain, Kuwait, the UAE and Qatar all have stand alone Islamic banking and insurance legislation in place. The irony is that as chairman of the IFSB (Islamic Financial Services Board) for 2009, Al-Jasser must be cognizant of the numerous standards and exposure drafts which the board has issued over the last few years championing the specificities of Islamic finance and the strengthening its regulatory and supervisory systems to ensure the stability of the system to meet the various risks and changing challenges that the financial crisis has highlighted.

Perhaps the nature of the authorization of Islamic financial institutions - whether under stand alone Islamic banking legislation or general banking laws - is an urgent matter for the IFSB to discuss through a exposure draft with the aim of issuing a standard in this respect.

This is important given that Al-Jasser stressed that "Islamic finance is growing at a phenomenal pace despite of the recent global financial crisis. This growth has also posed the challenge of promoting financial stability across the Islamic financial services industry."

At the same time the global expansion of Islamic financial institutions across borders and their movement out of their domestic markets, have raised issues of consolidated supervision and home host coordination for their supervisors.

"While Islamic finance has its peculiar characteristics, Islamic financial institutions are operating in the same financial markets as conventional banks and largely within the same regulatory environment. Thus the issues of home host coordination in the supervision of conventional banks are equally important in the case of Islamic financial institutions," he declared. Perhaps the governor should also consider the same peculiar characteristics when it comes to authorizing Islamic financial institutions.

Arab News

Islamic finance in North Asia

Monday, 30 November 2009

The Korean Ministry of Strategy and Finance announced earlier this month that it had submitted a tax revision to the National Assembly, which if approved would pave the way for local companies to start issuing Sukuk (Islamic bonds). Yet even if the law is passed Islamic finance faces stormy times. Regulators and lawyers may benefit from looking at the troubles that Japan has had in kick starting its own industry.

Existing Hurdles

Under existing Korean legislation uncertainty surrounds whether a Sukuk meets the definition of a bond. So far this has meant that Islamic bonds did not stand to benefit from the tax incentives provided for foreign currency denominated bonds. "The hurdles are typical of those you find in conventional financial markets," said Lee Do Heon, managing director of the global business department at Korea Investments & Securities Corporation. "The main hurdles are taxation issues relating to double stamp duty, VAT, capital gains and the definition of what constitutes a security."

This has placed Korean institutions wanting to launch Islamic products domestically in a difficult position. "From a conventional point of view Sukuk, for instance, may look like an asset-backed security or like investment certificates … in a conventional mortgage it is like lending with collateral," Lee said. "But in Islamic mortgages of diminishing Musharatza the bank must purchase the property and co-owns the asset with the mortgagee …under Korean legislation commercial banks are not allowed to buy property for purposes other than [establishing] headquarters or branches."

Under the proposals currently before the National Assembly, Sukuk may become beneficiaries of the benefits currently offered to other foreign-currency denominated bonds. In theory, this would establish a legislative framework for a domestic Islamic finance market. "Adoption of a regulatory framework for the issuance of Sukuk in Korea is a step forward in the development of capital markets and the country's ambition to become a financial hub," said Brendon Carr, a foreign lawyer with Hwang, Mok & Park.

"During 2008 there was a lot of discussion [as to] whether a Sukuk was a 'bond' as defined in law. That frightened away institutions from making such offerings … now we may have a framework to activate that market."

Why Islamic finance?

In the past fear may have been a deterrent to the success of the Islamic finance industry, yet worldwide this is something that Korean companies can no longer afford to be frightened of. Latest estimates indicate that Islamic financial assets are expected to surpass US$1trn in 2010. Sukuk issuance grew five-fold over the past four years to reach US$120bn in 2008 and the mutual fund market is estimated to reach more than US$11bn.

Korea's Chaebol have made no secret of their desire to tap into the Gulf region's ever-increasing pool of investors to feed their infrastructure activities in the region. But as the GFC dries up financing funds from traditional funding markets, this 'want' is quickly transforming into a 'need'. "The sub-prime crisis – as well as the bankruptcy of Lehman Brothers – has limited the sources of funding available for Korean companies… and while this has started to improve, Korean companies may still find it difficult to raise and obtain capital in traditional markets like the US and Europe," said Park Soo Man, a partner at Kim & Chang. "The fact that Islamic finance offers non-synthetic, non-complicated and real financial transactions mean it could have a big role to play in Korea."

Natural Appeal

Just how much of a role Islamic finance will play in Korea is still unclear. Ahn Sang Jin, a partner at Kim & Chang, said that although this will depend on what the final form of the new regulations will be Sukuk could debut in Korea as early as mid-2010. "There are a number of Korean companies looking into the possibility of Islamic products at the moment but we won't really know until the law is promulgated," he said. "What we do know is that there a lot of crossovers between the activities of Korean companies and Islamic finance – so launching a Sukuk may be a popular option."

The 'crossovers' Ahn refers to may be one of the biggest factors determining the success of Islamic finance in Korea. "Korean financial institutions are well-suited to helping develop the local industry because of their experience in social overhead capital projects and facility financing, which are at the core of Shariah financing," said Min Euoo-sung, chairman and CEO of the Korean Development Bank. He added that in addition, there are a number of other commonalities which could be used as fuel to fire the domestic industry. "Reflecting on the preference of Islamic finance institutions for long-term investments in large-scale deals, a consortium of Islamic financial institutions may also seek to invest in many of our global corporations… [and on the other hand] the high US dollar liquidity of Islamic countries makes investment there very attractive for Korean companies."

Korea Investments & Securities Corporation Lee agrees. "It is very natural that the Korean market welcomes more stable and long-term investment, such as Islamic finance," he said. "The Korean economy has a very strong industrial base. This is a very good fit with the ethos of Islamic finance so that it impacts on the real economy into productive investments."

Not So New Overseas

While Islamic finance may be a relatively new product domestically, Korean companies have a long history of tapping these capital markets internationally. The Korean Development Bank was one of the first. "KDB drew [some] of its early financing from the [Gulf] region with its first IFB issuance in 1974 in UAE dirham and Kuwaiti Dinar," Min Euoo-sung said. In addition, other Korean Chaebol such as Lucky Goldstar (LG) and Daewoo have been accessing Islamic trade finance facilities structured mainly through the London market since the 1980's.

There have also been a number of successful instances of venture capital funds attracting investors into Korea, by setting up Islamic funds of which STIC's Pioneer Fund II (US$200m), Oryx/STIC's Korean Technology Fund (US$150m) and another PE pre-IPO buyout by STIC, are three examples.

Domestic Fortunes

While Korean companies are willing to use Islamic finance internationally and there is a natural synchronicity between their activities and the tenets of Shariah-compliant products, Islamic finance faces a number of hurdles domestically. The most insurmountable of which seems to be that there is no captive local market for Shariah-compliant products.

"It is difficult to provide retail banking services exclusively for Muslims in Korea due to the limited size of the market, not to mention the different regulations of Islamic financing," says KDB's chairman. "It could be possible to initially open a window exclusively for Muslims in order to provide them with various retail banking products, but costs and revenues [will depend on] economies of scale and the break-even point." All of which, in Min's opinion, may open a window for Korean corporations to take the lead themselves. "Issuing a debut sovereign Sukuk is worth a try, especially as [Korean companies] have accumulated know-how and experiences in managing bond underwriting," he said. Just as there are regulatory and economic hurdles, so too are there cultural ones. The relative youth of Shariah-compliant products in Korea means that it is yet to achieve a level of acceptance in the market to make a domestic industry feasible, let alone profitable.

Japan

Those who are looking for a glimpse of what a domestic Islamic finance industry may look like in Korea two or three years from now need only look as far as Japan. Here, despite recent regulatory changes establishing a domestic Islamic finance market, the initiative has spectacularly fallen off the radar with few predicting that the idea it will regain traction any time soon.

Etsuaki Yoshida, deputy head of Africa and the Middle East with the Japan Bank for International Cooperation, said much of this can be explained by the relative 'newness' of Islamic products to Japanese investors as well as major cultural issues. "Since Islamic finance has a relatively short history, some things are not fully standardized," he said.

"Many Japanese people prefer to stay away from anything ambiguous … Islamic finance is difficult for the Japanese. Japan is isolated from the international community and there are unique language and cultural barriers."

Naoki Ishikawa, a partner at Mori Hamada & Matsumoto, cites ambiguity in the Japan's Banking Law as another major issue. "Sukuk is still not clarified under the Japanese law [as to] whether they constitute bonds or trust beneficiary rights," he said. "Other issues that still need to be resolved include those relating to the assets transferred to the SPC (special purpose company) in the Sukuk structure; harmonization with the conventional government bond framework and governmental procedures for asset transfer in asset-backed Sukuk."

Fundamentally, there is little impetus to establish a framework for a domestic market given that Japanese companies, just like their Korean counterparts, have been so active and so successful in tapping overseas Islamic capital markets for funds. Aeon Credit was the first Japanese corporate to issue a Sukuk (in 2007) when it raised a total of US$45.3 million in two issues in Malaysia. In recent times, Daiwa Asset Management launched the Singapore Stock Exchange's first Shariah-compliant exchange traded fund, the Daiwa FTSE Shariah Japan 100. Toyota announced its plan to enter the market with a MYR$1bn (US$306m) issue to raise funds for its auto leasing and loans business in Malaysia.

And Kuwait's Boubyan Bank completed what is believed to be Japan's first property deal using Islamic financing – and the bank's first real estate investment in Japan – when it bought three office buildings in Tokyo for JPY4.38bn (US$41.4m). Not to mention Nomura's acquisition of Lehman's Europe and Middle East operations in 2008 and MUFH's 20% acquisition of Morgan Stanley. "Japanese companies have long used Islamic capital markets to raise funds for their outbound activities," said Ishikawa. "This has always proved a more efficient and cost-effective way to tap into Islamic finance markets and has meant that there is little appeal for local issues."

The lawyer added that recent amendments to the country's Banking Law may increase see an increase in this trend. "The new article [law] will allow subsidiary companies to conduct Islamic finance, which is a very positive development," he said. "But at the moment, it does not allow banks to buy or sell assets as part of their business and this is an important part of Islamic finance. There are also some taxation issues which need to be resolved … but we hope that these will be addressed soon."

The Future

Consensus, it seems, is that investors shouldn't hold their breath on either a Tokyo or Seoul-originated Sukuk in the foreseeable future. Yet it may also not be as far off as one thinks. It is well-known that Islamic finance dovetails nicely with Korea's ambitions to establish Seoul as a North-Asian financial centre, along with Japan's desire to solidify its standing as one of Asia's international financial hubs. Add to this the fact that both have stated their desire to catch up with the faster-developing Islamic finance markets of Singapore and Malaysia.

While lawyers eagerly await legislative action, there appears to be more than enough interest emanating from ambiguous legal landscapes in both places to keep structured finance and banking practitioners busy. The key for law firms, it seems, is realising that now is the time for investing resources in growing – or building, as the case may be – Islamic finance practices. "There is no doubt that every lawyer will be interested in Islamic finance work," said Kim & Chang's Park. "It is a new area of law here, and has the potential to be very profitable, especially for law firms that can get into the area early."

With a dearth of deal flow in each country, training lawyers, of all things, could halt growth plans. The key, according to Mori Hamada's Ishikawa, is increasing domestic firms' exposure to

international practices and developing a sustainable model for an Islamic finance practice of their own.

"Some of my colleagues have been working with international law firms, particularly UK and Malaysian firms, to get an understanding of the most important issues on Islamic finance deals, particularly how they are structured," he said. "So far, this has proved successful and has enabled us to start building up best practices in relation to this area … but with such little activity it hasn't been easy."

If Shariah-compliant products take off in Korea and Japan, should we expect to see law firms in these countries looking to inorganic means to build their practices? All of the lawyers ALB spoke to could not rule out making Islamic finance-related strategic hires to anchor their practices, or forging 'deeper ties' with colleagues in the Gulf region and/or South East Asia to achieve the same purpose. The latter certainly wouldn't be out of the ordinary for Korean or Japanese law firms who have displayed a penchant for expanding into frontier practice areas (and frontier markets) on numerous occasions. Islamic finance is one area where law firms in Japan and Korea will need to find equilibrium between the demands of client-led growth and strategic expansion.

Legal Biz

Launch of 2009/2010 WIBC Competitiveness Report

Tuesday, 01 December 2009

As cautious optimism returns to the global economy and financial markets begin to move towards stabilization and economic recovery, The WIBC Competitiveness Report 2009/10, produced in collaboration with McKinsey and Company, will be officially launched on the 7th of December 2009 at the 16th Annual World Islamic Banking Conference (WIBC 2009).

Now in its 6th annual edition, the 2009/10 Report will provide new insights on how the leading Islamic financial institutions are adapting as they grapple with the need to manage risk, seek new growth markets, deliver on market expectations as well as remain competitive.

The analysis provided in this year's Report will be even more critical as it comes at a juncture when the industry is tackling the challenges of a new business landscape emerging from the aftermath of the recent turbulence in the international financial markets.

The eagerly anticipated report will reflect detailed research focused on raising the bar of financial performance and strategic excellence in the industry as well as point towards key directions emerging in the post-crisis landscape. In addition to this overview of the sector, the Report will look forward at critical issues that Islamic banking players will need to address to continue growing in the immediate future.

The Report also addresses liquidity management issue in the GCC market and pinpoints approaches that the banks will have to develop if they are to manage their liquidity needs effectively going forward. The long term challenges and opportunities for Shariah-compliant assets in the North Africa's Islamic Banking Landscape are explored in the Report as well Islamic Investment Management; the critical success factors for Islamic wealth managers.

More than 1,200 delegates from over 50 countries will attend the world's largest gathering of Islamic finance leaders on the 6th, 7th and 8th of December 2009 in Bahrain.

AME

Global markets bounce as Dubai fears ease

Tuesday, 01 December 2009

Shares across Europe and Asia rebounded today as fears that Dubai's debt crisis would sweep across global markets began to abate. In London, the leading FTSE 100 index rose 16.16 points in early trading to 5,261.89 as this weekend's intervention by the Central Bank of the United Arab Emirates to provide an emergency liquidity facility for local lenders appeared to calm investors.

There had been serious concerns that last week's request from the Dubai Government to delay interest payments by Dubai World, the state-owned conglomerate which owes $59 billion of the country's entire $80 billion debt mountain, would spark a run on local banks and leave lenders in the West nursing billions of dollars worth of losses. However, following sharp falls last week, and the hard line stance taken by the UAE's central bank, markets are recovering.

In Asia, Japan's leading index bounced back 264.03 points, or 2.9 per cent, while in Hong Kong, the Hang Seng added 738.34 points, or 3.5 per cent. In France and Germany, stocks also opened higher.

In Dubai and Abu Dhabi, shares plunged. However, this was widely expected, as today is the first time investors have had chance to react to last week's announcement following the four-day religious holiday for Eid al-Adha.

Abu Dhabi shares fell 7.6 per cent to 2,688.47 in early trade, while Dubai's benchmark slid 5.9 per cent to 1,968.82, with banks and building stocks leading the declines.

The Dubai Government had been expected to issue a further statement this morning.

Creditors had hoped for further details on last week's request by Dubai World, the emirate's largest state-owned holding company, for a "standstill" on interest payments. Ahead of the market opening, however, nothing was released.

Last night, the rulers of Dubai and its much richer sister emirate, Abu Dhabi, were locked in fraught rescue talks.

Deloitte, the accountancy firm, asked to restructure Dubai World, is expected to say it will require until the middle of the week to assess the situation, but Aidan Birkett, the partner leading the project, is likely to draw up a list of trophy assets that could be easily sold, such as the QE2 cruise liner and Turnberry golf course.

Rothschild, the investment bank, has been advising Dubai for some months.

But the most crucial horse trading is likely to be done in secret, between the hereditary leaders of the two emirates and their coteries.

The opaqueness of the process and the silence of Sheikh Mohammed bin Rashid al-Maktoum, Dubai's leader and the architect of the city state's dizzying rise as a tourist destination and commercial hub, has infuriated creditors.

The news vacuum has also stoked speculation that Abu Dhabi, which sits on a tenth of the world's oil reserves, is driving a tough deal to bail Dubai out, possibly demanding control of key assets such as the airline Emirates.

A conflict between the two city states could hold serious consequences for the region and its biggest creditors – Britain's banks, which are owed $50 billion.

The banks and other large creditors are close to hiring KPMG to represent them.

A Dubai-based banker said: "We've seen Abu Dhabi step in before. Why they haven't this time we can only speculate, but the only reason I can think of is that they want to demonstrate that it doesn't work without them."

Today will mark the first key test of whether Dubai will default on its debt pile, when interest payments of about $138 million on a $2 billion bond issue by Jebel Ali Free Zone Authority, a unit of Dubai World, become due.

It has also emerged that Nakheel, the troubled property developer owned by Dubai World, has requested that all three of its Sukuk (Islamic bonds) traded on the Dubai stock exchange be suspended. This includes the $4 billion Sukuk due to mature on December 14, which triggered the current crisis.

The group's statement said the three Sukuk would remain suspended "until it is in a position to fully inform the market".

T-Online

Dubai Debts Test Islamic Finance

Tuesday, 01 December 2009

CAIRO: As the world is still recovering from an economic meltdown, an unfolding debt crisis in the flashy lifestyle-Gulf state of Dubai is sending shockwaves around the world, putting the booming Islamic finance to a test.

"A Default by Dubai will put the world of Islamic finance to the test at a time when hard questions are being asked by bankers and lawyers about the protection afforded by financial instruments based on Shariah law," commented The Australian on Saturday, November 28.

Dubai announced Wednesday that its state flagship conglomerate, Dubai World, wanted a six-month standstill on 59 billion dollars in debt.

The move has sent shockwaves across the world economic markets over fears of a debt default. "The bond that is at the heart of the threat of default and financial ignominy for Dubai is the Sukuk," said The Australian.

There are concerns that Sukuk creditors may not be protected. It is not clear how creditors will rank in insolvency, said Neale Downes, a Bahrain-resident partner at law firm Trowers &

Hamlins. He said investors sometimes have found themselves competing against other creditors rather than being able to enforce their claim on the underlying asset supporting the Sukuk.

Sukuk, which conform to Islam's prohibition of receiving or paying interest, typically work as profit-sharing vehicles. Companies that issue Islamic bonds make payments to investors using profits from the underlying business, instead of paying interest. But money can not be invested in alcohol, gambling, pornography, tobacco, weapons or pork.

The Sukuk market has reached $111.9 billion in the eight years to 2008 and a further $69 billion is expected to be issued in 2008/2009, according to the International Islamic Financial Market.

Islamic finance is one of the fastest growing sectors in the global financial industry. Starting almost three decades ago, the Islamic banking industry has made substantial growth and attracted the attention of investors and bankers across the world. A long list of international institutions, including Citigroup, HSBC and Deutsche Bank, are going into the Islamic banking business.

Currently, there are nearly 300 Islamic banks and financial institutions worldwide whose assets are predicted to grow to $1 trillion by 2013.

Bailout

Dubai debt problems have triggered fears of a new world economic crisis. “If you look to government balance sheets around the world you’ll find plenty of potential banana skins,” Jim Reid, strategist at Deutsche Bank, told The Times.

“Given the nature of this crisis the probability of further sovereign events remains elevated.”

A financial firestorm swept the US and the world in September 2008, after the demise of Lehman Brothers, one of the Wall Street giants.

It has knocked down many major companies worldwide, causing mounting job losses, falling household wealth and forcing consumers to hold back on spending.

"Dubai is very much a reminder that the lingering effects of the credit bubble are still with us," Barry Knapp, of US equity investments at Barclays Capital, told The Washington Post.

"While there no real direct linkages to U.S. markets and our direct exposure is small, we have plenty of our own bad debts in the US".

Dubai is estimated to have total debts of $88 billion.

Investors have downplayed the gravity of Dubai problems, saying if worst came to worst, the emirate could be bailed out by Abu Dhabi, its oil-rich neighbor.

Abu Dhabi, the capital of the United Arab Emirates, has already said that it will “pick and choose” how to assist its debt-laden neighbor.

"We will look at Dubai's commitments and approach them on a case-by-case basis,” a government official told Reuters by phone.

“It does not mean that Abu Dhabi will underwrite all of their debts."

Abu Dhabi, which pumps 90 percent of the oil that make the UAE the world's third-largest oil exporter, has already provided $15 billion in indirect support for Dubai through the UAE central bank and two private Abu Dhabi banks.

"Some of Dubai's entities are commercial, semi-government ones. Abu Dhabi will pick and choose when and where to assist."

Islam-Online

Moody's: Dubai World Uncertainty Has No Immediate Effect on Asian Government-Related Ratings

Tuesday, 01 December 2009

KUALA LUMPUR, The uncertainty surrounding the restructuring of Dubai World's liabilities has no immediate consequences for Asian government-related ratings, according to Moody's in its latest Weekly Credit Outlook. While many of the biggest companies and issuers of debt in Asia are government related, it said that firstly, there was no evidence of any of these government-related issuers (GRIs) having imminent and material credit issues, let alone any of the large issuers that might pose systemic threats.

In all, there are 82 such entities across Asia with 60 distributed across emerging markets in Asia. "Seventy-one per cent of them have standalone investment-grade ratings before we even consider the possibility of rating uplift from government support," the global rating house said.

It said that most of these are long established names regarded as "blue-chip" borrowers in their own right with strong market access in both domestic and regional bond and bank markets, citing examples such as Singapore Power, Petronas, China Mobile and South Korea's KEPCO.

Of the remainder, Moody's said 10 per cent were South Korean GRIs with policy functions and funding ties so close to the government that they were attributed the same A2 stable rating held by the government itself.

Secondly, the rating house said, there was no evidence of systemic stresses building in any one country in the emerging markets of Asia in a way similar to Dubai.

Among countries in the region, Singapore and South Korea are the most obvious that have large GRIs with arguably similar corporatist strategies similar in some ways to those in Dubai, wherein the boundaries between the roles of government and private enterprise can be fluid.

But one is rated Aaa stable and the other A2 stable, and both economies are recovering strongly.

Further, the rated GRIs in Singapore are owned by Temasek, which is rated Aaa on a standalone basis before considering support from its government owner.

"So, we see the risk of a systemic crisis as extremely unlikely in either country, or indeed any other in any other Asian country," Moody's said.

Finally, few GRI ratings in Asia benefit from substantial uplift in their ratings due to implicit government support, it said.

Moody's said only 17 per cent of its ratings or six names in emerging market Asia have uplift of more than two notches reflecting support assumptions.

They include large, structurally important companies such as Singapore Power, KCRC in Hong Kong and, ironically, Singapore's PSA group, a port operator and competitor to Dubai Ports World, which is a subsidiary company of Dubai World and Sister Company of Dubai-based Nakheel.

"We see no reason to change the support assumptions for these companies for now. The role they play, the track record of government support and the relative transparency around ownership, funding, governance continue to justify higher levels of implied support than for most GRIs," it said.

BERNAMA

Malaysian Government to Keep Track on the Impact of the Dubai Debt Crisis - Muhyiddin

Wednesday, 02 December 2009

PONTIAN: The Government will keep track on the impact of the Dubai debt crisis to see whether it will have any adverse effects on Malaysia's economy, said Deputy Prime Minister Tan Sri Muhyiddin Yassin.

"We do hope the consequences would not be too severe because we have mentioned that 2010 would be the year to look forward to economic growth, with positive growth figures announced by the prime minister. (However), it is still early to see how far it will dampen the already improved sentiment as far as the world and Malaysia's economy are concerned," he told reporters after opening the first private coal-fired Tanjung Bin Power Plant owned by Malakoff Corporation Berhad, a leading Independent Power Producer.

Government-owned "Dubai World", a development conglomerate, is seeking a six-month reprieve from paying creditors nearly US$60 billion in debts.

The crisis had fuelled worries over a possible default by the company which is involved in projects worldwide. This development sent shock waves across an already weak global financial environment.

With the latest development, the Deputy Prime Minister said the Government would have to see whether Middle East investors, who had made prior commitments to move capital into Malaysia, would honour their word.

There were various sources of excess capital in the Middle East and Malaysia should be more aggressive in driving its promotion missions to meet the focused groups in sectors that have an interest in Malaysia, he added.

On another matter, Muhyiddin viewed seriously the disclosure by the Malaysian Anti-Corruption Commission (MACC) that up to 60 per cent of Government allocations for vital infrastructure projects in Sarawak have been misappropriated between 2002 and 2008 by certain quarters responsible for handling the projects.

Muhyiddin said he was surprised by the startling revelation and wanted MACC to check whether such malpractices really happened.

The Deputy Prime Minister said he did not know if Federal Government departments and agencies were also involved in such abuses of public funds and if they were implicated, the Government would want some information from MACC, the graft-busting agency.

Muhyiddin said he was leaving the matter to Sarawak Deputy Chief Minister Tan Sri Dr George Chan Hong Nam to deal with it.

BERNAMA

Dubai Crisis Tests Laws of Islamic Financing

Wednesday, 02 December 2009

NEW DELHI: The debt crisis in Dubai is about to test one of the fastest-growing areas in banking, Islamic finance, and put the city-state's opaque judicial system on trial, according to bankers and experts in finance. Many loans and bonds that comply with Shariah, or Islamic law, were issued in recent years by Dubai World, the investment arm of Dubai, and other Persian Gulf companies as oil-rich Middle East nations increased spending, and the global credit crisis fed debt investments in emerging markets.

But, because there have been few major defaults in this market; there is little precedent for arbitrating the unique terms of these instruments.

That is likely to create many legal issues for investors in Dubai World, which sent jitters through global markets by seeking to delay payments on $59 billion in debt. Abdulrahman al-Saleh, director general of Dubai's finance department, said Monday that Dubai World was not guaranteed by the government, and the creditors would need to "bear some of the responsibility" for the company's debt.

Shariah-compliant investments prohibit lenders from earning interest, and effectively place lenders and borrowers into a form of partnership. Yet there are no consistent rules about who gets repaid first if a company defaults on such debt, said Zaher Barakat, a professor of Islamic finance at Cass Business School in London.

The first test of what that means for investors may happen around Dec. 14, when payments on a $3.5 billion Shariah-compliant bond owed by Dubai World's real estate subsidiary, Nakheel, come due. If Nakheel defaults on its payment, legal proceedings may be initiated.

It is unclear what may happen next. Nakheel bondholders have formed a creditors' group representing more than 25 percent of the outstanding debt, a legal adviser to the group said Monday.

Holders of these bonds "are going to argue that they are in the secured position on the underlying asset", said one bank investor involved in the issuance of some of Dubai's Shariah-compliant debt. That means that bondholders could insist on being repaid before banks, upending the traditional bankruptcy hierarchy.

"No one has tested the legal system or the documentation," a lawyer briefed on the situation said.

The 237-page prospectus for the Nakheel bond provides little clarity. In the case of a bankruptcy by Dubai World or Nakheel, bondholders have no guarantee of "repayment of their claims in full

or at all," it said. Under Dubai law, it added, no debt owed by the ruler or government can be recovered by taking possession of the government's assets.

A default would also pose a major new test for Dubai's courts, which have never handled a major bankruptcy of one of the government's own companies, lawyers and bankers said.

Unlike its neighbors, Dubai has kept its judiciary system separate from the United Arab Emirates Federal Judiciary Authority. The decisions of the Dubai courts, which are controlled by the emirate's ruling family, can be fickle, say lawyers in the region.

For example, in order to bring a court case against a government-owned or government-run entity, a corporation or individual needs to get permission — from the government. In the prospectus for Nakheel bonds, investors are warned that "judicial precedents in Dubai have no binding effect on subsequent decisions," and that court decisions in Dubai are "generally not recorded."

Global issuance of Shariah-compliant bonds and loans grew 40 percent in the first 10 months of 2009 from a year ago, Moody's Investors Services said in a November note to clients. The total amount of Shariah-compliant debt outstanding is estimated at about $1 trillion, up from $700 billion just two years ago. About 10 percent of Dubai's $80 billion debt load complies with Shariah, bankers and analysts estimate.

Malaysia was traditionally the hub of Islamic finance, but much of this new activity has been centered around Dubai, and foreign and local law firms and banks there helped the emirate raise much of its debt. Dubai even has a school that turns students into "certified Islamic finance executives," whose stamp of approval is required for an instrument to be deemed Shariah-compliant.

The surge in Islamic finance has led to hiring sprees at banks, and given rise to a series of new financial indicators like the Dow Jones Islamic Market index. Hoping to appeal to the Middle East's huge sovereign wealth funds, even non-Islamic institutions have started to raise money using Islamic finance.

In October, the British Treasury drew up rules that would soon allow Britain to issue Shariah-compliant government debt. The same month, the World Bank issued $100 million in Shariah-compliant bonds.

NY Times

Head of Largest Islamic Mutual Fund on Dubai's Debt Problems

Wednesday, 02 December 2009

Global investors were caught off guard last week when the sovereign fund that invests in businesses and building projects for the Dubai government asked to have its payments on some of its $60 billion in debt delayed. For a sense of how this crisis might affect investors in the U.S., we recently spoke with Nicholas Kaiser, who runs the two largest mutual funds in the country that invest based on Islamic law.

This means that the funds can't invest in any company that makes more than 5% of its revenue from tobacco, gambling, alcohol, pork, pornography and interest payments. The funds are also

restricted from buying any company whose total debt exceeds one-third of its stock market value.

The top holdings in the Amana Trust Income include Procter & Gamble, Colgate-Palmolive, and ExxonMobil. The top holdings in the Amana Trust Growth, meanwhile, include tech heavyweights like Apple, Google, and Intel.

Forbes: Were you surprised by the news in Dubai?

Kaiser: I think it was clear that Dubai was over-extended. The United Arab Emirates will ultimately be responsible for what's happening. It's going to be a difficult negotiation. The assets prices are going to continue to decline. Things were getting way too expensive.

Will that impact your funds?

Kaiser: I guess you would call us value investors as well as Islamic investors. We didn't see any value there (in Dubai). There was a growth story that didn't really interest us. Our two largest funds are confined to stocks in the U.S. We recently introduced the Amana Developing World Fund, which invests in emerging markets. We don't go into frontier markets, which is what Dubai is. It is just too volatile.

Are you worried that investors will react to the news in Dubai by pulling out of Islamic-based funds like yours?

All I can say is that in the last two months of this year, there haven't been any days of net redemptions. I think investors have figured out what we are about.

How do you think the fund has performed lately?

The fund in many respects has underperformed in the last five or six months because it is not a fund that buys high risk companies, which are the ones that tend to do the best over short-terms. Like those shaky banks that didn't quite disappear six months ago and whose shares have gone from $4 to $40. For the period of rapid re-inflation of the market, we've underperformed in Amana Income. That's fine with us. It's the nature of the fund that we're running. We're a conservative fund with low debt ratios and we're not trying to outperform a shaky market.

Forbes

Dubai's debt standstill redefines Gulf lending - bankers

Thursday, 03 December 2009

LONDON: Dubai's struggle to stave off a wider debt restructuring by placing short-term debt maturities under a standstill agreement is redefining Middle Eastern lending, banking sources said on Tuesday. Dubai World said on Monday that it had started negotiations with its lenders over $26 billion of debt owned by its main property firms Nakheel World and Limitless World that matures before the standstill deadline of May 30, 2010.

This indicates a staggered approach to solving the Emirate's debt problems -- tackling bond and loan maturities as they fall due -- which will do little to reassure loan and bondholders who are scrambling to assess support for their debt, bankers said.

"If banks are put into a Dubai World restructuring, they will have to decide whether to cut their lines to Dubai and if they would be prepared to refinance other Dubai debt," a banker close to the situation said.

The $26 billion of debt affected under the standstill includes a $3.52 billion Sukuk bond for Nakheel that matures in December and another 3.6 billion dirham bond due May 2010.

A $1.2 billion Islamic loan for Limitless that was signed in March 2008 and matures in March 2010 is also included, according to Thomson Reuters LPC data, along with other Dubai World debt, bankers said.

"There is also Dubai World debt which is not publicly known that is being addressed at the same time," a second banker close to the situation said.

Bankers said other Dubai World debt is started to be identified that includes bilateral loans from individual banks to various companies in the group.

"There are a number of bilateral (loans) coming out of the woodwork it seems so it's very difficult to work out exactly how much (is owed) and to whom, which doesn't help," a third banker said.

DUBAI WORLD'S $5.5 BLN LOAN

A $5.5 billion loan for Dubai World is not included under the $26 billion figure as the first repayment is due in June after the standstill expires, several bankers said.

Lenders however expect this loan to be restructured, possibly along with the rest of Dubai's international debt, which includes $45 billion of syndicated loans, according to Thomson Reuters LPC data.

Under a standstill agreement, steering committees of bondholders and lenders with the largest exposure to the borrower usually gather to start formulating restructuring proposals.

The government of Dubai, acting through the Dubai Financial Support Fund (DFSF) appointed Aidan Birkett, Managing Partner, Corporate Finance at Deloitte LLP as Chief Restructuring Officer for Dubai World along with Moelis & Co and Rothschild.

There has been some discussion between banks about appointing KPMG to act as an auditor for any proposals received, the first banker said.

Dubai World's $5.5 billion loan is documented under UK law and any information received would be distributed by agent bank Royal Bank of Scotland, he added.

In Dubai's instance however, some banks may be reluctant to join steering committees for fear of damaging lucrative lender-borrower relationships, several bankers said.

"No-one wants to say bad things to Dubai with so much exposure and if Abu Dhabi bails them out they'll be back in the sun again," the first banker said.

NO MORE NAME LENDING

Most Middle Eastern borrowing consisted of syndicated loans, signed with a nod and a wink on a 'name lending' basis, assuming that the proximity of the company's management to the royal family would ensure repayment.

Going forward, lenders will demand cast-iron guarantees from sovereign governments for any state-lined company borrowing, several bankers said.

In Dubai's case, a sovereign guarantee will not be sufficient and lenders are likely to demand explicit guarantees from the UAE government, they added.

"Dubai's sovereign guarantee is meaningless - they said they'd repay debt when it was due and now they're not," the first banker said.

In the meantime, lenders are scouring all loan documentation to try and identify possible protection as they try to determine which debt is vulnerable. "Everyone's looking at loan documents and if they were name lending are asking if the owner will look after it or if they should start to worry," he added.

Reuters

Dubai assets could be 'untouchable', lawyers warn embattled bond holders

Friday, 04 December 2009

The bondholders are waiting to hear about Dubai World's plans to restructure $26bn (£15.7bn) of debt, including $6bn in its Nakheel property subsidiary. Nakheel, which owns some of Dubai's most ambitious projects, including the Palm Islands, issued over half of its debt in the form of a $3.5bn Sukuk, or Islamic bond. It was the Sukuk's December 14 due date that prompted last week's standstill announcement.

Lawyers have warned that the rules governing Sukuk can be muddling. Shaikh Muddassir Siddiqui, head of Islamic finance at Denton Wilde Sapte, said any default of the loan would be governed by Shariah laws but added: "Each jurisdiction approaches the Shariah elements of financial structures in different ways, according to the requirements of its own law. Neither debtor nor creditor should assume that a single interpretation of the Shariah principles shall be applied universally just because the structure has been determined to be Shariah-compliant."

For international bondholders, the recovery of their investments may be further complicated by the UAE's foreign ownership laws. Local experts said that even if Nakheel's properties are liquidated, their entitlement could be restricted because assets belonging to the ruling family cannot be seized and sold.

Essam al-Tamimi, senior partner at Al Tamimi and Company, a Dubai-based law firm, said: "The UAE courts will order everyone to pay their debt, you, me and the ruler, we are all equal under the law. But when it comes to government debt, following the issuing of the judgment... like in a lot of countries, the attachment of government assets and selling them by public auction is not allowed."

The bosses of Dubai World have agreed to meet its main creditors next week. The bondholders, which are being represented by Ashurst, are also thought to include some of the world's biggest pension fund managers including Blackrock, Pioneer and Fidelity.

Sultan bin Saeed al-Mansouri, the UAE economy minister, has said it is only a matter of time before Dubai World restructures its debt and meets its obligations.

Telegraph

ISLAMIC BANKING & INSTITUTIONS

Swiss minaret ban may irk some Muslim bank clients

Tuesday, 01 December 2009

ZURICH: A Swiss vote to ban new minarets could irk some Muslim investors at a time when Swiss private banks are hoping to replace dwindling growth in European and U.S. assets with fresh funds from emerging markets. Switzerland has traditionally attracted wealth from the Middle East due to its political stability and proximity to the region. French-speaking Geneva has been the main Swiss hub for Arab clients, bankers say, although no there are no official figures available due to Swiss bank secrecy law.

Top Swiss bankers and politicians sought to reassure the Muslim community on Monday by saying that the ban on the constructions of new minarets in the country was not a vote against the right to profess the Muslim faith.

"We regret the outcome of the vote because it goes completely against the traditional Swiss values of openness and tolerance and it could send the wrong signal to the Muslim world," said James Nason, a spokesman for the Swiss Bankers Association.

He said Muslim clients were an increasingly important client segment for Swiss banks, many of which have been developing Islamic financial products.

Middle Eastern clients are a growth area for private banks as their investment choices are generally not driven by tax issues as is often the case with European and U.S. customers.

Attacks by the United States and European countries against Switzerland's bank secrecy has made it all the more important that Swiss private banks diversify their client base, with many rushing to open business operations in the Gulf region.

"The banks will say this is not a vote against the Muslim community, but this could be a hard sell," said Steve Bernard, a director at financial lobby Geneve Place Financiere. "The onus will be on the banks to explain this vote to customers who raise concerns."

GROWTH AMBITIONS

UBS (UBSN.VX) (UBS.N), Switzerland's biggest bank by assets, said recently that 109 billion Swiss francs ($109 billion) out of a total of 846 billion francs at its international wealth

management division came from emerging markets, which includes the Middle East and the Gulf region.

It also said it aimed to grow its existing top position in Saudi Arabia, the United Arab Emirates, Kuwait and Egypt.

Credit Suisse (CSGN.VX), Switzerland's other main bank, has said it is targeting 15 to 20 billion francs of new assets from the Middle East and India by 2012.

Although the Swiss vote is expected to ruffle some feathers in the Muslim community, private bankers said the ultra rich were less concerned by religious issues when investing.

"Huge investors are really professionals and they are able to tell the difference between what is the direct democracy in the sense of a minaret and what is really religious freedom," said Hans-Ulrich Meister, head of Credit Suisse Switzerland.

"I don't think this will have a huge impact. But Switzerland has to give a political answer," he added.

Nason of the Swiss Bankers' Association said that the vast majority of clients choose their bank on quality and competence. "We are convinced there will be a minimum negative impact following the vote," he said.

Although Swiss and other international private banks are increasingly focusing on Islamic banking, many investors continue to choose products that do not carry an Islamic tag.

"In times of crisis we tend to look for the bogeyman, usually a foreigner or someone of a different religion, and Islam ticks both boxes," said Toby Birch, founder of Guernsey-based Birch Assets and an expert on Islamic finance.

"But it might not make a huge difference. A lot of the Islam money invested in Switzerland is invested conventionally."

Reuters

Malaysian Islamic banks not affected by Dubai crisis

Tuesday, 01 December 2009

PETALING JAYA: The debt payment crisis of conglomerate Dubai World will not adversely affect the Islamic finance industry in Malaysia as it has limited exposure to the sheikhdom’s debt, according to industry observers. CIMB Islamic Bank Bhd CEO Badlisyah Abdul Ghani said the situation in Dubai was purely a credit issue and applicable for both conventional interest-based and Islamic capital market in the Middle East. Credit issue was not exclusive to Islamic capital market and the problem Dubai was facing had no bearing on the structure of the Sukuk market or its instruments in particular, he said in an email reply to Star Biz.

“What’s happening in Dubai has no impact on Islamic finance in Malaysia as Malaysian Islamic banks are not exposed to the Dubai market, with most concentrating on doing business in Malaysia only or regionally in South-East Asia. If (there is) any, exposure would be extremely insignificant,” he added.

The Malaysian Islamic finance industry, he said, was unparalleled in terms of depth and sophistication and had gone through two major global financial crises with one involving Malaysia directly and emerged practically unscathed both times.

Ernst & Young Advisory Services head of assurance Abdul Rauf Rashid agreed, saying that there was limited direct implication to the local financial industry as not many investors were directly exposed to Dubai or papers issued by organizations from the Gulf Cooperation Council (GCC) countries.

In response to a query, Bank Negara governor Tan Sri Dr Zeti Akhtar Aziz said: “The Malaysian conventional and Islamic banks have limited exposure to Dubai and the recent development has not had an impact on their operations.

“The fundamentals of the banking system remain strong and continue to support the economic recovery process.”

A banking analyst from a foreign research house said the exposure of banks in Malaysia to Dubai World’s bonds or other assets was minimal and would not derail earnings momentum.

Another banking analyst with an investment bank said it was yet to determine the extent of the exposure of Dubai World’s assets to banks in Malaysia, but believed it was limited. “Banks have yet to get back to us on their asset holdings of Dubai World or its subsidiaries. (We) need to wait and see, but it should not be alarming.”

The emirate recently announced it would delay payment of US$59bil in debt held by government controlled holding company Dubai World and its property arm Nakheel, which sent the global markets reeling.

RAM Rating Services Bhd head of financial institutions ratings Promod Dass felt Islamic finance and the Sukuk market in Malaysia were in a strong position as the Sukuk market was a proven fund-raising platform for corporations, government-related entities and the Malaysian government.

Macquarie Equities Research said in a note it saw potential for small balance sheet hits among Asian banks (smaller Hong Kong and China banks most likely), especially those that bought related debt but the impact was likely to be relatively insignificant.

Promod felt the Dubai World crisis was a credit issue and not related to the nature of the financing instrument, be it Sukuk or conventional funding.

Investors were clear about this and therefore there was no direct implication on Islamic finance here, he noted.

HSBC Bank Malaysia Bhd deputy chairman and CEO Irene Dorner in a statement said: “HSBC Bank and our Islamic subsidiary HSBC Amanah continue to focus on growing our business here in Malaysia.

“Bank Negara has put in place a strong regulatory framework, including for Islamic finance, which serves as a strong foundation for continued growth of the banking and financial sectors.”

HSBC Group chief executive Mike Geoghegan said although its business in the Middle East represented only 2% of the group’s balance sheet, it nonetheless was an important and a high-

potential part of HSBC's international business mix and a region it was completely still committed to.

On the possibility of downgrades of local Sukuk amid the Dubai World debt debacle, Malaysian Rating Corp Bhd CEO Mohd Razlan Mohamed said credit ratings were lowered whenever the rating agency believed the likelihood of default had risen with a particular issuance.

Dubai World's credit challenges were mostly country and borrower specific and as such, should have no rating implications for the domestic Sukuk universe, he noted.

He added that the current global economic downturn was a common factor for heightened vulnerability of credit quality for Sukuk issuances.

Hence, further downgrades or even defaults remained a possibility for local Sukuk issuers depending on how well their business fundamentals were able to withstand the present economic challenges, Razlan said.

He also denied there was a possible loss of confidence among investors for local Islamic finance, saying that investors had become more familiar with Islamic financing concepts and understood that credit risk was an "indispensable part of the equation".

Biz

HSBC Amanah Inks MOU with Development Bank of Kazakhstan to Up Investments in Kazakhstan

Thursday, 03 December 2009

KUALA LUMPUR: HSBC Amanah Malaysia Bhd, HSBC Kazakhstan and HSBC Bank Middle East Limited signed a memorandum of understanding (MoU) recently with the Development Bank of Kazakhstan (DBK) to boost investments in the central Asian nation. "HSBC Amanah is pleased to have been chosen by the DBK to be their Islamic banking counterpart to work together to try to identify possible Shariah-compliant financing opportunities," it said, adding that some of the possible financing opportunities have been identified.

Among them are structuring and co-financing development projects using Islamic financial instruments, co-financing for each party's clients and promoting development of Islamic Finance in Kazakhstan, HSBC Amanah said in statement Wednesday.

HSBC Amanah Malaysia Executive Director and CEO Musa Abdul Malek said the MoU also serves to confirm HSBC Amanah and DBK's move to plan and coordinate joint projects and strengthen relations.

"This new working relations will not only help Kazakhstan develop its full potential but also facilitate strengthening Malaysia's Islamic finance industry in line with our country's focus and growing interest in Islamic finance as an alternative to conventional banking," he added.

BERNAMA

OCBC Al-Amin Unveils fourth branch

Thursday, 03 December 2009

PETALING JAYA: OCBC Al-Amin Bank Bhd marked the first anniversary of its pioneer branch here yesterday with the launch of a fourth branch in Kota Damansara. By year-end, its fifth branch will start operating in Skudai, Johor Baru and plans are underway for a more extensive network next year, according to director and chief executive officer Syed Abdull Aziz Syed Kechik.

"We are still in the planning stage to open more new branches next year as we need to find suitable locations, decide on the size of the branches and also how much investment needs to be put in," he said after the opening of the latest branch.

A unit of OCBC Bank (M) Bhd, OCBC Al-Amin Bank had total assets of about RM3.8bil as at end-June, he added.

He said the bank would also continue to focus on capability building and product innovation through, among others, the introduction of popular principles such as Diminishing Musharakah.

"The application of the Diminishing Musharakah principle to our product line now and in the future brings us even closer to our goal of making available to customers a complete range of Islamic banking solutions, having already built a stable of over 30 products involving 12 keys principles of Syariah compliance, ranging from simple deposit and financing offerings to complex investment banking solutions," he said.

Biz

NBAD will invest in Dubai but 'with caution'

Friday, 04 December 2009

National Bank of Abu Dhabi said on Thursday it will continue to invest in Dubai and other cities but with caution, as it embarks on a rapid expansion across Asia.

NBAD, the largest lender by market value in the UAE, was in Hong Kong announcing plans to expand in six countries across Asia, including China, India and Malaysia.

The bank said earlier this week its exposure to two debt-ridden Dubai World affiliates amounts to $345m. Investor concerns about its exposure to Dubai caused NBAD's stock to drop 19 percent this week.

Arabian Business

Gulf investment: Central government considering Islamic banking

Friday, 04 December 2009

Malappuram: The central government is reportedly considering the scopes of Islamic banking in the country in order to invite big investments in the time of economic crisis. Investments

including those from Arab countries could be used for infrastructural development and other purposes if the central government begins Islamic banking.

The Intelligence Bureau is reportedly studying the working methods of several private Islamic finance institutions in different states. The IB is reportedly directed to submit a detailed report on the matter.

Investments from the Arab countries have been flowing to countries like the USA due to the power of the dollar. Several American banks had reportedly even started 'interest-free Islamic windows' aiming Arab investments. Islamic banks began operation in the UK and other countries too. Islamic banks have been established in countries like Singapore, Thailand, Germany and Japan. But, Arab investors are now hesitant to invest in western countries due to the economic crisis in the US and inconsistency in the value of the dollar. Full-fledged Islamic bank could not be opened in India due to the rules and directives of the Reserve Bank.

It is analyzed that India could draw investments from NRIs who don't expect interest as well Arab investments now in the western countries. Presently, several NRIs have invested in banks on condition that they would not receive any interest. Detailed study on the matter has come in such a circumstance. It is expected that common people too could borrow interest-free loans for education, agriculture, etc if full-fledged Islamic banking comes into effect. However, amendments would have to be made in the rules of the reserve Bank for the purpose.

Two Circles

Bahrain's Ithmaar Bank to invest in Malaysia

Friday, 04 December 2009

KUALA LUMPUR: Bahrain-based Ithmaar Bank is set to invest in Malaysia's infrastructure, agriculture and hospitality sectors to pave the way for its regional expansion. The investment bank, which has a stake in a Malaysian Takaful company via an associate, will use funds from its clients in the Middle East and elsewhere to invest in these core sectors. Chairman Khalid Abdulla-Janahi, without going into specifics, told Star Biz. Ithmaar was in discussions with relevant parties and was confident the negotiations would bear fruit. He also declined to elaborate on the amount of investment in these sectors. He added that there were plans for further investments in Malaysia.

"We look at projects that not only will provide our clients with current income but also future capital appreciation,'' he said during an interview.

Apart from investing in Malaysia, Ithmaar would encourage Malaysian investors to invest in the Middle East, Khalid said.

"As one of the leading investment banks in Bahrain, we will invest on behalf of our clients based on their needs. Post 9/11, after the terrorist attacks in the United States, the direction of our investment has been Asia and the Far East.

"For us, the growth is in this region and in emerging markets due to their good economic prospects. Ithmaar will invest in Malaysia and use it as a platform to springboard to other regional markets,'' he added.

According to Khalid, trade financing is another area it is looking at to facilitate financing for both buyers and traders.

Currently listed on the Bahrain and Kuwait Stock Exchanges, the bank has a paid-up capital of US$598mil and total equity worth US$1.1bil with operations in the Middle East and North Africa, as well as Asia and Europe.

Asked if Ithmaar was looking at increasing its stake in MAA Takaful Bhd, Khalid said it intended to do so as at the end of the day, it must be a win-win situation for both parties.

MAA Takaful is 75:25 joint venture between MAA Holdings Bhd and Bahrain's Solidarity Company BSC, a 40% unit of Ithmaar Bank.

Khalid said he understood that MAA Holdings and Solidarity were in discussions on the latter raising its equity stake in MAA Takaful.

The recent financial sector liberalisation plan increased foreign equity ownership limits to 70% from 49% for investment banks, Islamic banks, insurance companies and Takaful operators.

On whether the Dubai World debt crisis had affected Ithmaar's business as investor confidence had been shaken, Khalid said: "It basically affects everyone. Confidence will be strained and pricing of financing will also go up.

"Investors must not look at this incident in the short term but in the medium to long term. This is a liquidity issue and not a solvency one and I think there are business opportunities in the Middle East for investors to tap."

The investment bank would also be undertaking a restructuring exercise that would transform it into the largest retail bank in Bahrain in terms of equity size. The exercise would be completed by the end of the first quarter next year, he noted.

Biz Star

Islamic Bank expected to ride out Dubai troubles

Friday, 04 December 2009

Backers of the Birmingham-based Islamic Bank of Britain have insisted Islamic finance is still the way forward for investors, even after the sector was rocked by the massive failure in Dubai. The Edgbaston bank officially celebrated its fifth birthday at the start of the Eid festival – the same day Dubai shocked the financial world when it announced its government-controlled investment vehicle would need a six-month moratorium on debts worth more than £35 billion.

The previously buoyant world of Islamic finance was dealt a blow by the revelation that Dubai World was unlikely to be able to repay a £2.1bn Islamic bond, or Sukuk, that was set to mature on December 14.

Experts said it would have a huge impact on confidence in the sector, even though the root of the trouble was not due to Islamic finance rules.

There has been a sustained campaign to promote IBB and Islamic finance in Birmingham generally on the world stage as a growth industry. Birmingham Forward will be leading a trade delegation to the Islamic Finance Conference in Bahrain this weekend to talk up the city.

In October, an adviser at UK Trade & Investment said Birmingham had broken London's monopoly on Islamic finance on the global scene.

Another strong backer has been Mike Loftus, the head of investment body Locate in Birmingham.

He said the turmoil in Dubai was a global corporate failure and had little to do with the consumer and retail-focused services of IBB.

"I wouldn't see that as having a dramatic impact on the whole range of other areas where people of the Islamic faith need banking services."

The IBB is the only stand-alone Islamic retail bank in Europe. It opened its first branch in September 2004, and has pioneered a number of new products compliant with Shariah financial law, including business banking and commercial property finance. Several of its products remain unique in the UK retail market, for example Shariah-compliant personal finance and online savings accounts.

Since the launch, customer numbers have gone from about 14,000 to nearly 50,000. It manages 71,500 accounts worth £23.5 million.

Mr Loftus said: "Through its consistent growth and development the bank has helped to put Birmingham on the global Islamic finance map."

According to a 2008 study, the UK has two million Muslims, of whom 1.3 million are of working age. Nearly 400, 000 use Shariah finance products.

Sultan Choudhury, the commercial director at the bank, said: "IBB is delighted to have reached the five-year mark. As a relatively young financial institution compared to conventional banks, our dynamic growth has helped to place IBB as a market leader within our field.

"Since its inception the bank has gone from strength to strength and is proud of its reputation as the pioneer of Islamic banking in the UK. IBB has worked closely with the UK Government, regulators, industry bodies and customers to provide products and services which make a difference to British Muslims.

"Further, the bank has made a significant contribution to the UK banking sector and the Islamic finance industry, particularly over the recent months when conventional banks were suffering chaos and instability. Despite the difficulties, IBB demonstrated the robustness of Islamic banking and its five-year anniversary illustrates that the bank is here to stay."

As well as attracting interest from outside the Muslim community, the success of IBB has been hailed as a sign of the increasing success of British Muslims.

Dr. Abdul Bari, the secretary-general of the Muslim Council of Britain, said: "We have given strong support to the development of Islamic finance in Britain and the launch of IBB as the first Shariah-compliant retail bank in Europe was a major milestone on this journey. We are delighted

IBB is ensuring that British Muslims and others who want ethical finance have access to financial products in line with their beliefs."

Birmingham Post

Bank Islam Eyes 5,000 New Cardholders with World Master Card

Friday, 04 December 2009

KUALA LUMPUR: Bank Islam Malaysia Bhd aims to sign up 5,000 new cardholders with the launch of its new World MasterCard card for the financial year ending June 30, 2010. Its Consumer Banking Group general manager, Khairul Kamarudin, said that to date, the bank had almost 500,000 cardholders. The Bank Islam World MasterCard, unveiled today, is Asia Pacific's first Islamic World MasterCard card.

It is an exclusive card membership via invitation only and "will allow members to indulge in the most luxurious comforts in style, class and sophistication", the bank said in a statement issued during the launch at its head office here.

Speaking reporters, Khairul said that Bank Islam's target for the new product was "the affluent segment".

Among the privileges are higher financing limit, no annual fee for life and free use of safe deposit box for three years.

"We are currently working with safe deposit box companies at three different locations, namely Damansara, USJ Summit and Raja Chulan," Khairul said.

He said the cardholders would also receive free comprehensive Takaful travel coverage of RM2 million, free Takaful purchase protection coverage of RM10, 000 and free Takaful coverage on outstanding balance of RM100, 000.

MasterCard's vice president and senior country manager for Malaysia and Brunei, Jim Cheah, said his company was actively in talks with several banks interested in rolling out World MasterCard.

He refused to elaborate.

BERNAMA

SUKUK (ISLAMIC BONDS)

Dubai World Shock Sends Asian Sukuk Yields Higher

Monday, 30 November 2009

The shock from Dubai World's restructuring and call for a standstill on its group debts sent yields on Islamic bonds issued from Asian borrowers sharply higher Thursday. The Sukuk of the Indonesian government and Malaysia's national oil company Petronas were particularly hard hit.

But many were convinced it was a knee-jerk reaction. The yield on Petronas' 2014 Sukuk traded around 0.15 percentage point wider over U.S. Treasury yields.

"It may be temporary," said Rajeev De Mello, a fund manager at Western Asset Management in Singapore. The credit event could even have the opposite impact of eventually attracting money into Asia's Sukuk" because Middle Eastern investors might want to diversify a bit more into non-Middle Eastern Sukuk," he said.

The Dubai government said Wednesday that it would restructure its largest corporate entity, which has interests spanning real-estate and ports. Dubai World, which has almost $60 billion worth of liabilities, will seek a six-month "standstill" on its debts with all lenders, the government said.

Some players sold the Sukuk from Indonesia and Petronas on the fear that some of these bonds may be held by Middle Eastern investors, who may opt to unload some of their holdings after the Dubai government's announcement, according to a fund manager.

Dealers said a lack of liquidity due to the absence of many players ahead of the long weekend may have exaggerated the fall. Indonesia, Malaysia, Pakistan and Singapore are closed Friday for Hari Raya.

Elsewhere, Japanese government bond yields fell Thursday as the yen hit a 14-year high against the dollar, blurring the outlook for Japan's export-driven economy and boosting demand for safe-haven assets.

The benchmark 10-year yield fell 0.015 percentage point to 1.28%.

Traders suggested yields could decline further given investors' growing concerns about the outlook for the Japanese economy and the risk of deflation. Some traders expect the 10-year yield to fall to 1.25% in the near term if October's consumer price index, due Friday, suggests that prolonged deflation could increase the risk of a double-dip recession.

"Players are worried not only about whether exports may languish further with the yen strengthening, but also about whether price falls could diminish corporate profits and drag on the broad economy," one trader at a Tokyo securities house said.

The stronger yen reduces the cost of oil, food, metals and other commodities that Japan buys from overseas, which may speed up the ongoing deflation, analysts said. The country acquires 60% of its food and nearly all of its oil from abroad.

Deflation usually eats into corporate profits, which could prompt firms to continue downsizing operations and cutting payrolls, increasing the risk that Japan will sink into a double-dip recession. If such pessimism about the economy prevails, speculation could also rise that the Bank of Japan may take additional easing measures to combat deflation, Mitsubishi UFJ Securities strategist Katsutoshi Inadome.

"Expectations will likely linger that domestic financial conditions will remain accommodative for an extended period and demand for JGBs won't wane soon," he added.

Wall Street

Nakheel 5-Year Sukuk Jumps 1% After Dubai's $5 Billion Bond Sale

Monday, 30 November 2009

Nakheel PJSC's five-year Islamic bond prices jumped 1 percent after Dubai's government raised $5 billion by selling bonds to Abu Dhabi-based Al Hilal Bank and National Bank of Abu Dhabi PJSC.

Nakheel's $3.52 billion bond maturing on Dec. 14 rose to 111.25 cents on a dollar today from 110.25 cents, according to prices provided by National Bank of Abu Dhabi. Nakheel is a real-estate developer controlled by Dubai's government.

Dubai, home to the world's tallest tower and the biggest man-made islands, sold the $5 billion bond equally to the NBAD and Al Hilal, Dubai's Department of Finance said in an e-mailed statement today. It will draw down $1 billion initially split between a conventional bond to NBAD and an Islamic bond to Al Hilal.

Nakheel's bond prices had dropped to 63.5 cents on a dollar in February as the developer fired workers and abandoned projects amid concern that Dubai-based won't be able to meet their debt obligations.

Bloomberg

Nakheel Seeks Sukuk Suspension until Further Information

Tuesday, 01 December 2009

Nakheel PJSC, the Dubai government- owned company that wants to defer payment of its $3.52 billion bond due in two weeks, asked Nasdaq Dubai to suspend the securities until it provides further information to the market.

"Following the announcement on Wednesday 25 November from the Government of Dubai, Nakheel has today asked for all three of their listed Sukuk to be suspended until it is in a position to fully inform the market," it said in a statement to the Nasdaq Dubai bourse. The Dubai government said Nov. 25 its Financial Support Fund will spearhead the restructuring of state-owned Dubai World and named Aidan Birkett of Deloitte LLP as its chief restructuring officer. Creditors of Dubai World and its property unit Nakheel will be asked for a "standstill" agreement and to extend loan maturities until at least May 30, 2010, including that of a $3.52 billion Nakheel Islamic bond due Dec. 14.

News of the potential default rattled markets from Asia to the U.S. and credit spreads widened. The cost of protecting Dubai government notes from default more than doubled to 647 basis points in three days, according to CMA Data Vision prices on Bloomberg. The swap contracts pay the buyer face value in exchange for the underlying securities or the cash equivalent should a company fail to adhere to its debt agreements.

Bloomberg

Creditors join forces as Sukuk deadline looms

Thursday, 03 December 2009

The open desert near Dubai's Jebel Ali industrial area was supposed to be the site of Nakheel's grandest vision - the Dubai Waterfront. Here, the property developer wanted to build a city twice the size of the Hong Kong island, with skyscrapers for 1.5m residents, all ringed by a 75km canal. But Dubai and Nakheel's financial crisis has stalled the project, perhaps permanently, making it another multi-billion dollar casualty of the emirate's crisis. Unfortunately for Nakheel's many creditors, the dusty land of the proposed Dubai Waterfront is also the security behind the developer's $3.52bn (£2.1bn, €2.3bn) Islamic bond, which is due in less than two weeks.

The announcement from Dubai World, the conglomerate at the centre of the emirate's woes since it asked for a six-month standstill agreement with creditors, has begun a vital process. This could set a precedent for the restructuring of Shariah compliant financing arrangements that have helped fuel the region's growth.

Many of those involved are trying to work out the rights of various creditors and how the restructuring might play out. "We're reaching a crunch point, it's a major issue if Nakheel defaults," said Nish Popat, regional head of fixed income at ING Investment Management. "This will decide where Sukuk-holders stand in a restructuring, and a lot of people are watching the process carefully."

One of the uncertainties is that many of these financings have been structured to comply with Islamic law, but created under English law. Bondholders in one of the Nakheel bonds, which need to be repaid with about $4bn on December 14, have the benefit of a guarantee from Dubai World which some investors believe would be enforceable under English law.

Some bondholders are currently in the process of forming a group that would represent in excess of 25 per cent of the outstanding issue, which under English law would be enough to block a restructuring.

"In the UK courts it would be straightforward, but the problem is what you would do with that judgment. Nakheel's assets are in the UAE," said one specialist Islamic finance lawyer. "To the extent that there is a non-payment by the guarantor, they could conceivably go after the international assets of Dubai World."

Muddassir Siddiqui, joint head of Islamic finance at Denton Wilde Sapte and an Islamic scholar, says there are many solutions for restructuring Islamic debt.

Peninsular

Nakheel Sukuk Saw Unusual Selling

Thursday, 03 December 2009

LONDON: Unusual selling of Nakheel's $3.5 billion Islamic bond in the lead-up to Dubai's announcement last week that it would seek to restructure Nakheel's owner, Dubai World, suggest

some holders may have had an inkling they wouldn't get repaid as expected in December, a data firm said Wednesday.

According to Data Explorers, a company that tracks how much of a company's stock or bonds are out on loan, about 75% of institutions holding the Sukuk sold their position between the end of August and the end of November.

"It's an extraordinary sell-off in a bond so close to maturity, when there was no indication of a problem refinancing. The data suggests they had some information that it was a good time to sell," said Data Explorers managing director Julian Pittam.

Before Dubai's surprise announcement last week that it wants creditors to give Dubai World and Nakheel at least six months to restructure, the Nakheel Sukuk traded at around 110% of face value, reflecting its approaching maturity on Dec. 14. After the news, it dropped as low as 40% of par.

If Nakheel doesn't get creditors to agree to a stay on their claims, the borrower could be declared in default after Dec. 14, marking the largest-ever Sukuk default and the first in the United Arab Emirates. A group of the Sukuk holders, including New York-based hedge-fund firm QVT Financial LP, have appointed London-based law firm Ashurst to represent them in the matter.

A December 2006 report on the Nakheel Sukuk sale in Euroweek, a trade publication for capital markets, said about 100 accounts bought the notes. Of those, more than half were banks. By geography, about 40% of the issue was placed in the Middle East and 40% in Europe.

WSJ

Sukuk to Remain Upbeat In 2010

Friday, 04 December 2009

KUALA LUMPUR: Sukuk (Islamic bonds) is fast growing in importance as a financial instrument and expected to remain upbeat or even overtake conventional issuance in 2010, a conference was told Thursday. "The Sukuk may exceed the conventional issuance next year as it continues to grow in popularity," RAM Rating Services Bhd's deputy chief executive officer, Chong Kwee Siong said. He was speaking during a panelists’ session on Malaysia's debt capital markets - new directions in bonds and Sukuk at the ongoing 14th Malaysian Capital Market Summit 2009, here.

The other panelists were CIMB Islamic Bank Bhd's chief executive officer, Badlisyah Abdul Ghani and the chief executive officer of Maybank Investment Bank Bhd, Mohammed Rashdan Mohd Yusof.

Chong said Sukuk played a significant role in the private debt security (PDS) market, making up more than 30 per cent of the total bond issuance.

Meanwhile, Badlisyah said Sukuk issuance had grown exponentially with US$18 billion worth issued globally in 2009.

He highlighted that the Malaysian Sukuk market is the deepest and broadest in the world.

Badlisyah pointed out that it is also the only one with a comprehensive legislative, regulatory, legal and Syariah-compliant in the world.

He said countries like Singapore and Indonesia have already issued the Sukuk and Thailand is looking to issue it early next year.

"There is a healthy issuance of Sukuk in the market. I believe Sukuk will be the bigger player and remain robust for the rest of the year," said Mohammed Rashdan.

He said Sukuk is Syariah-compliant and globally accepted.

Mohammed Rashdan also said there was a need to strengthen institutional markets in order to create more institutional funds to mobilize greater financing in bonds.

"This includes attracting foreign fund managers to operate from Malaysia," he added.

BERNAMA

Bursa Scores another First with Inaugural Foreign Sukuk Listing

Tuesday, 01 December 2009

KUALA LUMPUR, Bursa Malaysia Monday announced the inaugural foreign listing of US$500 million Sukuk issued by GE Capital. The five-year Islamic bond is structured based on the globally accepted Syariah principle of Sukuk Al Ijara. Bursa Malaysia's chief executive officer Datuk Yusli Mohamed Yusoff said the Sukuk offering by GE Capital was in line with efforts to internationalize Bursa Malaysia as the Islamic investment centre.

"We are very excited to witness the first foreign Sukuk listing on Bursa Malaysia and hope to see more foreign issuance of bonds or Sukuk listed here in the near future," he said.

Bursa Malaysia registered its first Sukuk listings by Petronas and Cagamas in August this year.

Malaysia is known to be the world's largest Sukuk issuance centre, with more than 60 per cent of Sukuk outstanding globally originated here.

It hosts the world's largest Sukuk market worth at an estimated US$66 billion as at end of June 2009, and remains a key driver of growth for the Malaysian Islamic market.

BERNAMA

TAKAFUL (ISLAMIC INSURANCE)

SALAMA Ties Up With Allfunds Bank for World-Class Takaful Products

Wednesday, 02 December 2009

SALAMA-Islamic Arab Insurance Co. (PSC), one of the region’s leading Islamic insurance (Takaful) companies, has joined hands with Allfunds Bank (AFB) – the leading European Open Architecture platform, to offer world-class Takaful and Shariah-compliant funds across the Middle East.

As part of the tie-up, SALAMA – the leading family Takaful company in the world – will offer a select range of Shariah compliant funds intermediated by Allfunds Bank, along with its Islamic insurance cover on a common platform to suit the diverse needs of customers in the region.

The tie-up with the leading companies reflects the potential for world-class Takaful and Shariah-compliant investment funds to be available to SALAMA clients. As a result of the tie-up, SALAMA customers will now have direct access to the largest Shariah range of Islamic funds through SALAMA products, thus diversifying their choice for investments.

Allfunds Bank, with assets under intermediation of approximately AED164 billion, is specialized in delivering Open Architecture solutions to banks, insurance companies, asset managers and independent financial advisors (IFAs) by offering them as many as 16000 funds from 350-plus international and local fund houses on a purely automated dealing platform.

Noel D'Mello, General Manager, SALAMA Family Takaful, said: "We are proud to announce the tie-up between SALAMA and Allfunds Bank for Takaful solutions – a major step towards our strategy to further expand our presence in the region. Given the immense potential for such Takaful and Shariah products in the market, this tie-up will mark a new chapter in our growth and expansion."

He added: "SALAMA has already carved a niche for itself in the Islamic insurance sector – our BBB+ rating from Standard & Poor's and A- from AM Best proves our credentials.

We are confident that this new arrangement with Allfunds Bank diversifies our offerings to our discerning regional customers."

Gianluca Renzini, Managing Director Global Sales of Allfunds Bank, said: "We are very happy to announce our alliance with SALAMA as it will bring the best and largest Shariah-compliant international and local funds offering to SALAMA's product range. Our tie-up with this market leader will also induce visibility to our business model across the GCC and is part of our strategic growth plans in the region."

The new tie-up forms another major step towards the growth of SALAMA, which recently won the Best Takaful Provider for 2009 from Global Finance magazine, the leading international financial publication headquartered in New York.

The company also won the Best Global Equity Fund award, Best Takaful Company award, Best Re-Takaful Company (Best Re) award and the Best Takaful Marketing award in the past. It has a paid-up capital of US $300 million and is listed on the Dubai Financial Market.

Allfunds Bank, a Spanish bank incorporated in December 2000, is one of the major global distribution platforms of third-party funds in the world, with presence in 16 countries, and more than 260 institutional clients including major commercial banks, private banks, insurance companies and fund managers.

Middle East

Pakistan-Kuwait Takaful rights offer fully allocated

Thursday, 03 December 2009

KARACHI: Pakistan-Kuwait Takaful recent rights' offering to raise share capital by Rs. 150 million has been allocated in full, Mr Imtiaz Bhatti, CEO said in a press statement.

Shareholders applied for 80 percent of the newly issued ordinary shares, ranked pari passu with the existing shares of the company in all respect. The remaining 20 percent shares were allocated to one of the major shareholders M/s Etiqa Overseas Investment Pte Ltd., Malaysia based on the terms of the offering memorandum. This increases the paid-up capital of the company from Rs 250 million to Rs 400 million, highest among all General Takaful operators in Pakistan.

The company intends to expand its Takaful activities across Pakistan through developing strategic plans. He added that the capital injection will support underwriting operations and business expansion, and will help in tapping new avenues for growth.

Daily Times

Takaful IKHLAS' 11th Branch to be opened In Terengganu

Monday, 30 November 2009

KEMAMAN: Takaful IKHLAS Sdn Bhd, which currently has 10 branches nationwide, will open its 11th branch in Kuala Terengganu in April next year, its president and chief executive officer Datuk Syed Moheeb Syed Kamarulzaman said. He said Kuala Terengganu was chosen as the location for the new branch due to the encouraging response from the people in the state. "Despite not having a branch the state, we found that our clients from Terengganu contributed 12 per cent of the company's revenue for the 2008 financial year," he said.

He was speaking to reporters after attending an Aidiladha sacrificial ceremony launched by Air Putih assemblyman Wan Abdul Hakim Wan Mokhtar here Sunday.

Takaful IKHLAS has two customer service centres in Kuala Lumpur and Selangor respectively, and regional offices in Kuala Lumpur, Kota Baharu, Johor Baharu, Sungai Petani, Kuching, Melaka, Kota Kinabalu, Kuantan, Ipoh and Putrajaya.

Syed Moheeb said Takaful IKHLAS would also relocate its headquarters from Petaling Jaya to Bangsar South next year.

At the event, Takaful IKHLAS handed over zakat (tithe) contributions in the form of RM200 in cash as well as daily essentials to 150 poor people from four constituencies namely Air Putih, Chukai, Kijal and Kemasik.

Takaful IKHLAS also contributed zakat assistance of RM1, 000 to Persatuan Persaudaraan Islam Terengganu.

BERNAMA

Dubai World to Restructure $26 Billion of Debt

Tuesday, 01 December 2009

Dubai World said it began "constructive" talks with banks to restructure $26 billion of debt, including liabilities owed by units Nakheel World and Limitless World. Debt from subsidiaries such as Infinity World Holding, Istithmar World and Ports & Free Zone World will be excluded from the negotiations because those companies "are on a stable financial footing," Dubai World, one of the emirate's three main state-related holding companies, said in a statement. The company is seeking to delay payments on less than half its $59 billion of debt, damping concern that its potential default may set back the global financial system's recovery from the credit crisis that sank the world economy into recession. Stocks erased losses in the U.S. after the announcement, sending the Standard & Poor's 500 Index up 0.4 percent.

"Now that they're saying $26 billion, it reduces some of the panic that built up in the last few days," said Nick Chamie, an analyst at RBC Capital Markets in Toronto. "This is positive. The market was feeding on its own concern and there were talks of $60 billion debt that would need to be restructured."

The cost of protecting against a default by Dubai fell yesterday for the first time in a week. The country's credit- default swaps declined 75 basis points to 571 basis points, according to prices from CMA Data Vision. Default swaps, which fall as the perception of credit quality improves, for Abu Dhabi narrowed 34 basis points to 144 and contracts linked to DP World Ltd. dropped 109 basis points to 631. A basis point equals 0.01 percentage point.

'Minor Problem'

Dubai shares tumbled and Abu Dhabi's stock index fell the most in at least eight years yesterday on the first trading day since the government announced state-run Dubai World may delay debt payments. The Dubai Financial Market General Index dropped 7.3 percent to 1,940.36, the biggest decline since October 2008. Abu Dhabi's ADX Index fell 8.3 percent, the most since Bloomberg began compiling the data in 2001.

The Nov. 25 announcement triggered the biggest stock market slump in three months in Asia and Europe's worst rout since April as the debt request risked adding to the $1.7 trillion of losses and write downs suffered by banks in the global crisis.

The $26 billion figure "is slightly smaller than I thought," said Michael Atkin, who helps oversee $10 billion in fixed-income assets as head of sovereign research at Putnam Investments in Boston. "That confirms that it's a relatively minor problem. Dubai was never big enough to be a systemic shock to the global system."

U.A.E. Support

Royal Bank of Scotland Group Plc was the biggest underwriter of loans to Dubai World while HSBC Holdings Plc has the most at risk in the U.A.E., according to JPMorgan Chase & Co.

The United Arab Emirates' central bank said Nov. 29 it "stands behind" the country's local and foreign banks and offered them access to more money under a new facility. U.A.E. Central Bank

Governor Sultan Al-Suwaidi told Abu Dhabi TV yesterday there was "no need to worry" about lenders in the Persian Gulf nation.

The amount of obligations Dubai World plans to restructure includes about $6 billion of Islamic bonds sold by Nakheel, according to the statement. The debt, known as Sukuk, is governed by Shariah laws barring investors from profiting from the exchange of money.

Creditor Group

"Initial discussions have commenced with the banks of Dubai World and are proceeding on a constructive basis," Dubai World said in the statement. "It is envisaged the restructuring process will be carried out in an equitable way for the overall benefit of all stakeholders."

The Dubai government said Nov. 25 its Financial Support Fund will spearhead the restructuring of state-owned Dubai World and named Aidan Birkett of Deloitte LLP as its chief restructuring officer. The government said Dubai World would seek an extension of loan maturities until at least May 30, 2010. More than 75 percent consent from creditors is needed to approve extraordinary resolutions.

Bondholders of Nakheel PJSC, Dubai World's property unit whose $3.52 billion Islamic bond is due Dec. 14, formed a creditor group that represents more than 25 percent of that debt, according to Jo Shepherd, head of public relations at Ashurst LLC, which was appointed legal adviser. The group is considering its options, Shepherd said.

$80 Billion

Bondholders will "want a detailed plan as to how and what the repayment strategy will be and what the eventual source of repayment will be," said Abdul Kadir Hussain, chief executive officer of fund manager Mashreq Capital DIFC Ltd, before the Dubai World statement was released.

Dubai's government told creditors of Dubai World yesterday that they should help in a restructuring the holding company because it hasn't guaranteed the debt.

"The lenders should bear part of the responsibility," the director general of the emirate's finance department, Abdulrahman Al Saleh, said on state-run Dubai TV. The government's Nov. 25 decision to seek a halt Dubai World's debt payments is "in the interest of all parties, the investors the creditors and the contractors," he said.

Dubai, the second-biggest of seven states that make up the U.A.E. and its state-owned companies borrowed $80 billion to fund a boom in growth and diversify the economy. The global financial turmoil and a decline in property prices hurt companies such as Dubai World as they struggled to raise loans.

Housing Slump

The company received financing based on the "viability of its projects, not on government guarantees," Al Saleh said.

Home prices in Dubai plummeted 47 percent in the second quarter from a year ago, the steepest drop of any market, according to Knight Frank LLC. Property prices may drop further, a survey by Colliers International showed Oct. 14.

Istithmar World, Dubai World's investment unit, bought New York luxury retailer Barneys in 2007 for $942.3 million. Dubai World agreed in 2008 to invest about $5.1 billion in U.S. casino company MGM Mirage as part of a plan to diversify the emirate's economy into entertainment and financial services.

Dubai, home to the world's tallest tower, set up a $20 billion Dubai Financial Support Fund after the seizure in credit markets. Dubai said Nov. 25 it borrowed $5 billion from Abu Dhabi government-controlled banks for the fund, after raising $10 billion by selling bonds to the U.A.E. central bank in February.

Ratings Cuts

Dubai's government raised $1.93 billion in October from the biggest sale of Islamic bonds from the Gulf Arab region this year, and paid off a $1 billion Dubai Civil Aviation Authority Sukuk due Nov. 4. The sheikhdom and its state-owned companies have to repay $9.2 billion of bonds and loans maturing in 2010, $19.8 billion in 2011 and $17.3 billion in the following year, Deutsche Bank AG said in report in August.

Istithmar World breached the covenants on 895 million pounds ($1.5 billion) of loans backed by London's Adelphi office building, the issuer said in a statement.

Moody's and Standard & Poor have cut their ratings on Dubai state companies, saying they may consider Dubai World's plan to delay payments a default.

"The times of implicit support are clearly over," said Philipp Lotter, vice-president of Moody's Investors Service in Dubai. "In the past, entities such as Dubai World certainly represented themselves as quasi-government entities, whereas there was no legal obligation on behalf of the government to support, and that has certainly shifted with last week's announcement."

Bloomberg

Hong Kong Financial Firm Plans Shariah-Compliant Green Investment Vehicle

Tuesday, 01 December 2009

Hong Kong-based private equity firm Middle East & Asia Capital Partners Pte (MEACP) plans to introduce a Shariah-compliant investment vehicle to its clean energy fund to attract Islamic capital, reports Reuters news agency. "We plan to create a special vehicle that will attract Islamic finance by adding a Shariah component," said company director Vince Choi

MEACP plans to expand its clean energy fund, established in 2008, from $400 million to $500 million sometime next year with the launch of the Shariah-compliant special vehicle.

Choi said the company was targeting a $100 million first round of funding, to be completed by mid-December.

The fund has seed capital of $20 million from Asian Development Bank, and funding of up to $50 million from Overseas Private Investment Corp. Choi said the fund's third investor was an unnamed regional commercial bank.

"We've set a 12-month deadline from next year to get the rest of the cash," said Choi. "We're in the second stage of discussions with potential partners (for the rest of the fund) and I expect this will go on for a few months before we make a single investment."

Choi said MEACP was considering investments in clean power generating projects in Asia, particularly India, Indonesia, China, the Philippines, Thailand and Vietnam. Possible projects include wind, solar, geothermal, small hydropower and biomass.

Islamic financial products conform to Shariah law, which prohibits the paying of interest and involvement in sectors related to alcohol, gambling and pork.

FIN alternatives

Islamic Income Fund launched

Wednesday, 02 December 2009

LAHORE (APP) - IGI Funds Limited, the Asset Management Company of IGI Financial Services and Packages Group, has launched the 'IGI Islamic Income Fund'. The IPO dates for this Fund are 1st - 3rd December 2009 inclusive. This latest offering is the third fund to be launched by IGI Funds Limited.

The company introduced the IGI Income Fund in April 2007 and the IGI Stock Fund in July 2008. These funds are rated 3 Star" and 5 Star by PACRA respectively. IGI Funds aims to offer a complete suite of mutual fund products to its customers. Fund returns from existing funds have been strong and competitive.

Ms. Maheen Rahman, CEO-IGI Funds, believes the new fund is ideal for investors seeking regular and steady returns from a Shariah compliant investment portfolio.

She said, the Islamic Income Fund is another initiative taken by IGI Funds to offer investors a new investment solution and help them gain low risk Riba-free profits in an uncertain investment environment.

The Nation

Malaysian regulator updates Islamic stocks list

Tuesday, 01 December 2009

KUALA LUMPUR, Malaysia's capital market regulator said on Monday it has revised its list of Islamic stocks to add 13 counters and drop four. In a regular review which is done twice a year, the Securities Commission said it has included mobile phone firm Maxis Bhd, shoe sole maker Multi Sports Holdings , property company TA Global Bhd, ship builder TAS Offshore Bhd and nine others to the list.

It dropped property developer Country Heights Holdings Bhd, can maker Kian Joo Can Factory Bhd, confectionery manufacturer Pan Malaysia Corporation Bhd and hotel operator Pan Malaysia Holdings Bhd.

A total of 846 counters, or 88 percent of shares listed on Malaysia's stock exchange, satisfy the Shariah rules on investing, the Securities Commission said in a statement.

The full list of Islamic stocks is available on the Securities Commission's website at www.sc.com.my.

Forbes

SC Releases Issuer Eligibility Guidelines on Structured Warrants

Wednesday, 02 December 2009

KUALA LUMPUR: The Securities Commission (SC) on Tuesday released the 'Issuer Eligibility Guidelines -- Structured Warrants' in an effort to maintain market confidence and enhance investor protection. In a statement, the SC said the guidelines would enable it to continue to assess the suitability of structured warrants issuers. It said under the guidelines, the issuers were required to submit a declaration to the SC confirming that they complied with the requirements pertaining to, among others, issuer's risk management measures, sales and marketing practices and internal control procedures.

"The declaration must be submitted at least one month prior to the submission of prospectus for structured warrants issues for registration by the SC," it said.

BERNAMA

ISLAMIC FINANCE EVENTS; SEMINARS, WORKSHOPS & CONFERENCES

Seminar discusses role of Shariah auditors

Thursday, 03 December 2009

DOHA: A top executive of QNB Al Islami has stressed the importance of Islamic banking against conventional banking and the role of Shariah auditors during the Institute of Internal Auditors Seminar held recently at the Millennium Hotel.

Islamic Banking against Conventional Banking and the Role of Shariah Auditor" was the topic of presentation given by Musadag El Melik, General Manager QNB Al Islami, at the IIA seminar held recently at the Millennium Hotel in Doha.

Musadag told seminar participants that Islamic banking to a system of banking activity that is consistent with the principles of Islamic law (Shariah) and its practical application through the development of Islamic economics.

"The foundation of Islamic banking operations is based on the Islamic faith and is restricted to the limits of Islamic Law or the Shariah in all of its actions and deeds. Amongst the governing principles of Islamic banking are the non-existence of interest (Riba), the avoidance of economic activities involving oppression (Zulm), the avoidance of economic activities involving

uncertainty (Gharar), the avoidance of economic activities involving ambiguity (Jahala), the introduction of an Islamic tax, Zakat and the discouragement of goods and services which contradict the Islamic values (Haram)" Musadag said.

He said Islamic banking offers a wide range of products such as Mudarabah or profit sharing, Murabaha or cost plus, Musawama (bargaining), Ijarah or lease and so on.

Talking about the Islamic banking practices, Musadaq said, "The core responsibility of guiding and supervising the operations of Islamic banks rests with respectable Shariah Scholars duly appointed as the Shariah Advisors and members of Shariah Boards of these institutions. They assure integrity and credibility of institutions offering Islamic Financial Services."

The seminar was hosted by the Qatar Chapter of the Institute of Internal Auditors in association with the Scientific Accounting Association (Qatar University) and was sponsored by QNB Al Islami.

Peninsular

ACCA Pakistan hosts Islamic finance debate

Thursday, 03 December 2009

ACCA Pakistan hosted a series of Islamic finance seminars via WebEx in Lahore, Karachi and Islamabad on 24 November. The event, which is yet another example of ACCAs contemporary and modern thinking, considered how the global economic crisis has presented an unprecedented opportunity for Islamic finance to establish itself as a truly global leader in the financial services industry, thereby realizing its full, unique potential.

The events seminars featured speeches by Dr Afra Sajjad, ACCA Pakistan head of education and policy development, and Aziz Tayyebi, ACCA financial reporting officer and ACCA representative on the Federation of European Accountants (FEE) Task Force on XBRL and UKTI Accounting Sub-group on Islamic finance. Both led the discussion on the success of Islamic finance in the current economic conditions and ways to bridge this gap.

Islamic finance is an increasingly viable route for access to finance - because of its appeal as a potentially ethical form of finance, it has attracted attention in current economic climate, commented Dr Afra Sajjad. The impressive growth of 10-15% per annum seen in recent years emphasizes the potential market for such products.

Today we have tried to stimulate a discussion around the future of Islamic finance as a mainstream financial service globally and in Pakistan.

The seminars were very well received, with 55 ACCA members participating in Lahore, 42 in Karachi and 30 in Islamabad.

Web News Wire

Low spending marks US holidays

Sunday, 29 November 2009

The typically high-spending end-of-year US Christmas season is predicted to be a second consecutive low for retailers this year, providing scant optimism for the economy. Black Friday, the day after Thursday's national Thanksgiving holiday, is known as the busiest annual shopping day, but this year many shops offered greater than usual discounts to lure consumers.

"The deals are actually better than last year, more than 50 per cent off," Varere Jordan, a 42-year-old conductor on New York City's subway trains, said. Jordan rose at 5am to be an early arrival at stores and bought a flat-screen TV.

The National Retail Federation predicted that about 57 million people would shop on Black Friday, with another 77 million poised to venture out if they heard that there were good deals.

The health of the retail sector is seen as a crucial indicator for America's still shaky economy, which is based in the main on consumer spending.

Early signs from Black Friday show that consumers spent only half a percentage point more this year than in 2008. Last year was the worst holiday shopping season in nearly four decades.

Added to that unemployment is up to 10.2 per cent this year from 6.6 per cent last year, further harming the chances of the period bolstering annual consumer sales.

Al Jazeera

India GDP growth beats forecasts

Monday, 30 November 2009

India has reported its best growth figures in more than a year, beating economists' predictions and suggesting Asia's third largest economy is fast emerging from a slowdown caused by the global financial crisis. India's economy grew by 7.9 per cent in the three months to September, the government figures, released on Monday, showed.

Analysts had expected the economy to grow at only 6.3 per cent, following on from growth of 6.1 per cent in the April-June quarter, according to a poll by Dow Jones Newswires. "As upside surprises go, this was a big one," Robert Prior-Wandesforde, an HSBC economist, was quoted by the AFP news agency as saying.

India's expansion, the strongest quarterly performance since early 2008, was bolstered by rising industrial production and government stimulus measures designed to combat the global downturn. The figures show manufacturing in India surged by 9.2 per cent while government spending on roads and other projects climbed by 12.7 per cent.

'Significant Improvement'

Government spending in total rose 26.9 per cent, while private consumption increased 5.6 per cent, in constant currency terms, from the same quarter a year ago. The growth comes despite the

worst summer monsoon since 1972 hitting India's agricultural sector - growth in agriculture, forestry and fishing was just 0.9 per cent for the quarter, the figures showed. While less than 20 per cent of India's gross domestic product comes from agriculture, some 65 per cent of the population relies on farming for their livelihood.

Montek Singh Ahluwalia, the deputy chairman of India's planning commission, said the rise had caused the board to increase its estimates for the year to March 2010, although he did not say by how much. "In the rest of the year we could see [more] significant improvement than expected," he told reporters in New Delhi.

Regional Rivalry

Figures for the Asian region as a whole have been strong as countries pull out of the financial down-turn. Regional rival China grew by 8.9 per cent in the third quarter, the fastest pace in a year.

Analysts said the strong Indian numbers would fuel debate over when the central bank should raise benchmark borrowing rates as it seeks to fight inflation and keep the economic resurgence on track. But economists said the odds were still tilted in favour of interest rates remaining on hold until January while the central bank waits to ensure the strong growth is entrenched.

During the July-September quarter last year India saw a growth rate of 7.7 per cent. Growth for the fiscal year ending March 31 dropped to 6.7 per cent, its worst since 2003.

Al Jazeera

Asia Stocks up as Dubai Fears Ease

Monday, 30 November 2009

Stock markets across Asia have clawed back some lost ground after investor worries over exposure to the debt crisis in Dubai sparked a steep sell-off late last week. The tentative recovery came as investors' nerves steadied on hopes that the fallout from a potential default will be limited.

Stock prices from Japan to Australia rose on the average between 1.7 and 2.7 per cent on Monday. Bank and construction shares, the big losers last week, led the turnaround. Shares in the oil-exporting United Arab Emirates (UAE), however, are expected to fall sharply when markets open for the first time since Dubai's announcement and the end of the Eid holidays.

Panic

Global stock markets took a nosedive last Friday triggered by news that Dubai was asking creditors of its state-owned construction firms for a six-month freeze on repayments on $59bn of debt. The request for a debt moratorium for state-owned Dubai World and Nakheel, its property arm and the builder of its landmark palm-shaped islands, triggered panic and drove global markets down.

The news triggered fears that Dubai's debt problems could lead to more financial instability just as the global recession appears to be easing. Following the announcement European stocks fell to

lows not seen since May while stock markets in Asia also tumbled, with South Korea and Hong Kong losing almost 5 per cent. European markets regained some ground late on Friday.

On Sunday the UAE government moved to contain the fallout from Dubai's debt crisis by pledging emergency central bank funds to all banks in the country, including foreign institutions with local branches.

Analysts say the central bank's move to inject liquidity into Dubai's banks, together with promises by neighbouring city-state Abu Dhabi to provide selective support, was the bare minimum they could do. However, the bank's announcement, aimed at shoring up confidence, did not mention any specific help for Dubai.

Vigilance

South Korean stock and currency markets received an additional boost from the government's pledge to stay vigilant. Hur Kyung-Wook, South Korea's deputy finance minister said on Monday that the government would maintain a daily monitoring system until the Dubai incident was resolved.

In Japan the Nikkei benchmark, which hit a four-month closing low on Friday, rose as the yen's fall from a 14-year high against the dollar also lifted exporters. Hideo Kumano, chief economist at Tokyo-based Dai-ichi Life Research Institute, said Japanese markets showed "a slight bit of optimism" after European shares rebounded while the US markets were closed.

"The rebound in the European shares provided the feeling that this Dubai shock may be absorbable," Kumano told Reuters Television. "I don't think the level of direct impact that the Dubai crisis has on Japan would be that huge."

Francis Lun, general manager of Fulbright Securities Ltd, said the UAE would not let Dubai World go down the tube. "The most important thing is that the United Arab Emirates came up and said that they would support the banks and I think the investors were relieved that it will not be a repeat of the Lehman bankruptcy," he told Reuters. "I think the banks will have to take a significant haircut on this, because they are not going to get all the money back."

Al Jazeera

Caracas 'closes compromised banks'

Tuesday, 01 December 2009

The Venezuelan government has closed down four banks, saying the authorities uncovered major financial problems after they took over the banks due to irregularities in their operations. Two of the banks, Canarias and ProVivienda, will be permanently closed and their assets auctioned off, Ali Rodriguez, the finance minister, said on Monday.

"The damage caused has been so great that it has severely compromised the solvency of these institutions which therefore requires closed door intervention and their liquidation," Rodriguez said.

Authorities plan to rehabilitate the other two banks, Confederado and Bolivar. Most deposits in the closed banks are expected to be covered by the state deposit insurance fund.

Government Takeover

The four banks, which account for 5.7 per cent of Venezuela's banking sector, were taken over by the government on November 20, citing various violations. Their owner, Ricardo Fernandez, a wealthy businessman who has close ties to the government, is under arrest.

Rodriguez said the government would pursue an investigation to determine who was responsible for the banks' problems and arrest them. "Wherever they are, they will be found and brought to justice."

Two people have already been arrested in the affair. Ricardo Fernandez, a key investor, and Jose Camacho, his lawyer, are charged with misappropriating deposits and providing loans to other businesses in which they were investors.

'Cleaning Up'

Employees and customers were gathering outside closed banks on Monday after not being allowed in. "All my money is still there. My salary, [my] savings are there," said Deisy Avila, an employee at Canarias bank in the capital, Caracas.

Boris Segura, a senior Latin American analyst for the Royal Bank of Scotland, said that given problems in some other banks, there could be more "cleaning up" of institutions like the four closed on Monday.

"What we might be seeing is a nationalization of the system little-by-little," he said.

"That could be his [Chavez's] long-term strategy for the banks."

The bank closures come a day after Hugo Chavez, the president, threatened to nationalize banks refusing to lend to the poor or failing to sufficiently aid Venezuela's development.

In his weekly television show "Alo Presidente" on Sunday, Chavez said: "I'm telling the private bankers, 'he who slips up loses', and I'll take over the bank, whatever its size."

Al Jazeera

UAE stocks see further falls

Tuesday, 01 December 2009

Stock markets in Dubai and Abu Dhabi have fallen for a second consecutive day, despite assurances from the president of the United Arab Emirates that the country's economy is strong. Markets in both Dubai and Abu Dhabi were down 5.6 per cent and 3.57 respectively at the close of trading on Tuesday, following slumps of 7.3 per cent and 8.3 per cent the day before.

The slide caused repercussions across the Gulf region with markets in Qatar falling by nine per cent and in Kuwait by two per cent early on Tuesday. But the president of the United Arab Emirates (UAE), which includes Abu Dhabi and Dubai, countered speculation about the country's economic fragility.

"We would like to comfort everyone that our country today is stronger and better, and that our economy and society are healthy," Sheikh Khalifa bin Zayed al-Nahayan said in a speech, quoted by state news agency WAM.

Dubai Debt Fears

The stock market falls were precipitated by an announcement last Wednesday that Nakheel, the property developer arm of Dubai's heavily-indebted conglomerate Dubai World, would seek a six-month freeze on debt repayments of almost $60bn.

Nakheel consequently asked the Nasdaq stock exchange to halt trading of its shares to allow time to complete its restructuring plans on Monday, while concern heightened over the UAE economic health.

The finance ministry then announced that it would not guarantee the debt of Dubai World, causing further market unrest on Tuesday.

In Dubai, Sheikh Mohammed bin Rashid al-Maktoum, the emirate's ruler, said the global reaction to the planned restructuring of Dubai World showed a lack of understanding. "We are strong and persistent," he told reporters.

Dan Nolan, Al Jazeera correspondent in Dubai, said: "Everyone has been of the opinion yesterday and again this morning once the markets opened it would be another torrid session.

"The good thing for them is that at the end of this session today there is another four-day break for the UAE national day holiday. So the markets will then re-open on Sunday and everybody is hoping that by then this slide will have stopped."

Trading Woes

It is hoped that a financial assistance program by Abu Dhabi, which has 90 per cent of the UAE oil exports, will help to resolve the debt crisis, although the details of any proposed plan have not yet been divulged.

"Negotiations [between Abu Dhabi and Dubai] are underway. Everybody is waiting to see what Abu Dhabi will want in return," Nolan said.

"That will depend on how tight the brotherhood is between these emirates ... Abu Dhabi has to be careful that their stock markets are getting hammered too. So they have a vested interest in fixing this."

Abu Dhabi said last week that any assistance to Dubai would be on a case-by-case basis, unlike the $15bn in assistance the emirate gave to Dubai earlier this year.

Al Jazeera

General Motors CEO resigns

Wednesday, 02 December 2009

The chief executive of car giant GM has resigned after just eight months as head of the troubled US car maker. The company's board of directors said on Tuesday that it had dismissed Fritz Henderson because it wants to chart a new course as GM pushes ahead with its efforts to recover from bankruptcy.

Henderson took the top job earlier this year after his predecessor was forced out by the Obama administration. News of the resignation came minutes after the end of a GM board meeting to discuss the fate of its Swedish car brand Saab. The White House has said it was not involved in the decision to replace Henderson.

Edward Whitacre, the GM chairman, announced at a hastily-called news conference at GM's Detroit headquarters after the board meeting that he will temporarily replace Henderson, while an international search for a new president and CEO begins immediately. "Fritz has done a remarkable job in leading the company through an unprecedented period of challenge and change," Whitacre said, reading from a statement.

"While momentum has been building over the past several months, all involved agree that changes needed to be made."

Net Loss

Two weeks ago GM said it has suffered a net loss of $1.15bn in the period since emerging from bankruptcy in July, and that it is making progress toward reviving its fortunes despite a prediction of more losses in the coming months. Henderson took the helm at GM in late March as the auto giant was headed toward bankruptcy and living off massive aid from the US government.

Denying any involvement in the latest action, the Obama administration said in a statement that the "decision was made by the board of directors alone".

Whitacre, a former AT&T chairman and CEO who was installed as chairman of a new board controlled mainly by the US government, said daily operations "will continue as normal".

"I remain more convinced than ever that our company is on the right path and that we will continue to be a leader in offering the worldwide buying public the highest quality, highest value cars and trucks," he said.

"We now need to accelerate our progress toward that goal, which will also mean a return to profitability and repaying the American and Canadian taxpayers as soon as possible."

Massive Aid

Henderson had guided GM through bankruptcy with the company emerging on July 10 as a new entity backed by the US and Canadian governments. The US government - which has provided some $50bn in financing - received a controlling stake of 60.8 per cent in the new firm called General Motors Company.

Canada, which provided $9.1bn in loans, has an 11.7 per cent stake and a United Auto Workers union retiree healthcare trust fund holds 17.5 per cent.

Once the world's largest corporation, General Motors sold more vehicles than any other automaker from 1931 through 2007, after which it lost the crown to Japan's Toyota.

Al Jazeera

Gold sets new price record

Wednesday, 02 December 2009

The price of gold has struck a record high level in trading in British capital, London.

Gold hit $1,215.85 on the London Bullion Market on Wednesday just after breaking through the $1,200 barrier for the first time on the previous day.

Gold has broken record after record over recent days and weeks on the back of inflationary fears and increasing moves by central banks to diversify assets away from the dollar, which has weakened against the euro and yen.

Dealers have recently shifted heavily into gold, which is viewed as a safe-haven commodity, due to the uncertain economic outlook and increasing divestments by central banks around the world.

The yellow metal, whose two main drivers are jewelry and investment buyers, has also won favour in the uncertain economic climate and fears of a mounting Dubai debt crisis.

Al Jazeera

Dubai companies given 'junk status'

Thursday, 03 December 2009

Standard & Poor, an international ratings agency, said it has cut the credit ratings of six Dubai government-linked companies to junk status. S&P said on Thursday it has taken the move as the likelihood of extraordinary support from the Dubai government appears "low".

The Dubai government-related entities (GREs) lowered to junk status were DP World, DIFC Investments, Jebel Ali Free Zone, Dubai Multi Commodities Centre Authority, Dubai Holding Commercial Operations Group and Emaar Properties PJSC.

S&P also lowered its ratings on four Dubai-based banks to junk status because of their large exposures to Dubai companies including Dubai World and Nakheel, its troubled property subsidiary.

Credit ratings for the six companies and four banks remain under surveillance and could be downgraded further, the agency said.

Affected Banks

The four banks affected at Emirates Bank International PJSC (EBI), National Bank of Dubai (NBD), Mashreqbank (Mashreq) and Dubai Islamic Bank (DIB). The assets and liabilities of EBI and NBD were recently merged, S&P noted.

Emmanuel Volland. Standard & Poor's credit analyst, said: "The rating actions reflect our decision to lower our assessments of the banks' respective stand-alone credit profiles because of their high exposure to Dubai-based GREs, which we downgraded earlier today."

S&P said it does not rate Dubai World or Nakheel, its property arm hammered in the global economic and financial crises.

Market Concern

The Dubai government rocked global financial markets by announcing a week ago that state-controlled Dubai World was seeking a six-month standstill on credit payments. Investors subsequently were alarmed when the head of the Dubai finance department said the government never intended to guarantee Dubai World's $59 billion in debt, the lion's share of the city state's borrowings estimated at up to $100 billion.

S&P said the decision to downgrade the six companies was "reinforced by the Dubai government's recent comments stating its belief that Dubai World 'should receive financing based on the viability of its projects, not on government guarantees.'"

S&P noted that under its criteria, "a standstill is considered a default."

"As evidenced in the case of Dubai World and Nakheel, the Dubai government is either unable or unwilling, or both, to provide extraordinary government support in the form of timely and sufficient financial support to those of its GREs that provide essential government services on its behalf," it said.

Al Jazeera

Bank of America to repay bailout

Thursday, 03 December 2009

Bank of America Corporation has said that it will repay $45 billion of taxpayer bailout funds. The move announced on Wednesday could free the top US lender from pay curbs as it looks to hire a new chief executive. However, the search for a new CEO also makes the bank more vulnerable to further economic shocks.

The deal is also a fiscal stimulus to support the US treasury, which has been under fire for billions of taxpayer dollars that has shelled out to corporate America during the financial crisis. The Charlotte, North Carolina-based banking leader is expected to repay its Troubled Asset Relief Program (Tarp) funds over the next few days. A US treasury official called the repayment a step in the right direction, adding that replacing treasury investments with private capital would provide a boost to confidence.

Degree of Risk

While the agreement sent Bank of America shares higher after-hours, it comes with a degree of risk. Many investors remain concerned that without the government's backing, the bank could struggle again if the economy were to take a turn for the worse. "I didn't think they were in any position to repay Tarp. I was looking for that in another 12 to 18 months," Bill Fitzpatrick, an analyst at Optique Capital Management, said.

"Given all the risks that are still embedded in the economy, it's more prudent to beef up your capital levels."

Under the agreement's terms, the bank will issue up to $18.8 billion in securities that will convert into common stock once shareholders approve an increase in the bank's shares. The remainder of the $45 billion would be repaid through $26.2 billion in cash.

The bank is repurchasing all of its outstanding shares under the Tarp program, but not repurchasing the warrants. Treasury rules indicate that Bofa will be free from Tarp restrictions once it has repaid the capital investment, even if the government still holds the bank's warrants.

Bob Stickler, a company spokesman, said: "Our goal was to meet our obligation to taxpayers. We see this as a victory for the government's program, as it did what it was intended to do."

Searching for a Successor

Kenneth Lewis, the outgoing CEO who is expected to step down from his post by the end of 2009, has said in the past that repaying the government was something he wanted to accomplish before stepping down. Bank of America has been searching for a successor to Lewis since it announced in late September that Lewis planned to retire on December 31.

Greg Curl, Bofa's chief risk officer, negotiated the deal and has been considered a leading contender to replace Lewis.

Curl played an instrumental role in gaining the government's permission to repay the Tarp funds, a move that could bolster his chances as a contender for the CEO position, according to financial industry sources. "It's a feather in his cap," said Anton Schutz, the president of Mendon Capital in Rochester, New York.

Al Jazeera

China, GM eye India auto market

Friday, 04 December 2009

US car-maker General Motors and Shanghai Automotive Industry Corp (SAIC), its Chinese partner, are expected to begin manufacturing and selling small-size cars in India, which is considered to be one of the fastest-growing automobile markets in the world. The two companies, which dominate the Chinese automobile market, said they had set up a 50-50 joint venture aimed at expanding in emerging Asian markets.

In a press conference on Friday, the two companies said they will invest a total of $650mn in the Indian venture with the aim of selling some 225,000 vehicles a year. "We have had a successful relationship with them [SAIC] for 12 years," Nick Reilly, the president of GM's international operations, told reporters during a conference call on Friday.

"It seemed to us a sensible time and a big opportunity to deepen that relationship and broaden that relationship outside of China."

Global Restructuring

GM, which is restructuring as it emerges from bankruptcy, will also sell a 1 per cent stake in its existing China venture to SAIC for about $85 million, giving China's top car-maker control and allowing it to consolidate the venture's accounts onto its balance sheet. GM is the biggest foreign automaker in China, with sales expected to hit 1.4 million vehicles in the country this year. SAIC is the top Chinese car manufacturer in a local market which has seen vehicle sales soar 37.7 per cent to date in 2009.

For SAIC, gaining control of the China venture and equal say with GM in India could provide an opportunity to become a global player in an auto market that has suffered one of its deepest downturns in memory. "India is a test case of SAIC's ambition for overseas expansion, and it may further expand into Southeast Asia when the time is right," said Johnny Wong, auto analyst at Yuanta in Hong Kong.

Foray into India

Analysts said the move by SAIC would mark a significant overseas expansion by a Chinese manufacturer, and pit the two partners against established Indian car-makers Tata Motors and Maruti Suzuki. "The foray into India is both a challenge and opportunity," said Liu Feng, an analyst with Southwest Securities.

"It is a challenge because Tata and large car-makers are also experienced in making mini vehicles."

Tata dominates India's commercial vehicle market while Maruti Suzuki is the biggest seller of passenger cars. Earlier this year, Tata launched what has been called "the world's cheapest car", designed to car ownership within the reach of more Indians. The Nano, a four-door, five-seater vehicle with a two-cylinder 623cc rear engine and top speed of 105kmph, is only 3.1m long and priced at 100,000 rupees (about $2,000).

Growing Market

There is consensus among analysts that the Indian market offers both sides an opportunity to tap one of the fastest growing markets in the world. "The Indian market is an extremely good one because it is an emerging market with a lot of growth potential," says Klaus Paur, the North Asia director for market research company TNS.

Liu said the move could help protect SAIC from a possible future slowdown in local growth rates. "For SAIC, it is better to walk on two legs as the overseas market will (offset potentially weaker) domestic demand next year and the year after next."

The foray into Indian markets comes after years of efforts by GM to increase sales and launch a small car in the sub-continent.

Al Jazeera

Obama seeks help on jobs slump

Friday, 04 December 2009

Under pressure to turn the economy around as unemployment levels soar above 10 per cent, the US president has urged business leaders to generate fresh ideas to create jobs. Barack Obama called on leading business, union leaders and academics to help him come up with innovative ideas for putting millions of Americans back to work on Thursday, saying he wanted the "biggest bang" for every dollar spent. He told a White House brainstorming forum on jobs that the leading question of the day was "how do we get businesses to start hiring again" and asked his audience of about 130 guests to "bring their A-game".

"We cannot hang back and hope for the best," Obama said. "What I'm interested in is taking action right now."

But he added that while he is "open to every demonstrably good idea ... we also, though, have to face the fact that our resources are limited", as participants broke into working groups to brainstorm.

The call comes amid increasing skepticism over whether the stimulus package Obama announced earlier in the year is yielding results, and a day before unemployment figures for November are due to be released.

The US October unemployment rate was 10.2 per cent. A broader index that includes those who have given up looking for work and those forced to accept part-time jobs puts the rate at 17.5 per cent. Economic forecasters expect the November figures to be at about the same levels.

Al Jazeera

Obama to attend climate talk climax

Saturday, 05 December 2009

Barack Obama, the US president, has agreed to attend the final negotiating stages of the Copenhagen summit, delivering a boost to UN climate talks. Robert Gibbs, a White House press secretary, said Obama's decision announced on Friday "reflects the president's commitment to doing all that he can to pursue a positive outcome".

"There are still outstanding issues that must be negotiated for an agreement to be reached," Gibbs said.

Obama had previously said he would attend the opening days of the talks and not the closing days when any deal was likely to be forged, a stance that led some world leaders to suggest that the US was not keen on establishing an agreement.

"We can't allow the presence of one single head of state to stymie the world's affairs," Nicolas Sarkozy, the French president, told reporters at the Commonwealth talks in Trinidad last week.

"The decisive moment is December 17 and 18. If some come at the beginning and others at the end, when will we be able to take decisions?" he asked.

However, Obama agreed to attend the last leg of the two-week conference if his appearance would help clinch a deal. The move means Obama will be at the summit on December 18, considered a crucial period when at least 100 heads of state will be in attendance, as opposed to his scheduled stop in Denmark on Wednesday on his way to Nobel Peace Prize events in Oslo, the capital of Norway.

Country Goals

India pledged on Thursday to cut the ratio of greenhouse gases pollution to production by 20 to 25 per cent from 2005 levels by 2020 but would not agree to hard limit on the amount of heat trapping gases it could release. India's pledge is a cut in carbon intensity, which means that emissions can keep rising as their developing economies grow but they would do so more slowly.

China also pledged weeks ago to commit to a 40 to 45 per cent reduction in carbon intensity from 2005 levels over the next decade, meaning emissions would grow at half the rate they would otherwise.

By contrast, the US will propose a cut in emissions over the same time period in the range of 17 per cent, regardless of the growth of its economy. However, the US congress will have to pass legislation to curb greenhouse gases blamed for global warming for the US to achieve the target it proposes. The Senate has said it will not take up the measure until next year and even if it does, a 17 per cent reduction by 2020 is lower than what scientists say is needed to avert the dangerous consequences of climate change.

Scientists say the industrial countries must slash carbon emissions by 25 to 40 per cent by 2020 below 1990 levels to prevent the Earth from warming two degrees centigrade, the maximum to reduce the worst risks.

Obama's proposal translates to a four to five per cent reduction from 1990 levels.

"This is a very significant development, which in substance and symbolism greatly enhances the prospects of a satisfactory agreement at Copenhagen," Rajendra Pachauri, whose Intergovernmental Panel on Climate Change shared the Nobel Peace Prize with Al Gore, the former US vice president in 2007, said about Obama's plans.

None of the three countries, which are among the top five emitters of carbon dioxide in the world, were subject to limits put in place by the 1997 Kyoto Protocol, the treaty that negotiations in Denmark seeks to replace.

Financing the Goals

Beyond carbon emissions, another hurdle at the climate negotiations is money. After talks this week with European leaders, the White House said that Obama has come up with an "emerging consensus" on how much money polluting rich countries should pay by 2012 to poorer countries, which are more often the victim of global warming – a total of $10 billion a year.

Yvo de Boer, the UN climate chief, says $10 billion to $12 billion a year is needed from developed countries through 2012 to "kick-start" the issue.

Gibbs said the US would pay its "fair share" of the $10 billion amount but did not identify what that was or from where it would come.

Overall, such money would be used to help those countries adapt to warming already under way by building flood control, changing agriculture, raising buildings and getting better water supplies. The money also would be used to help those poorer countries cut their own greenhouse gas emissions.

The Copenhagen conference on climate change is scheduled to end on December 18.

Al Jazeera

Aviation firm moots 'green' fuels

Saturday, 05 December 2009

The aviation industry, seen by many as one of the worst offenders when it comes to carbon emissions, is being pressured to find new ways of going green. Although aero plane makers claim that they are building aircraft that are more fuel efficient than ever before, their models still emit huge amounts of carbon. Airbus says that it is leading the charge to find cleaner alternatives to standard aviation fuels, but environmental activists say the claims are little more than hype.

Al Jazeera

US slashes bailout cost estimate

Saturday, 05 December 2009

The second installment of the United States' bank rescue program is going to cost $200bn less than first estimated, a treasury official has said. The official's comments, reported on Monday, mean the administration believes the cost of the bailout's final stage will be at most $141bn, sharply down from its August estimate of $341bn. The official, who spoke on condition of anonymity because the new projection has not yet been presented to congress, said the reduced estimate reflected faster repayments by big banks and less spending on some of the programs.

Barack Obama, the US president, is expected to raise the idea of using the repaid funds for a jobs program aimed at tackling the high unemployment in the US.

Deficit Fears

That idea is likely to run into opposition from Republicans, many of whom are opposed to spending the remaining funds on a jobs bill and would rather see it used to lessen the budget deficit. The deficit for the 2009 budget year, which ended in September, hit a record $1.4 trillion and the administration has projected a slightly higher deficit for the current year.

The US congress authorized $700bn for the financial rescue program, known as the Troubled Asset Relief Program (TARP) in October 2008, at the height of the worst financial crisis to hit the country since the 1930s. The first $350bn was released on in October, 2008, and congress voted to approve the release of the final $350bn in January this year.

Banks have already repaid about $70bn in support they have received from the bailout fund, and Bank of America recently announced it was returning the $45bn in government support it had received.

Al Jazeera

Minarets and Europe crisis

By: Anas Altikriti

The mind is boggled by the fact that Switzerland, a country renowned for its tolerant nature, could come to see less than a handful of minarets as a threat to its identity and culture.

The main campaign poster used by far right groups to rally against the construction of minarets in Switzerland depicted a Muslim woman in Niqab standing before a multitude of minarets graphically rendered to look like missiles.

Switzerland's Commission against Racism said that the campaign poster defamed the country's Muslim minority.

Neither the Niqab nor the minaret is characteristic of the Muslim community in Switzerland but both have been regularly used to stoke the flames of hatred and fear against Muslims throughout Europe in recent times.

And it was that fear which pushed over half of Swiss voters to choose, by a majority of 57 per cent, to support the minaret ban called for by the Union Démocratique du Centre (UDC), a right wing populist party.

Switzerland's Identity Crisis

The vote revealed that Switzerland, like a number of other Western nations, faces a deep identity crisis which has nothing to do with Islam, shariah, immigration or any other red-rags that were waived by the far-right to increase European fears of Muslims.

The question the Swiss should really be asking themselves is whether the values of human rights, civil liberties and democracy - upheld so preciously by European nations - are practised as reverently as they are preached.

This becomes even more of a crisis when one recalls that among the crucial outcomes of the struggle between church and state throughout Europe was the emergence of these values as an 'alternative' to church dictate and the preaching of clerics.

Hence, the first serious problem with the referendum process is how a democratic society can begin to contemplate holding a popular vote on a matter that is regarded integral to the core themes of freedom and rights.

While it is only fair to assert that the Swiss government and most newspaper editors had urged voters to defeat the ban, it remains the case that the vote should not have been held in the first place. The very concept of a referendum in which the vast majority are asked to vote on a topic specific to the culture or religion of a minority group is in itself extremely problematic.

Imagine the furor that would certainly ensue should a country with an overwhelmingly Muslim population be asked to vote on whether its small Christian community should be allowed to build their churches according to a particular design or method, or whether they would rather do without the church bells sounding from time to time.

Limits of Democracy

What next, one wonders, and how far does this appetite for 'democracy' go? Is it a matter of time before there is a referendum on whether or not Muslims should be allowed to practise their faith, or even be allowed to exist at all? This might sound slightly melodramatic, but a quick examination of where we were and how far we have come in so little time, offers quite a concerning assumption of where we might be heading.

The reader should bear in mind that the grand sum of existing minarets in all of Switzerland is exactly ... four. It is only a tiny fraction of the Swiss population which regularly encounters the sight of a mosque minaret.

The referendum becomes even more ludicrous when one discovers that there were precisely two applications for building permits which included the construction of minarets, and neither likely to be built within the next five years.

Therefore, since it was unlikely that the Swiss people were soon going to wake up to find themselves surrounded by a forest of minarets, this whole process begs the question of what the real motives were behind the referendum.

With most European governments continuously flaunting democracy, civil liberties and minority rights as the cornerstones of a national identity, it remains a mystery how the issue of minarets was presented as a challenge and a problem facing multi-cultural, liberal and secular Europe.

Can a civilized people be so ill at ease and low on confidence that the specific design of a handful of buildings be construed as a threat to the country's national heritage, identity and culture?

Questionable Timing

One wonders where this leaves the throng of Western commentators who persistently remind their audiences that Christians are disallowed from practising their faith freely or building churches in certain Muslim countries. In fact one wonders whether the ramifications of the Swiss vote on Christians and other minorities living freely among Muslim societies were ever considered.

Whatever the outcome, the impact of this ban on Muslims in Switzerland in day-to-day terms will be almost negligible. Muslims pray in all sorts of buildings and in all sorts of venues, with minarets and without.

Indeed, figures suggest that most Western Muslims perform their daily prayers in buildings that are not classified as mosques in the first place. Which is why this was a non-starter on the scale of issues concerning the people of Switzerland; including Muslims.

Consider the referendum's timing: It comes following the so-called war on terror and coincides with the rise of far-right and fascist groups.

The timing coupled with the racist and inflammatory discourse that has guided this process, the images that adorn the campaign posters as well as those who have promoted this ban, indicate

that Europe is in the throes of an Islamophobic trend gathering pace as a result of the gross failures of official economic, social and political policies.

Already, celebratory remarks from far-right and racist figures, including Heinz-Christian Strache, the leader of the radical-right Austrian Freedom Party, and Marine Le Pen, the vice-president of France's National Front, have reverberated from various corners of the European continent.

Dutch deputy Geert Wilders' Party for Freedom has gone as far as to suggest that they will be following the example of their Swiss compatriots and pursuing a ban on mosque minarets in the Netherlands. The pioneers of Europe's enlightenment movement must be turning in their graves.

Integrating Muslims in Europe

While I acknowledge statements made by various commentators regarding the need for the Muslim community in Switzerland (and throughout Europe) to do more to integrate and prove their worth to their respective societies, I would warn against asking too much of a community under so much scrutiny and pressure.

Building mosque minarets was never seen by Swiss Muslims as central to and inseparable from their faith or religious practice. Equivocally, Switzerland should not have made the banning of minarets a pivot about which it defines its national identity and culture.

The construction of minarets is a right - one that bears no effect whatsoever on the vast majority of the Swiss people. By voting to ban this right, it is Swiss - and Western - values which become poorer and less meaningful.

The only way forward is for a realization that Europe is not built solely on a Judeo-Christian heritage, but that Muslims too have played a vital and significant role in shaping modern day Europe through contributions of culture, arts, politics, law, theology, science, medicine and dozens of other disciplines.

There must be a realization too that the 30 million or so European Muslims have become part of the European social fabric, through an invaluable contribution which they have made over decades if not for centuries.

By singling them out as suspects and potential enemies within, European societies are creating wide-spread instability and future uncertainty for everyone on the social, economic and political levels.

For a Europe that still commemorates the tragedies that occurred when it played host to a concerted attack on one of its own communities nearly 70 years ago, it is a serious over-sight and a case of horrific negligence to allow the same to happen again, only against a different victim.

Anas Altikriti is the CEO of the Cordoba Foundation, a London-based think-tank concerned with building bridges and improving understanding between the West and the Muslim world, through research, training and conflict resolution.

The views expressed in this article are the author's own and do not necessarily reflect Al Jazeera's editorial policy.

Al Jazeera

What will climate summit achieve?

By: Alan Fisher

It has been planned and discussed for years. It has been called the most important global meeting since the Second World War. And now it is here - The Copenhagen Climate Change Summit. It is a two-week gathering of more than 190 nations hoping to achieve binding agreements to cut global carbon emissions and a comprehensive taxation scheme which would re-distribute the wealth of the few big developed nations so developing countries, and there is many more of them, will give up their reliance on cheap fossil fuel energy.

It is been widely reported that any legally binding deal is unlikely. What we are expecting is a political commitment to meet targets. At the meeting in Barcelona last month which was meant to deliver the final agreements to be signed in Denmark, one environmental activist told me "a good deal in a year's time is better than a poor one now - but there's nothing stopping them doing a deal now".

'Climate Gate'

Two years ago the Inter-Governmental panel on Climate Change warned of the dangers. Then 152 scientists from 30 countries presented evidence that global temperatures are increasing and it is likely that man is responsible. They said unless carbon dioxide emissions are brought under control, global warming will continue. Their evidence was reviewed by 600 more experts who agreed with the findings

But despite what appears to be overwhelming evidence to the layman, discussions will be overshadowed by "Climate gate", the unfortunately named scandal over leaked emails from the UK which suggested that there was no human cause of global warming. Skeptics leapt on the evidence quicker than a drowning man on a boat. This, they said, showed climate change was a hoax and an expensive one at that. And it's the last part of that sentence which holds the key to understanding what will unfold in Copenhagen. It's not about the science. It's about the money.

The representatives from island states will talk about the threat they face to their very existence from rising seawater. African delegates will warn of droughts and food shortages while most of the delegates will talk about the effect on industries and jobs and the rate of economic growth. It'll be about winners and losers and how any agreement will reshape global markets.

Political Cost of Emissions

And for Europe and the USA, it will be about the economic and political cost of cutting emissions. America - the world's biggest polluter - says it will contribute its "fair share" of financial aid to the poorer countries. Like others, they have been reluctant to name the price they are willing to pay. Most developing economies will only move away from carbon-based economies if there's a huge financial incentive because at the moment it's worth their while to

drill for oil and dig for coal. Their argument is the developed world caused this and need to pay to sort it out.

There are opportunities to develop and expand new technology industries, but the world is way behind where it needs to be if a 20 per cent cut by 2020 is to be achieved.

It's important to remember those cuts would only mean the world limits the rise in temperatures by 2 per cent in that time. It won't stop the rise or even have temperatures moving in the opposite direction. That moment's gone. And so what is likely to come out of Copenhagen? A full deal with firm commitments and loose ends tied up would confound expectations and astound most observers. So that can be ruled out. At the other end of the scale, there could be complete breakdown.

But most countries accept this is an issue which has to be addressed and as the weekend protests around the world showed, this is something people care about. So politicians won't allow a complete collapse because they would look bad, unless they can blame it on someone else. The most likely outcome is a political deal which agrees certain targets, but the hows and how much it'll cost will be thrashed out may be by the end of 2010, although any timescale becomes elastic.

So Copenhagen's Climate Change Summit will not be the landmark everyone hoped it would be. It will set rules and maybe even targets; it is a lot less than what may have been needed, but it is a small step in the right direction.

Al Jazeera

Climate change: Minority report

By: Peter Taylor

Concern over global warming has spawned such a highly charged and polarized political movement, that real science has become sidelined in favour of sound-bites and simple messages. The real science is not as 'settled' as some politicians would have us believe. There is a significant minority of climate scientists who look at the data and conclude that we are dealing with natural cycles that are peaking just as they have done on a regular basis over centuries. These scientists are heavily outnumbered by the proliferation of computer specialists who have created their own virtual planet – people trained in mathematics and physics who may never have handled an ice-core, tree-ring apparatus, sediments or stalagmites and all of the proxy indicators of past temperature cycles.

In my view, the UN secretariat has marginalized their careful assessment and warnings about natural cycles in favour of alarming future projections generated by the computer model. These real climate scientists know that the last major warm period was a 1,000 years ago when the Vikings grew crops in Greenland – their graves are still solid in the permafrost. In between then and now, Europe and China experienced a Little Ice Age – with widespread famine.

Reading the Fine Print

There is so much spin that you have to read the small print of the UN reports where they admit to not understanding natural cycles and what drives them. Behind the scenes they acknowledge cycles are at work and contribute to the warming and that it is only from the model that they derive the dominance of carbon dioxide. But the model does not easily simulate the poorly understood cycles. Satellites do a better job and having spent three years studying the data I conclude global warming is real but at least 80 per cent natural cycle and 20 per cent human emissions.

My conclusions are supported by recent climate shifts that run counter to model predictions. From the data on cycles I could predict that after 2007, when Arctic summer ice reached a record low, it would start to recover. In 2008, it came back by 10 per cent. The majority expected it to continue its decline to ice-free status by 2015. In 2009, it grew by another 10 per cent.

Little Ice Age

The models beloved of the majority also predicted that the high-level winds, known as the jet-stream, would shift north as the globe warmed. The jet-stream directs wet weather from the Atlantic and in 2007 they shifted south, bringing widespread flooding to Western Europe. I have seen a minority report in NASA archives which shows that the jet-stream shifts south as the magnetic field of the sun falls and this was characteristic of the Little Ice Age. In 2007, the sun's magnetic field fell to an all time low and this repeated through 2008 and 2009, as did the floods.

Many solar scientists point to a link between this magnetic field and climate on Earth and when the field is low, the Earth cools. During the low in the 17th century the Thames in London froze every winter for 50 years and summers were a washout. Chinese and Russian scientists have better knowledge of these cycles, because the cold periods induce widespread famine – and some of them see all the signs of a new Little Ice Age. Perhaps that's why their governments' sovereign funds are buying huge tracts of productive land in the tropics – for food. You may ask – if this is real science, how can the UN's Intergovernmental Panel on Climate Change ignore it and claim the warming is caused by carbon dioxide.

Global Spin

In fact, the scientists only agreed the warming is "very likely not due to known natural causes acting alone" – and that is spun by the policy-makers and the world's media. The not-known natural causes are subject to high-level research programs because real scientists know they exist and are powerful. And no real climate scientist ever said natural causes are acting alone. Up until the recent 'climate-gate' scandal, I accepted that the objective data could be trusted. But it now appears scientists upon whom the UN relies were busy manipulating the data to produce a warmer globe and to eradicate what they call 'lips' (i.e. cycles) that they cannot explain. To

compound matters, they then sought to undermine the Freedom of Information Act and delete their records in advance of requests for the data.

The issue of causation is crucial. The poorest people are already at risk whether the globe warms or cools. We need action on the real and immediate threats facing human support systems from unavoidable natural climate change – but less than one per cent of resources devoted to climate are spent on adaptation, the rest goes on what will be ineffective attempts to 'stop climate chaos'.

Peter Taylor is an ecologist and author of 'Chill: a Reassessment of Global Warming Theory'.

Al Jazeera

WORLD FINANCIAL INSTITUTIONS; ADB, ISDB, WORLD BANK & OTHERS

ASIAN DEVELOPMENT BANK

ADB Announces 1 Billion Yuan Panda Bonds Issuance in PRC

Tuesday, 01 December 2009

MANILA, PHILIPPINES - The Asian Development Bank (ADB) today announced that it will issue its second Renminbi-denominated "Panda" bonds in the domestic capital market of the People's Republic of China (PRC). The issue will have a principal amount of CNY 1 billion, a bullet maturity of 10 years, and a fixed coupon rate payable annually.

ADB and lead manager China International Capital Corporation Limited (CICC) have conducted road shows in Shanghai and Beijing. Book building will be done on 4 December 2009 and pricing will take place no later than close of business on the same day. The Panda bonds will be issued in the national interbank market with clearing and settlement through the China Government Securities Depository Trust & Clearing Co., Ltd.

ADB will use the proceeds of the Panda bonds in the PRC to fund private sector clean energy and energy efficiency projects. The objective is to help reduce the currency risk and provide long-term RMB financing for private enterprises.

“ADB is pleased to return to the PRC bond market after ADB inaugural Panda bond issuance in 2005," said Bindu Lohani, ADB Vice-President of Finance and Administration. "ADB is privileged to continue to contribute to the further development of the bond and derivatives markets in China.”

As with the first bond issue in the PRC, ADB will execute interest rate swap transactions in relation to the issuance of Panda bonds.

“Additionally, ADB will be able to provide long-term local currency financing to private sector and non-sovereign borrowers in the PRC through this bond issuance,” said Mr. Lohani.

CICC's Managing Director and Head of Investment Banking, Dr. Wei Ding, said "CICC is honored to be the sole lead underwriter for ADB second Panda Bond offering. The anticipated success of the transaction demonstrates the maturing of China's bond markets, and will lead the way for more RMB bond offerings from international issuers."

The Panda bonds will provide investors with an excellent opportunity to diversify and strengthen their portfolios with the highest credit-quality securities and longer-dated instruments.

"The 10-year tenor of the Panda bonds will match the need of institutional investors for longer-dated, high-quality assets. Also, the bonds will contribute to the development of yield curve and establishment of pricing benchmarks for use by local issuers," said Mikio Kashiwagi, ADB Treasurer.

The launch of the Panda bonds is another landmark in ADB mission to contribute to the development of regional bond markets. Since 2004, ADB has completed five other market-opening transactions in the region's local currency bond markets. In addition to local currency bond issuances, ADB also undertakes cross-currency swaps to meet the local currency funding requirements of its development projects. ADB aims to pursue its local currency bond issuances with other Asian government authorities particularly to those developing member countries where bond proceeds can either be swapped into one of ADB operating currencies or be retained to finance ADB projects that require local currency financing.

ADB

ADB Joins Multilateral Development Banks in Call for Equitable Climate Pact

Wednesday, 02 December 2009

MANILA, PHILIPPINES - Asian Development Bank (ADB) President Haruhiko Kuroda joined heads of other multilateral development banks in calling for a comprehensive agreement to come out of climate change negotiations that begin in Copenhagen next week.

In a statement issued late Tuesday (Manila time), the presidents of the world's leading international financial institutions agreed to further coordinate their financing of climate actions and use their combined expertise and resources to assist UN Framework Convention on Climate Change (UNFCCC) parties and the private sector to confront challenges posed by climate change.

The presidents of the Asian Development Bank, African Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, World Bank Group and International Monetary Fund committed their organizations to use technical assistance and funding to reinforce their contribution to the fight against climate change.

The bodies recognized the primacy of the UNFCCC and appealed for an agreement in Copenhagen to provide an ambitious, comprehensive and equitable global climate change regime that enables all countries to achieve sustainable development in a climate-resilient and low-carbon emission way.

They further reiterated their commitment to help developing countries adapt to climate change and to facilitate the development and transfer of climate-friendly technology and knowledge according to the needs of partner countries. The bodies stand ready at this critical point in time to collectively build upon their respective capacities to respond to the challenge and help client countries maximize the use of new financial flows in support of a fair, ambitious and comprehensive climate change regime beyond 2012, the statement said.

"Climate change presents a daunting challenge – perhaps the biggest ever faced by humanity. But it also provides an opportunity to transition towards a more sustainable growth path," Mr. Kuroda said.

"Developing countries cannot be denied the chance to share in the planet's wealth. They can, however, choose to approach economic development differently by leapfrogging directly to more energy-efficient and sustainable solutions. Since infrastructure investments can establish a country's pattern of resource use for decades to come, the time to act is now, before this infrastructure is set in stone," he added.

ADB

PNG to Improve Border Links with Indonesia to Aid Poor Provinces

Wednesday, 02 December 2009

MANILA, PHILIPPINES - Papua New Guinea (PNG) is to improve its border facilities with neighboring Indonesian province, Papua, in a bid to tap trade and investment opportunities that can benefit some of its poorest provinces.

To help achieve that goal, the Asian Development Bank (ADB) will provide a $25 million loan and a technical assistance grant of $900,000 for the *Pilot Border Trade and Investment Development Project*. It will remove infrastructure bottlenecks between West Sepik province in PNG and Papua province, and help develop institutions conducive to private sector investment – a first step by the government and ADB to strengthen economic cooperation between PNG and Asia.

“The project is the first by ADB to assist one of the least-developed provinces in PNG to benefit from Asia’s dynamic growth. It has the potential to create an economic corridor and business growth center for the country, benefiting not just West Sepik but neighboring provinces as well,” said S. Hafeez Rahman, Director General of ADB Pacific Department.

West Sepik province is one of the country’s poorest, but has potential for development by strengthening economic ties with its neighbor, which offers products and services at prices well below those offered in PNG. The project will refurbish or build new border facilities, provide business skills training, and implement a social development program which includes education and health support and HIV/AIDS prevention for border communities. The technical assistance will help government policy makers draw up an investment law and develop a telecommunications strategy for the province.

"Expanding cross-border trade with Indonesia will provide people in West Sepik province with a wider choice of products at lower cost, improve market access for PNG exports, increase business opportunities, stimulate investment, create jobs, boost productivity and encourage sustainable growth and poverty reduction," said Cai Li, Infrastructure Specialist in ADB Pacific Region Department.

The project complements the efforts of Australian Agency for International Development (AusAID) in West Sepik province in strengthening the administrative capacity for basic service delivery, maintenance of critical national roads, and fighting HIV/AIDS. It could help catalyze investment from Asia for infrastructure development in the province. It also includes an innovative modified conditional cash transfer system — the first of its kind for an ADB project in the Pacific - which will provide cash payment to the female head, or female adult, of poor households to help improve health and education status of the border communities.

ADB loan, from its concessional *Asian Development Fund*, will make up 83% of the total project cost of $30 million. The loan has a 32-year term, including a grace period of eight years with interest charged at 1% per annum during the grace period, and 1.5% for the rest of the term. The government is providing the balance of the cost.

The technical assistance is from ADB grant funds and will be provided to the government on a grant basis. It will finance 85% of the total cost of $1.06 million, with the government providing the balance in kind.

The Border Development Authority is the executing agency for the loan project, which is due for completion around December 2017. The Department of Commerce and Industry is the main executing agency for the technical assistance, responsible for developing the investment law and telecommunications strategy for West Sepik province.

ADB

Asia's Bonds Markets Must Tackle Trio of Challenges, ADB Says

Wednesday, 02 December 2009

KUALA LUMPUR, MALAYSIA - "Developing Asia's bond markets must overcome low liquidity, a narrow investor base and limited borrower access if they are to support sustainable economic development in the region," said Bindu N. Lohani, the Asian Development Bank's (ADB) Vice-President, Finance and Administration.

"Robust local capital markets are essential to diversify the sources of funding necessary to support longer-term investments and sustain high growth levels, particularly as we move into what we all hope is a post-crisis period," Mr. Lohani told delegates at an Asian bond market conference here today.

The conference, "Gearing up Regulatory Frameworks and Regional Cooperation – A New Era of Growth in Asian Bond Markets," was organized by ADB and the Government of Malaysia.

Emerging East Asia's bond markets have grown sharply over the last 10 years and were worth $4.2 trillion at the end of September 2009. However, the challenges of low turnover, a limited investor base and uneven issuer access means they are not playing their full economic role.

Inactive bond markets make it hard to gauge whether prices are reasonable or not, often leading borrowers to overpay for essential funds while a narrow range of investors leaves markets vulnerable to sudden inflows or outflows of capital. Emerging East Asia has witnessed impressive corporate bond market growth this year, but lower-rated issuers still have limited or no access to the debt markets.

ADB has been working hard to promote the development of the region's bond markets both as an issuer of groundbreaking local currency bonds and through the Asian Bond Markets Initiative (ABMI) to develop the region's markets, he said.

Under the ABMI – an initiative of the ASEAN+3 – ADB is helping to build regulatory frameworks and improve market infrastructure. Notably, it is working to create a Credit Guarantee and Investment Mechanism that will help regional companies raise longer-dated debt and lower costs.

"This will be particularly useful in helping finance large infrastructure projects with long gestation periods," said Mr. Lohani.

ADB

ADB to Help Tonga Maintain Social Spending, Reforms, in Face of Crisis

Thursday, 03 December 2009

MANILA, PHILIPPINES - Tonga will get support from the Asian Development Bank (ADB) to preserve key social sector spending programs that have come under pressure as a result of the global economic crisis.

ADB Board of Directors today approved a $10 million grant for an Economic Support Program that will provide budgetary support to the government. The government has committed to maintain spending on basic social services, such as health and education, which are otherwise threatened by the revenue shortfall caused by the crisis. The grant will also give the government financial breathing room to continue reforms designed to make the economy more competitive, sustainable, and private-sector driven.

Tonga, like other small remittance-dependent countries in the Pacific, is highly vulnerable to external shocks and sharp fuel price increases in 2008, combined with a slump in remittances, government revenues, and tourism receipts linked to the global crisis, have hurt its economy. As a result, the government is now projecting a fiscal deficit for the current financial year to June 2010.

“In light of the crisis, the program provides the government with additional financial resources to protect expenditures on high-priority public services and vulnerable groups, and to continue

structural reforms designed to promote economic growth and maintain stability," said Keith Leonard, Regional Director of ADB South Pacific Sub-regional Office.

The government has carried out wide-ranging economic reforms in recent years and the program will support further measures including strengthening the government budgetary process, developing and implementing a debt-risk management and mitigation policy, furthering the process rationalizing state-owned enterprises, and improving the legal environment for the private sector, to help lower the cost of doing business.

Given the urgency of Tonga's needs, the program is structured to disburse funds quickly. It is also aligned with, and complements work being undertaken by, other development agencies in the country, including the Australian Agency for International Development (AusAID) and the New Zealand Agency for International Development.

The grant is being provided from ADB concessional *Asian Development Fund* and will be released in two tranches of $5 million each. The Prime Minister's Office is the executing agency for the program, which is expected to be completed in June 2011.

ADB

ADB to Tap $700 Million from Two New Funds to Combat Climate Change

Thursday, 03 December 2009

MANILA, PHILIPPINES - The Asian Development Bank (ADB) is planning to channel around $700 million from two new investment funds to its developing member countries as part of a broad global initiative to help developing countries meet the cost of actions needed to combat climate change.

Donor countries, including Australia, France, Germany, Japan, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom and United States, pledged over $6.1 billion in 2008 for the Clean Technology Fund and Strategic Climate Fund. The climate investment funds (CIF) are being made available to multilateral development banks, including ADB, for climate change-related investments.

"The CIF provides concessionary funds for ADB to work together with developing member countries to transform to a low-carbon growth trajectory and strengthen their resilience to threats posed by climate change," said Xianbin Yao, Director General of ADB Regional and Sustainable Development Department.

The Clean Technology Fund will support the deployment of low carbon energy technologies, such as wind, solar, hydro and geothermal power, as well as energy efficiency measures for industry, commercial buildings and municipalities. Activities supported by this fund will get co-financing from ADB regular operations, and this is expected to mobilize additional financing from both the state and private sectors.

The Strategic Climate Fund will support pilot programs on climate resilience, forest investment and scaling up renewable energy use for low-income countries, with the end goal of

demonstrating effective climate mitigation and adaptation interventions that can be expanded and replicated in future. For example, a successful adaptation program undertaken in a delta region such as Bangladesh could potentially be replicated in other countries with similar geography.

The two funds are designed to be interim financing tools and will be discontinued once the United Nations Framework Convention on Climate Change completes deliberations on a new global program for addressing climate change, and the new financial mechanisms needed to support it.

Money released by the Strategic Climate Fund will be in the form of grants. The Clean Technology Fund will issue concessional loans with interest on the loans as low at 0.25% for up to 40 years. Risk mitigation instruments such as guarantees and equity will also be available. The money can be tapped for both public and private sector initiatives.

"The comprehensive range of financing instruments available under the Strategic Climate Fund and the Clean Technology Fund will provide a solid platform for partnerships with ADB developing member countries in the area of climate change," said Teresa Kho, Director of ADB Office of Co-financing Operations.

ADB has been investing heavily in programs and projects designed to help countries move on to a low carbon growth path and in 2008 it spent around $1.7 billion on clean energy projects, up from $230 million in 2003. It is now targeting annual investments of $2 billion by 2013.

ADB

Road Project in India's Jharkhand State to Boost Growth, Cut Poverty

Thursday, 03 December 2009

MANILA, PHILIPPINES - Major improvements to a key section of road in one of India's least-developed states, Jharkhand, will boost growth and reduce poverty.

ADB Board of Directors approved a loan of $200 million to finance a 311-kilometer, two-lane road that will connect the state's northern region to the national highway network. The project will also build capacity in the state's Road Construction Department, which suffers from an acute lack of engineers with road-building project management skills.

Created in 2000 out of the southern half of Bihar state, Jharkhand has abundant natural and mineral reserves, and prominent industrial cities, but it also has the highest rural poverty incidence in India. Much of the poverty is concentrated in the state's north, where the neglected road network is one of the key constraints to development. The improved road will reduce travel time and costs, and contribute to the expansion of economic activities and poverty reduction in the area that the road serves.

"Jharkhand is behind most other Indian states in terms of road connectivity, and that means high transportation costs and long travel times even for short distances," said Hideaki Iwasaki, Principal Transport Specialist in ADB South Asia Department. "This project will mean that travel time and costs will be reduced by as much as half, which will provide better access for

local communities to markets and social services such as education and health, and also encourage industrial development."

ADB loan, from its ordinary capital resources, covers 83% of the total project cost of $240 million. The loan has a 25-year term, including a grace period of five years, with interest determined in accordance with ADB LIBOR-based lending facility. The government will cover the remaining cost of $40 million. The Road Construction Department is the executing agency for the project, which is due for completion at the end of June 2014.

ADB

ADB, DFID sign five-year strategic partnership to fight poverty in India

Thursday, 03 December 2009

MANILA, PHILIPPINES**:** The Asian Development Bank (ADB) and the UK Department for International Development (DFID) have signed a new five-year strategic partnership to fight poverty in India. The partnership, to run from 2009-2013, builds on collaboration between the two institutions that began in 2001, and will be supported by a £14 million grant from the UK Government. The grant will co-finance specific components, such as poverty reduction and capacity building, in ADB-assisted projects in India's poorest states.

In 2009-10, 17 ADB infrastructure projects have been identified for grant co-financing, including road-building in Madhya Pradesh and Jharkhand, power sector capacity development in Bihar, preparing an investment plan for urban development in Himachal

Pradesh, land transport management in Sikkim, improved irrigation management in Chhattisgarh and an integrated coastal protection and management project. Tadashi Kondo, Head, ADB Office of Co-financing Operations, said that shared interests in state-level operations in India have led to a strong partnership between ADB and DFID.

“The partnership between ADB and DFID since 2001 has significantly helped the government of India maximize the impact of ADB loans on poverty reduction," said Mr. Kondo. "Every $1 million contribution from DFID supports infrastructure investments of $300 million that directly benefits the poor. The new partnership offers the opportunity to maximize the impact of ADB lending operations.”

DFID has provided $50.58 million in grant co-financing since the collaboration began in 2001.

Michael Anderson, Head, DFID India, welcomed the signing of the new partnership. "DFID values the ADB as an important development partner in India and the region," said Mr. Anderson. "We are proud to be working with the ADB to reduce poverty in India. This partnership will directly benefit the poor by building roads, improving irrigation and developing cities in the poorest states of India.”

DFID is the biggest bilateral grant donor in India. In 2008, DFID published a seven year

Country Plan to reduce poverty in India. DFID is providing £825m to India between 2008-2011, £500m of which will be devoted to health and education.

ADB, based in Manila, is dedicated to reducing poverty in the Asia and Pacific region through inclusive economic growth, environmentally sustainable growth, and regional integration. Established in 1966, it is owned by 67 members – 48 from the region. In 2008, it approved $10.5 billion of loans, $811.4 million of grant projects, and technical assistance amounting to $274.5 million.

ADB

ADB Prices 1 Billion Yuan Panda Bonds in PRC

Friday, 04 December 2009

MANILA, PHILIPPINES - The Asian Development Bank (ADB) today priced its 2nd Renminbi-denominated bonds (Panda) in the domestic capital market of the People's Republic of China (PRC). The issue has a principal amount of RMB 1 billion and a bullet maturity of 10 years.

“ADB would like to thank the PRC Government for its valuable support in our funding operations," said ADB Vice-President Bindu Lohani. "ADB is extremely pleased to have come back to the PRC bond market after the successful issuance of our landmark Panda Bonds in 2005. We are honoured to have been one of the first multilateral institutions to have issued RMB bonds in the PRC and contribute to the further development of the PRC bond market.”

Priced at par, the Panda bonds carry an annual coupon of 4.2% per annum and have a maturity date of 8 December 2019. Prior to pricing, ADB and the sole lead manager, China International Capital Corporation Limited (CICC), conducted road shows in Beijing and Shanghai to present the deal to institutional investors.

Offered through a book-building process, the issue achieved a broad distribution with up to 50% of the bonds placed with domestic banks, 15% with foreign banks, and 35% with insurance companies. The bonds will be traded in the interbank market with clearing and settlement through The China Government Securities Depository Trust & Clearing Co., Ltd.

Dr. Wei Ding, Managing Director and Head of Investment banking, said, “We want to congratulate ADB on a very successful offering. The Panda bonds bring in a welcome diversification for domestic investors. The transaction will be an excellent benchmark for other international issuers to come.”

ADB will use the proceeds of the Panda bonds to fund private sector clean energy and energy efficiency projects in PRC. The objective is to help reduce currency mismatches for borrowers that have no foreign exchange earnings.

This offering of Panda bonds is further evidence of ADB commitment to the development of regional bond markets. Since 2004, ADB has completed five other market-opening transactions in the region's local currency bond markets. In addition to local currency bond issuances, ADB also undertakes cross-currency swaps to meet local currency funding requirements of its development projects.

ADB aims to pursue its local currency bond issuances in other Asian markets particularly in those developing member countries where bond proceeds can either be swapped into one of ADB operating currencies or be retained to finance ADB projects that require local currency financing.

ADB

TAJIKISTAN: Road Out of Poverty

By: Ramoncito dela Cruz

Improvements to a key road artery in Tajikistan bring a host of benefits to impoverished communities: better access to schools, hospitals, and markets.

KHATLON: Thirteen-year old Farzona Satorova used to dread the short walk from home to her nearby school, especially in winter when she would sometimes arrive with her clothes and books covered in thick, sticky mud.

"It was very difficult to come to school," the sixth-grade student said, recalling that she often lost her balance in the quagmire churned up by rain and snow on the dirt road.

Things were little better in summer when Farzona and more than 600 of her schoolmates at Secondary School No. 23 in Khatlon province had to brave dust, sandstorms, and temperatures that typically reach 40 degrees Celsius or more. The province has a poverty incidence rate of 91%.

Exasperated by the trying conditions her students had to endure, school headmistress Amonova Saida approached a group of ADB executive directors visiting a neighboring town in 2005. They were monitoring a road project.

"I showed them the poor road condition to our school," she said. "I told them that students were coming to school very late and very dirty."

As a result of her initiative, ADB decided to include the 333-meter-long road in its Dushanbe-Kurgan-Tyube-Dangara-Kulyab Road Rehabilitation project, which began in 2001 and had paved over 90 kilometers of roads by the time it ended in 2006.

The project also rehabilitated five major sections of the highway linking Dushanbe—the capital city of Tajikistan-and Kurgan-Tyube and Kulyab cities, covering a total of 120 kilometers. This highway, built during the Soviet era and running through the country's main wheat and cotton producing areas, was devastated by civil war and had not been restored for more than 20 years.

"Prior to the rehabilitation, we received a lot of complaints about loss of time on the road," said Hakimov Nizom, Executive Director for Road Rehabilitation in the Project Implementation Unit. Before the work, travel time on the 100-kilometer Dushanbe-Kurgan Tyube section used to take two and a half hours; now it can be covered in just an hour.

Access to Medical Care Improved

The road improvements have also been a blessing for those seeking treatment from the government-owned medical center just outside Khurasan district.

"We used to see only a handful of patients each day. Now, around 40 to 50 patients come in everyday, and the number is increasing," said Dr. Mirzoev Orif.

One beneficiary is 25-year old Parvina Shukurova who came in for a post-treatment consultation on her inflamed tonsils, something she says she would not have done if the road was not good, even though she lives just two kilometers away from the center.

It is also good news for pregnant women, with some in the past forced to give birth at home because the poor road conditions made it difficult to get to hospital in time.

According to a 2006 survey, commissioned by the Ministry of Transport, 90% of respondents said that as a result of the rehabilitation work it took them less than half an hour to get to the closest health facilities, up sharply from 50% in an earlier survey in 2002.

The improvements have also lowered fuel costs for transporting medical supplies and boosted market access for agricultural goods, something that farmer and livestock breeder Aitov Mahmodmurod, who lives by the main road in Khurasan District, is grateful for.

"It now takes less time for us to go to the market," said the 53-year-old Mahmodmurod, who sells wheat and goats in the town market.

He noted that his income has improved as more people flock to the market to buy farm products and he has been able to buy a car and extend his one-storey mud hut from four rooms to six to accommodate his growing family.

Transport Volumes Increased

According to a Ministry of Transport study, freight transportation volume on the main highway reached 55.1 million tons in the first nine months of 2006, up sharply from around 28 million tons for the whole of 2000. Freight fares meanwhile have decreased by nearly 20% from 2002 to 2005 due to the faster flow of goods and improved quality when arriving at their destination.

Another study by the Ministry showed that overall traffic volume on the main road doubled between 2002 and 2005, rising between 8.5% and 24.9% annually, depending on the rehabilitated section. Traffic on rural roads has also increased.

As a result some residents living near the highway have set up roadside stalls selling petrol, fruit, vegetables, soft drinks, and bottled water to serve the growing number of drivers, some from as far away as Afghanistan. The 2006 study also shows that the number of small businesses along the route increased by at least 20% in just one year.

One vendor, 45-year old C. Solehov said he and his family have been able to take advantage of the increased traffic to sell baskets of pomegranates in order to supplement their income that comes mainly from cotton.

For Mr. Mahmodmurod, who has struggled to make a living as a marginal farmer, the road improvements promise a better quality of life for him and his family, especially his two grandchildren, now aged 3 and 4.

"My wish is that we can send our grandchildren to university someday," he said, noting that they would be the first in the family to do so.

ADB

INDIA: **Boosting India's Wind Power**

By: Ian Gill

ADB is helping Tata Power become a major player in the increasingly important sector of clean, renewable energy

With their 73-meter "stalks" and 26-meter "petals," the windmills look from afar like giant plants sprouting atop a mountain plain in a remote corner of India's Maharashtra state. From this isolated location, these steel towers with rotary blades and turbine engines are helping meet a statewide need. They feed over 100 megawatts of electricity-enough to power several thousand households-into the state grid.

Like most rural areas in energy-starved India, villages around here commonly experience power outages of up to 12 hours a day.

Without electricity, such villagers are virtually cut off from the outside world, among other deprivations.

The Tata Power Company Limited, part of the diversified Tata conglomerate, is one of the major power producers trying to reduce electricity shortages in a land where demand outstrips supply by some 20% during peak hours.

With encouragement from the state government and assistance from ADB private sector operations, Tata Power recently raised its profile in the wind sector—and is now aggressively bidding to become a major player. The company aims to raise its wind-power capacity substantially by 2017. This is part of Tata Power's strategy to considerably lift its overall power capacity—it is already active in thermal and hydro power.

Though not firm, wind is a renewable and clean resource that will become increasingly important as countries strive to lower carbon emissions to mitigate climate change and meet Kyoto Protocol commitments.

Encouraging Business

But wind technology is still relatively costly and remains of doubtful attraction to some commercial enterprises. India is encouraging business to develop abundant renewable energy sources-solar, biomass and small hydro, as well as wind-as part of its goal to provide "power for all by 2012."

In the highly industrialized state of Maharashtra, the state government is adopting a stick and carrot approach. It requires power distributors to procure at least 6% of their input from renewable energy sources by 2010. Failing to do so attracts a stiff penalty. On the other hand, it pays well for wind-provided electricity.

In support of this clean energy program, ADB provided and syndicated a 13-year loan of Rs3.52 billion (about $73 million), or 70% of the project cost, to help Tata Power set up wind farms at two locations, Khandke in Ahmednagar district and Bramanvel in Dhulia district. "We provide long-term, fixed interest rate financing that is provided by a few institutions in India," says Takeo Koike, ADB team leader for the project. "Since the tariff is set uniformly by the state for all wind-power projects without reflecting project-specific cost factors, Tata Power wanted to fix all the financing costs for the long run to avoid any risk of higher interest rates. This choice has been proven right in the current global market environment."

Through its carbon market initiative, a financing scheme that supports the development of clean energy, energy efficiency, and greenhouse gas abatement, ADB is helping the Khandke project qualify as a clean development mechanism project under the Kyoto Protocol with the United Nations Framework Convention on Climate Change.

To strengthen the project's financial viability, ADB is also prepared to provide upfront financing by purchasing up to 50% of Tata's anticipated certified emission reductions, says Nishant Bhardwaj, an ADB clean development mechanism consultant. Once approved, Tata expects certified emission reduction payments to form a significant amount relative to the revenue of Rs3.50 ($0.07) per kilo watt hour that it currently earns in sales to Maharashtra's electricity body.

Protecting Consumers

To encourage development and protect consumers against rising electricity charges, Maharashtra has set a ceiling of 14% on returns for power development companies. "At the same time, commercial banks are unwilling to finance renewable energy projects with a return of less than 16%," notes ADB Koike, underscoring the role of ADB financing.

The global economic uncertainties are impacting India's economy, but less on its power sector. A huge gap exists between supply and demand, and falling demand is the least of India's problems.

Tata Power expects to benefit in time from both lessons learned and lower costs resulting from wind technology advances. For example, the company, which is implementing wind projects on a turnkey basis through German-owned windmill manufacturer Enercon India, may replace geared turbines with gearless engines, which lose less energy and produce better yields, says a Tata Power business development officer. Also in the future, Tata may use taller windmills.

According to Tata Power, Khandke gets 70% of its generation during the 5 months of the rainy reason from May to September.

To be sure, life for India's large rural population would also improve hugely with more access to electricity. Many rural people are so used to being without power for long periods that they don't know how life would be if they had more electricity.

Laxman Gaikwad, who is from the village of Aurangabad, says nights without power can be warm when the temperature goes above 40°C. But he is uncomplaining. "We are used to this, and we adjust our lives around the power that we get," he says thankfully.

ADB

ISLAMIC DEVELOPMENT BANK AND ITS CONSTITUENT UNITS

More than 12 Million Carcasses to Benefit the Poor all over the World from the Adahi project

Wednesday, 02 December 2009

Jeddah: The Islamic Development Bank hosted at its headquarters, a reception, in honour of the representatives of media representatives from Muslim countries, currently in the Kingdom of Saudi Arabia to cover the 1430H Hajj. The IsDB President addressed the gathering on the Kingdom of Saudi Arabia Project for the Utilization of Hajj Meat (Adahi Project), which the Bank has been managing since 1403H in collaboration with stakeholders of the Project in the Kingdom. He explained that the Project is designed to make it easy for pilgrims to perform the ritual by providing animals that meet all Shariah and health requirements and by ensuring that the environment around the Holy Sites is clean and protected.

He indicated that the Project's website www.adahi.org is designed to enable individuals intending to buy sheep for Hady or Odhiya or Sadaqa to do so with a credit card all year round. He also indicated that people can buy the coupons at Saudi post offices, branches of Al Rajhi Bank, Al Amoudi foreign exchange bureaus as well as at offices of the Al Hajj and Al Muatamir Society in Makkah. He referred to Royal Decree 131 of 15/6/1419H (5/10/1998) under which it was officially declared that the sole institution authorized to sell Adahi coupons is confined to the ISDB-run Saudi Arabia Project for the Utilization of Hajj Meat. He further indicated that the Project has made provisions for 700,000 sheep and 10,000 cows and camels.

The President commended the Project for enabling pilgrims to perform this rite with great ease and thus focus on other Hajj rites. He added that the Project helps to make the meat available to its rightful beneficiaries among the poor in Makkah and then provide the surplus to (24) countries for distribution to people eligible to it. He also emphasized that all the animals are inspected by veterinary doctors and Shariah scholars to ensure that the animals meet all Shariah and health requirements. The President appealed to the representatives of media outlets to help sensitize pilgrims of their respective countries about the need to avoid going to the Project's abattoirs during peak periods.

The President then turned to the Islamic Development Bank Group; spoke about the Bank's many activities and accomplishments since it was established in 1395H (1975) to strengthen, in keeping with the Shariah, the socio-economic development efforts of its member countries and Muslim communities in non-member countries. He also indicated that the Bank's mission is to boost cooperation among its member countries. He highlighted the Shariah-compatible modes of financing that the Bank applies in its operations as well as the IsDB schemes and institutions that form what is now called the "IsDB Group".

The President then dwelled on the growing number of the Bank's member countries, which now stands at 56. He talked about the Bank's capital and how it was increased on several occasions until it now stands at US$ 40 billion. He further stated that the Bank's major capital increases have helped boost the Bank's standing and financial position, and as a result has received from

Standard and Poor's , Fitch and Moody's for the seventh year in a row credit ratings of AAA for long-term credit and A1+ for short-term credit. The IsDB President then talked about the implementation of the 1440H (2020) IsDB Vision and future challenges. He indicated that the Vision was formulated by a commission composed of some renowned personalities in the Muslim world and headed by Dr. Mahatir Mohamed, former Prime Minister of Malaysia.

In conclusion, the President expressed a word of gratitude and appreciation to the Custodian of the Two Holy Mosques, his Crown Prince and Government for their valuable support for the Islamic Development Bank as well as for their support for the Adahi Project to facilitate the performance of this Hajj sacred ritual, which is designed to demonstrate Allah's wisdom through this ritual. The occasion was also attended by many newspapers and news agencies active in Jeddah.

IsDB

Fitch Ratings Affirms 'AAA' Long Term/F1+ Short Term Issuer Rating for IsDB

Wednesday, 02 December 2009

Jeddah: Islamic Development Bank "IsDB" takes pleasure in announcing that recently, Fitch Ratings, one of the most important rating agencies in the world, has reaffirmed IsDB "AAA" long term and F1+ short term foreign currency issuer rating with a "stable" outlook. Fitch Ratings stated that the IsDB rating reflects the strong support it receives from its member countries, its established track record in terms of asset quality and its high level of capitalization.

IsDB is an international financial institution established in 1973 with the purpose of fostering economic development and social progress of Member Countries and Muslim communities in non-member countries in accordance with the principles of Shariah (Islamic Law).

IsDB is one of the few multilateral development financial institutions rated by the three leading international rating agencies - Standard & Poor's, Fitch and Moody's with the highest possible rating (AAA). Moreover, IsDB has been recognized as eligible for 'Zero Risk-Weight' by Basel Committee on Banking Supervision in 2004 and the European Union in May 2007.

Dr. Ahmed Mohamed Ali, President of the IsDB Group, praised the strong and generous support of the Member Countries and congratulated the staff of the IsDB Group for this achievement. He also considered it as an opportunity for IsDB to reconfirm its pledge and endeavour to further the achievements of this noble institution through adherence to the highest levels of professionalism, due diligence and prudent practices while conducting tasks with integrity and sincerity. He highlighted that during the past year, IsDB continued its efforts to reform the Bank with the view to strengthen performance through a more appropriate organization structure, more competent managerial capabilities, and stronger governance. This will help achieve greater developmental impact in consonance with the 'Year 2020 Vision' with the ultimate goal of making IsDB a customer and quality-focused organization".

IsDB

WORLD BANK

World Bank Partners with the Government of Singapore and the Financial Times to establish the Annual World Bank-Singapore Infrastructure Finance Summit

Launch of New Urban and Local Government Strategy at Inaugural World Bank-Singapore Infrastructure Finance Summit

Monday, 30 November 2009

SINGAPORE**:** World Bank President Robert B. Zoellick joined the Finance Minister of Singapore Tharman Shanmugaratnam and Finance Ministers from Indonesia, Australia, Thailand and senior private sector executives at the inaugural World Bank–Singapore Infrastructure Finance Summit which took place during the APEC Leadership Week in Singapore. Guests included the President of the Asian Development Bank Haruhiko Kuroda and mayors of global cities. The annual Summit series, organized by the World Bank–Singapore Urban Hub, the Singapore Ministry of Finance and the Monetary Authority of Singapore in association with the Financial Times, will bring together infrastructure finance experts, investors and senior government officials to Singapore.

In his opening statement, President Zoellick emphasized that reliable and efficient models are needed to finance the growing demand for infrastructure in developing countries as they manage the combination of urbanization and economic growth. "For the first time in history, more than half the world's people live in cities. The epicenter of this transformation is the developing world where over 90 percent of urban growth is now taking place," he said. President Zoellick stressed the importance of mainstreaming Public-Private Partnerships (PPPs) and other models to leverage private capital in infrastructure.

Innovation in Infrastructure Finance

Noting the huge gap in infrastructure financing in Asia, Minister Shanmugaratnam noted: "we know we need new and sustainable models of financing for infrastructure. They will require the joint efforts of the public and private sectors. Currently, the private sector accounts for only 20% of infrastructural investments in Asia. But governments have not been able to and cannot cope with funding the infrastructure needs on their own."

Joint Projects Announced

By establishing the WB-Singapore Urban Hub, the Bank is seeking to channel the public and private sector expertise and investment capital in Singapore to developing countries. The first three joint projects of the World Bank-Singapore Urban Hub announced at the Summit included:

1. Advisory services to Chongqing Expressway Group Company Ltd, China in structuring a transaction to sell toll-roads assets to international investors.
2. Capacity-building in Southern Mongolia to support PPPs in developing mining infrastructure.
3. Advisory services in Vietnam for the development of the Financing Framework for PPPs, and assistance in identifying and preparing of pilot transactions.

Showcase of Government Initiatives

The Summit also featured a showcase of forthcoming innovative government initiatives from China, Mongolia, Vietnam and Indonesia involving private financing of infrastructure. A panel of investors, international financial advisors, and rating agencies chaired by Kamran Khan, Program Manager, WB-Singapore Urban Hub, shared market insight and advised on strategies for mainstreaming the initiatives presented. Private sector participants at the summit included Macquarie Infrastructure Group Chairman and Australian Representative on the APEC Business Advisory council, Mark Johnson; Keppel Integrated Engineering CEO, Chua Chee Wui; and Area Managing Partner and Leader of Project Finance at Ernst & Young Oceania, Bill Banks.

Enabling Private Sector Investment in Infrastructure

President Zoellick, President Kuroda and Singapore Second Minister for Finance and Transport Lim Hwee Hua were joined by Finance Ministers from Indonesia, Thailand and Australia in a panel discussion moderated by EAP Vice-President James W. Adams to reflect on the practical constraints of bringing the private sector to work in the public sphere.

Australian Treasurer Wayne Swan emphasized the need to provide "a set of guidelines to govern PPPs." Thai Finance Minister Korn Chatikavanij focused on the need to improve governance in infrastructure projects and Sri Mulyani Indrawati, Minister of Finance for Indonesia, underscored the need for institutional reform and capacity building.

Launch of the World Bank's Urban and Local Government Strategy

President Zoellick also launched the *new urban strategy* of the World Bank at the Summit. Zoubida Allaoua, Director, of the Finance, Economics and Urban Department noted that the new strategy positions the cities as engines of growth. John Roome, Director of Sustainable Development for the East Asia and Pacific Region, presented a detailed description of how the strategy will be implemented in the East Asia region. He pointed out that the new Strategy will be used to help cities build on their existing assets and endowments that are often overlooked, such as their rivers, canals and waterways.

From Strategy to Action

Mayors and local government leaders from Asia and beyond also came together to discuss the initiatives they have put in place to develop their cities' infrastructure. The panel included: Fauzi Bowo, Governor, Jakarta, Indonesia; Robert Doyle, Lord Mayor, Melbourne, Australia; Omar Maani, Mayor, Amman, Jordan; Sigfrido Tinga, Mayor, Taguig City, Philippines; and Keshav Varma, Head, Global Urban Program, World Bank Institute.

Lord Mayor Doyle noted that noted that while Melbourne is a modern city, its infrastructure is being tried by the adverse weather effects resulting from climate change.

A pertinent note made by Mayor Tinga rounded off the Summit and served as a reminder of the importance of scalability and replicability: "in the past, we were looking at how to make projects successful; now we're looking at how to make programs sustainable."

WB

World Bank Group Debars Limited Liability Company Siemens (OOO Siemens) for Engaging in Fraud and Corruption in a World Bank-Financed Project in Russia
Monday, 30 November 2009

WASHINGTON**:** The World Bank today announced that it has debarred Limited Liability Company Siemens (OOO Siemens), a Russian subsidiary of Siemens AG, for having engaged in fraudulent and corrupt practices in relation to a World Bank-financed project.

Limited Liability Company Siemens (OOO Siemens) has been debarred for 4 years in connection with violations committed prior to 2007. The findings resulted from an investigation by the World Bank's Integrity Vice Presidency into fraudulent and corrupt practices under the Bank-financed "Moscow Urban Transport Project".

This debarment followed a comprehensive settlement that was agreed between the World Bank Group and Siemens AG on July 2, 2009. The settlement arose out of a World Bank investigation and the company's acknowledgment of past misconduct in its global business.

WB

Kenya Development Partners Forum Closing Statement

First Meeting of the Development Partnership Forum Kenyatta International Conference Centre, Tsavo Ballroom

Monday, 30 November 2009

NAIROBI**:** This first meeting of the Kenya Development Partnership Forum was held today. The meeting, which was opened by Prime Minister Raila Odinga, was intended to help the Government of Kenya and its development partners to reflect on the state of their partnership, assess its strengths and weaknesses, and determine a way forward that will serve the interests of all Kenyans, including especially the poor.

The first issue discussed in the meeting, which was hosted by the World Bank, concerned Government efforts to advance the political agenda set out in Agenda Item 4 of the National Dialogue and Reconciliation Act of 2008. The meeting welcomed the November 17, 2009 publication of the harmonized draft constitution for a 30-day period of public comment. The Minister of Justice, Mutula Kilonzo, stated that a referendum will be held by June 2010, and asked development partners (i) to help finance this key vote and (ii) to provide written comments on the key contentious issues, drawing on their own constitutional experiences. Development partners emphasized the importance of the key members of the coalition government resolving their differences on the contentious issues, including particularly the composition of executive power, to increase the likelihood that the new constitution will pass. The Prime Minister stated that wide consultations were underway with a view to ensuring a passage of a new constitution on time. Development partners indicated their willingness to contribute to the financing of the Referendum.

The Minister of Justice noted, and development partners welcomed, the progress in the reform agenda, including the work of the Committee of Experts on the Constitution; the Truth, Justice

and Reconciliation Commission; the Independent Interim Electoral Commission; the Independent Interim Boundaries Review Commission; the National Cohesion and Integration Commission; and the task forces for police reform and judicial reform. He also noted that the land policy will be discussed in Parliament from December 1, 2009. Some development partners noted that the Government is not always able to translate decisions into implementation, and urged the Government to ensure that this weakness does not occur on these important matters. Some also offered additional support for police reform, the interim electoral commission, and the referendum, among other things.

Several development partners stated that the culture of impunity is still strong and that the Government needs to take decisive steps to end it, or else Kenya would continue to perform below its potential in attracting investment and creating jobs. They suggested that the Government take further action against officials involved in high-level corruption or in instigating post-election violence (including through a local mechanism) and bolder measures to reform the judiciary and the Attorney General's office. Several outstanding cases were discussed in this context, with several development partners urging that these and related issues be addressed before the new constitution is in place. The Minister for Internal Security, George Saitoti, noted that the Government was already acting on the interim report of the task force for police reform, including by having changed the police leadership. One development partner suggested that the Kenya Anti-Corruption Commission be granted prosecutorial powers, and the Minister of Justice noted that this was desirable and under discussion. Another urged the Government to review the size and cost of official delegations going overseas.

Development partners strongly supported the Government's effort to restore the Mau forest complex, while recognizing the challenges that exist. They urged the Government not to lose sight of the big picture, i.e. the imperative to conserve the environment and complete the restoration of the Mau as planned. The Prime Minister noted that the Government is trying to conserve all five water catchments areas in Kenya and to plant 7.6 billion trees over the next 10 years to bring forest cover in Kenya back up to 10% by 2020 (from 1.7% today), noting that this is necessarily a long-term effort. In this context, several development partners expressed a willingness to support Government efforts in this area. They also pledged support to Kenya to help it to adapt to climate change, *inter-alia* by expanding reforestation and irrigation, making agriculture more drought resistant, utilizing water resources more efficiently, and developing green energy.

The second matter discussed by the meeting concerned the Government's response to the drought emergency. The Government and its development partners last met on September 15, 2009 to discuss the emergency, and the Government reported on actions taken to date to enhance food security, expand agriculture and secure water supplies.

The development partners welcomed the Government response to date, including efforts to help small-holders to expand production through higher access to seeds and fertilizers, mechanization and expanded irrigation. Nonetheless, several development partners also stated that they do not believe that Kenya should aim to achieve national food security solely through expanded domestic maize production, because this is unlikely to be sustainable over time. They also noted that Kenya's dependence on humanitarian assistance, where domestic production falls short, should not become a permanent phenomenon.

Several development partners urged the Government to review its policy of supporting maize prices, since this policy appears to reward only a few large-scale farmers at the expense of the many who are net buyers of maize (including especially the landless and the urban poor). They also repeated their previous recommendation that the Government work with other East African Community (EAC) countries to reduce barriers to regional trade in food, including maize and sugar. In addition, they recommended that the Government seek to reduce Kenya's over-dependence on maize and further develop its social protection policy, with scalable interventions that can help the poor to access food in any future emergencies. They also asked whether the forensic audit of the maize sector had been completed. In response, the Prime Minister stated that he expected to receive the report in the coming days and that it would be made available to the development partners.

Finally, several development partners noted that humanitarian assistance is in high demand globally today, due to increasing climate variability, and also that the monies available for such assistance are lower, or have lower purchasing power, than in the past. In light of this fact, they suggested that the Government may wish to develop an emergency capacity to handle food emergencies on its own and also examine its policy towards population growth, as the rapid increase in Kenya's population will place increasing stress on all of Kenya's resources. To this end, the Government and its development partners agreed to form a small working group (composed of representatives of the Ministries of Agriculture, Land, Water, Northern Kenya, and Special Programs) to discuss long term food production and food security issues in greater depth, with a view to understanding Kenya's vulnerabilities and identifying measures to reduce its reliance on humanitarian assistance.

The third major issue discussed by the meeting concerned the foundations for future growth, which should be inclusive and led by the private sector. Development partners noted that the Government's fiscal and monetary response to the 2008-09 economic collapse helped to enable a modest recovery in 2009, while also observing that the quadruple crisis (post-election violence, food and fuel, finance and drought) in Kenya and resulting drop in growth, has exacerbated an already serious labor absorption challenge.

Development partners urged the Government to continue to focus on achieving inclusive and sustainable growth. They acknowledged the Government's generally good record on macroeconomic management and its importance to encouraging investment. Development partners encouraged the Government to do more to improve the business climate, drawing on *Doing Business* and other recent analytical work, and the Government noted that it was developing a detailed action plan to restart this process. They also encouraged the Government to continue to rehabilitate and upgrade essential economic infrastructure, with a particular focus on expanding energy generation and road rehabilitation; to deepen regional integration and avoid protectionist tendencies; and to continue to invest in a comprehensive social protection strategy to cushion those who do not benefit from growth.

To make progress in these and other development priorities, the Government and its partners agreed to work together to ensure that the budget responds to emerging priorities and that aid is aligned with the budget. In particular, they agreed to develop better systems for determining the costs and benefits of proposed financial investments, to help ensure that scarce financial resources are allocated to expenditures with the highest expected public return. Several development partners expressed a desire to know more clearly what the Government's budgetary

priorities are for the medium term (the next three to five years) and how aid could better align to it, noting that this view would help to make the next Partnership Forum meeting more productive in future. They also noted that more could be done, from an evidentiary perspective, to determine the distributional impacts of the Government's policy stance (e.g., on maize), including identifying winners and losers. Several partners noted that they had lower disbursements under the coalition government than projected, because a fragmented ministerial structure has made reform more difficult, and they urged the Government to accelerate reform to increase aid absorption.

Development partners also agreed to work with the Government to review the implications of the concentration of aid in certain sectors (e.g. food assistance, antiretroviral therapy, and selected parts of the political agenda) for good public financial management and medium-term planning; and also to enhance transparency and accountability under a coordinated strategy to revitalize public financial management, including especially procurement (while noting that general budget support would be unlikely to be forthcoming in the near to medium term). In this context, development partners welcomed the establishment of an Integrated Financial Management Information System (IFMIS) Directorate.

Finally, the partnership discussed how they intended to proceed over the next six months, in advance of the next meeting. The Government and the development partners agreed to implement the reforms articulated in the Harmonization, Alignment and Coordination (HAC) review, and consider enhanced dialogue on budget and aid allocations through greater government involvement - and leadership - in sector working groups, the HAC and the Donor Coordination Group. The Minister for Finance, Uhuru Kenyatta, said that his ministry would present its view of its upcoming budget in advance of that meeting, to provide a basis for a better discussion. Development partners also looked forward to updating the Kenya Joint Assistance Strategy.

In conclusion, the Chairman thanked the sector working groups of the Kenya Joint Assistance Strategy (KJAS) process for preparing useful background notes in preparation for these discussions, as well as the matrix of key actions for the next 12 months which had been derived from these notes. He stated that Partnership Forum would meet again in April or May 2010 to review progress against these key actions described in the matrix and the background notes, to determine what has been done well or less well, and what needs to be done differently. In concluding the meeting, he also thanked all participants for their frank, open, and constructive discussion and for their continued efforts to bring prosperity to Kenya.

WB

India: Achieving Rapid and Inclusive Growth, Sustainable Development
Monday, 30 November 2009

Global Economic Power

With a population of just over 1 billion, of which about 300 million live below the poverty line, India is the largest democracy in the world and one of the most important countries in terms of meeting global development goals. "India is a country with many poor people but it is not a poor country", Shri Mohammad Hamid Ansari, Vice-President of India

World Bank in India

In the past decade, India has accelerated economic growth and improved most Millennium Development Goals (MDG). It is also a rising global power - and a leading player in information technology, telecommunications, and business processes outsourcing. India’s annual GDP growth has been strong and steady at more than 7% over the past decade, accelerating to over 9% in the three years before the 2008 global financial crisis. Growth followed wide-ranging structural reforms that began in 1991. Between 1997 and 2005, poverty rates fell from about 36% to 28%**.** Consistent with India's priorities, the World Bank has been particularly effective in supporting areas critical to the country's development goals.

Education

World Bank supports the Sarva Shiksha Abhiyan (Education for All) that caters to some 200 million primary school children in the country. Since 2001, nearly 20 million children have been brought into primary school. They include first-generation learners from long-deprived communities, minority communities, and children with special needs.

Sarva Shiksha Abhiyan (Education for All)

Background

Under India’s federal constitution, education is a concern of both the central and state governments. Since independence, state governments have been the major providers of elementary education in India. However the wide differences between states in the emphasis they placed on education and in their capacity to invest in it, accentuated the disparities in the educational attainments of their people.

In 1986, the Government of India brought out its landmark New Education Policy. The policy made primary education a national priority and envisaged an increase in resources committed – to at least 6 percent of GDP. At the same time, the central government also launched several centrally sponsored schemes to improve primary education across the country.

In the mid 1990s, a series of District Primary Education Programs (DPEP) were introduced in districts where female literacy rates were low. The DPEPs pioneered new initiatives to bring out-of-school children into school, and were the first to decentralize planning for primary education and actively involve communities.

India's Flagship Elementary Education Program - Sarva Shiksha Abhiyan

In 2001, the Central Government introduced its flagship Sarva Shiksha Abhiyan (SSA) program to provide elementary education for all India’s children. The SSA is one of the largest programs of its kind in the world. It builds on the pioneering initiatives of the DPEPs and seeks to meet the needs of almost 200 million children living in over a million habitations across the country. It is one of India’s first major programs to cover upper primary education – grades 6-8 – as well.

Enrolling all 6-14 year-olds by 2010

The program aims to enroll all 6-14 year-olds in school by 2010, retain them in school, and provide them with quality education at least till grade eight - a much tougher requirement than

meeting the Millennium Development Goal (MDG) by 2015. To achieve this goal, the program is improving access to education by making a primary school available within one kilometer of all habitations, mobilizing communities in favor of education, supporting the training of teachers, developing teaching materials, and monitoring learning outcomes.

Bringing the hardest-to-reach children into school

The program seeks to reduce gender and social gaps by specially focusing on girls, children from disadvantaged groups such as scheduled castes and scheduled tribes, those belonging to minority communities, as well as children with special needs.

Catering to India's enormous diversity

Given India's diversity and its large federal system, the program is highly decentralized. While overall directions are set centrally, the SSA provides ample flexibility to India's states to design their own context-specific strategies. Schemes are delivered through implementing agencies at the state, district and, most importantly, the village level.

Over 7,000 NGOs are participating in the SSA

They are helping to bring out-of-school children into school by providing alternative education programs or "bridge courses". They are also building the capacity of local village education committees, and monitoring the quality of education provided. The SSA is complemented by another national program - the *Mid-Day Meal Scheme* - which provides free hot cooked meals to all children in state primary schools every day as an incentive for them to remain in school.

The central government has invested major financial resources into the program

In 2006-07, 3.6 percent of the country's GDP was invested in education. State and central government expenditure on education together accounted for 13 percent of their combined budgets. Expenditure on elementary education alone accounted for 53.5 percent of the total education budget in the country (2006-07). An education cess of 2 percent is levied on both direct and indirect taxes to generate resources for the program.

World Bank Support

The program, which is essentially government–led, is collectively supported by the World Bank, the European Commission and United Kingdom's DFID; of these the World Bank is the single largest contributor. In the first phase of support (SSA I: 2003-2006) the World Bank contributed $500 million of the total program cost of $3.5 billion.

Going forward - SSA II

In the second phase of support (coinciding with the 11th Plan: 2007 - 2012) the World Bank is providing US$600 million. With the country estimated to spend an enormous US$17.75 billion on primary education, the Bank remains a small player, financing less than 6 percent of the total government expenditures on the program.

Health

With the Bank's assistance, HIV prevalence has declined among sex workers particularly in the Southern States. More than 1.1 million people with risky behavior have been reached**.**

The World Bank has also helped scale up the Revised National Tuberculosis Control Program nationwide. More than 9.5 million people suffering from TB between 1997 and 2008 were diagnosed and placed on treatment, thus saving more than 1.7 million additional lives. Deaths from the disease were cut sevenfold from 29% to 4% and India met global targets for TB detection and cure.

Social Inclusion

The Tamil Nadu Empowerment and Poverty Reduction Project focused on women and other disadvantaged groups in some 2,500 villages. In the first two years of the program, about 159,000 households increased their incomes by 60 to 80%. About 182,900 poorest and tribal households have formed into some 17,266 self-help groups. Access to credit has opened up, with self-help groups securing more than $9 million in micro-loans during the first two years of the program.

Rural Roads

In 2000, about 40% of India's 825,000 villages lacked all-weather roads. The World Bank is supporting the Government of India's Rural Roads program in the states of Himachal Pradesh, Rajasthan, Jharkhand, and Uttar Pradesh. With access to roads, incomes have soared. Household incomes rose by 50 to 100% on average. Farmers are receiving better prices for their products. Literacy has increased by 10% and the gender gap has narrowed with easier access to school for girls. For every 1 million rupees spent on rural roads, 163 people were lifted out of poverty.

Rural Water and Sanitation

In 2006, only half of Uttarakhand's rural population had access to clean and safe drinking water. The Uttaranchal Rural Water Supply and Sanitation Project is using a community-led approach to ensure that services are efficient and sustainable. More than 130,000 people have already benefited from the village water supply schemes under the project.

Poverty Reduction in Rural Areas

The Andhra Pradesh Rural Poverty Reduction Project helped rural women, organize themselves into credit worthy-groups tapping private sector sources that had long overlooked this potential market. Assets and incomes have increased for almost 90% of poor rural households, including more than 9 million women. Health and nutrition programs are dramatically improving maternal and child health and infant nutrition. Annual credit flows have increased from less than $23 million in 2000 to $1.23 billion in 2009 - more than a 50-fold increase.

State-level Economic Development

The Bank-financed Andhra Pradesh Economic Reform Project has helped transform the state to middle-income status, which is reflected in improved living standards for citizens. Per capita income has risen to nearly $700 in 2005-06 (from $385), the poverty ratio has fallen considerably, and nearly 94% of the state's primary school-age children are in school. The fiscal

deficit is at a manageable level of 3.5% of Gross State Domestic Product (GSDP) and falling. Among India's major states, Andhra Pradesh now has the best-managed power sector, the third-highest credit rating, one of the best investment climates, and the fourth-lowest corruption levels.

WB

World AIDS Day: STOP AIDS, Keeping the Promise, Investing in the Future

Tuesday, 01 December 2009

- Bank marks World AIDS Day 2009 with an institutional commitment to stay the course in confronting HIV/AIDS epidemic
- Bank support to countries focuses on better understanding epidemic trends; where and how new infections are occurring
- Bank holds a high-level panel discussion with health, development leaders on the topic of "Keeping the Promise, Investing in the Future"

With the latest HIV/AIDS figures from the UN showing a gratifying downwards trend in new infections, the Bank marks World AIDS Day 2009 today with an institutional commitment to stay the course in confronting what remains one of the most stubborn development problems of our times.

The new UNAIDS "Epidemic Update" released last week documents continued steady progress. New HIV infections have fallen steadily by 17% since 2001, and annual deaths from AIDS – although still a devastating 2 million, are also falling from previous years. More research and better data have improved our understanding of HIV and the marked differences in HIV epidemics across regions and countries and even within countries and cities. In Bangladesh, for example, long-standing prevention efforts focused on sex workers, injecting drug user, men who have sex with men and other groups at highest risk have helped contain HIV– except among injecting drug users in one neighborhood of Dhaka. (A new report will be launched in a few days.)

To quote Michel Sidebe, UNAIDS Executive Director, there is cause for "hope and concern". Hope because four million people in low- and middle income countries are on ART, concern that five million more people need treatment today. Hope because new infections continue to fall each year, concern that still 2.7 million people were newly infected in 2008, and prevention progress is uneven and inadequate. Hope that coverage of services to prevent mother-to-child-transmission rose from 10% in 2004 to 45%, concern that this is still very far from universal coverage.

Providing treatment to four million people in low- and middle income countries – including in some of the world's poorest states, with hard-pressed health systems – is a remarkable public health achievement. For example, Botswana's anti-retroviral drug program covers 80% of its population and has cut AIDS-related deaths by more than half in five years. But in all nine countries in Southern and Eastern Africa, where more than 10% of the entire population aged 15-49 years have HIV, the challenge remains daunting.

Entrenched social norms and behaviors are changing far too slowly. Very high proportions of the population report more than one sexual partner, and condom use remains too low. In countries

with very high prevalence, the many couples in which one person has HIV means that even people in stable relationships with no other partners may be at high risk. There is too little investment in "positive prevention" to reach people with HIV.

The changing HIV epidemic patterns and shifts in new infections make it absolutely vital to use the growing data and information to focus and target prevention. This is a strong focus of Bank support to countries. Often working with UNAIDS and other partners, teams have compiled and analyzed all relevant existing data in 96 countries, to better understand epidemic trends and where and how most new infections are occurring.

Comparing the epidemic picture with existing prevention efforts and global and local evidence on what works reveals prevention gaps, mismatches and strengthens. The evidence-based suggestions for better targeting and focusing prevention then inform the advice and support provided through ASAP – the Bank-hosted team that supports countries to develop AIDS strategies and plans that "follow the evidence".

According to Debrework Zewdie, the outgoing Director of the Bank's Global AIDS Program who takes over as Deputy Executive Director of the Geneva-based Global Fund at the start of January, the Bank must continue to play a strong role in helping countries provide effective prevention, care, and treatment services for their communities.

"The Bank stepped up boldly with the first billion dollars for HIV a decade ago when denial and inaction were widespread. Now, the tide of the epidemic finally seems to be turning. But we are still in very deep water. Especially with much of the world still grappling with the food and financial crises, the Bank is doing the right thing in reaffirming to countries, just as each Bank president has done since 2000, which we will continue to support effective efforts to prevent and cope with HIV for as long as it takes to succeed against this virus."

AIDS Events at the Bank

Leaders of global agencies such the Global Fund, PEPFAR, and Deputy US Secretary of State, Jack Lew, will join Bank Managing Director, Ngozi Okonjo-Iweala, and other noted external guests and Bank staff to raise awareness of the continuing threat to people's lives posed by HIV which was first clinically identified 28 years ago in 1981.

The first event in the Bank's World AIDS Day program was in Delhi last week when it hosted the public screening of two new films about HIV. A capacity crowd watched two new films about HIV. Noted film-maker Sai Paranjpye was one of the 26 grant winners in the South Asia Development Marketplace for innovative proposals to reduce AIDS-related stigma and discrimination. In making "Suee" (the Needle") Ms Paranjpye worked with injecting drug users, social activists and experts on "harm reduction"—preventing HIV transmission through sharing needles and syringes. The film will be shown on public TV in India on December 1st. The second film shows how sexual behaviors to relieve lonely nights away from home can put truck drivers – and their wives – at risk of HIV. Mariam Claeson, AIDS coordinator for SAR noted that "The team of seven truckers/actors watching "live" at the screening got a big round of applause."

On Tuesday mid-morning, more than 400 people will attend a high-level event and panel discussion with health and development leaders and others on the topic of "Keeping the Promise, Investing in the Future". US Deputy Secretary of State, the Hon. Jack Lew will talk after opening

comments by President Zoellick, MD Ngozi Okonjo-Iweala, and Beldina Otieno. Beldina, a teacher in Kenya and one of 33 million people living with HIV, tells her inspiring story in the prize-winning documentary "Courage and Hope".

Also speaking is Dr Jean (Bill) Pape, Director of a network of clinics providing free treatment to half a million people each year in Haiti. A study tracking health outcomes of people on antiretroviral treatment (ART) in Haiti found that 40% went hungry – sometimes going all day without any food during the food crisis that sparked riots in Haiti. Their risk of dying increased 36% compared to the 20% who had enough to eat – ART cannot be taken on an empty stomach. This is vivid clinical evidence on how poverty and hunger can undermine the gains in life and health that the enormous global investment in treatment has achieved.

WB

World Bank Says Greater Prevention Efforts Needed to Reverse Course of HIV/AIDS Epidemic

Tuesday, 01 December 2009

WASHINGTON: Marking World AIDS Day 2009, the World Bank today urged countries and their development partners to intensify their efforts to prevent new HIV infections to curb the continuing spread of the disease, and reaffirmed its own commitment to fund effective HIV/AIDS prevention, care, and treatment programs in developing countries. At a high-level World AIDS Day event this morning at Bank headquarters, a new study of HIV-infected adults in Haiti, supported by the Bank, showed that poor nutrition, aggravated by rising food prices, is reducing the effectiveness of life-saving AIDS drugs in adults who are chronically hungry and suffer from weak immune systems as a result.

World Bank Group President Robert B. Zoellick applauded the considerable achievements by countries and development partners in expanding access to HIV prevention, care, and treatment, while also noting the enormous challenges that remain. Preventing new infections, he said, remained vital to reach the Millennium Development Goal of halting and reversing the HIV/AIDS epidemic. Zoellick also reaffirmed the Bank's sustained commitment to funding effective HIV/AIDS programs, and added that an important factor that has hindered progress on HIV has been the lack of food security, "because when people do not have enough food to eat, treatment is less effective."

Reinforcing the links between nutrition and effective AIDS treatment, the new Haiti report shows that hunger further weakens the immune system of HIV-infected adults and undermines the effectiveness of their life-saving AIDS treatment.

Dr. Bill Pape, who is Executive Director of Haiti's GHESKIO Centers and Professor of Medicine at Cornell University's Weill Medical College, said that the risk of developing AIDS and/or dying could increase by 36 percent in HIV-infected people with high levels of hunger and poor nutrition as compared to other infected adults with enough nutritious food. The new study, part of a larger research program by Cornell University, the Weill Medical College of Cornell

University, and Haiti's GHESKIO Centers, provides the first-ever clinical evidence linking hunger to immune dysfunction and lower numbers of white blood cells, showing the combined impact of poverty and hunger on people living with HIV.

Haiti, Afghanistan, and Somalia have the worst daily caloric deficit per person (460kcal/day) in the world. With 56 percent of Haitians living on less than US$1 per day, many cannot afford to eat and malnutrition is widespread. Pape said that low baseline weight is an independent predictor of mortality in adult AIDS patients receiving antiretroviral treatment. Studies from Haiti and other countries also show that anemia is strongly associated with rapid HIV disease progression and death.

World Bank and HIV/AIDS

For its part, the World Bank has provided long-term support to countries since the mid-1980s for effective prevention of new HIV infections, care and treatment for infected people, and alleviation of the devastating social and economic consequences for affected families and communities. Over the past three years, the Bank has committed almost US$1 billion through grants, loans, and credits to HIV programs. Total Bank financing for HIV/AIDS since 1988 is more than US$4.2 billion. The Multi-Country HIV/AIDS Program (MAP) for Africa has made available US$1.9 billion to 35 countries, including five sub-regional (multi-country) initiatives.

The expansion of AIDS treatment in poor countries also has thrown a spotlight on the weak and fragile state of their health systems. With just over five years left for countries to achieve the Millennium Development Goals, the Bank and its development partners have mobilized to spur better health results through stronger health systems. Countries need better health systems to deliver more effective HIV/AIDS prevention, care, and treatment services; better detection and treatment of TB and other opportunistic infections; and better health services - including for pregnant women and to enable more women to deliver their infants safely, helped by skilled attendants.

WB

Why is South Asia Vulnerable to Climate Change?

Tuesday, 01 December 2009

Geography coupled with high levels of poverty and population density has made South Asia especially vulnerable to the impacts of climate change. With climate change, the monsoons and their associated droughts and floods are expected to become more intense and less predictable. Coping with these mounting extremes in the river basins of South Asia will require more basin-wide information to predict and warn against calamity.

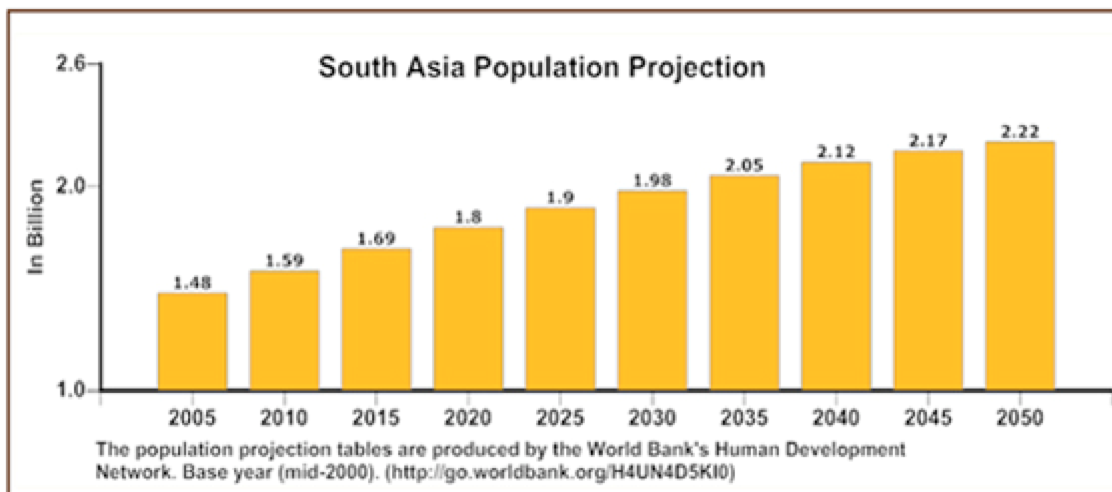
UN Climate Change Conference in Copenhagen

Speaking ahead of the United Nations Climate Change Conference in Copenhagen, Denmark from December 7 to 18, 2009, Richard Damania, World Bank Lead Environmental Economist

for the South Asia Region said the region faces daunting climate-related development challenges. "Impacts ranging from higher temperatures to more variable precipitation and more extreme weather events are already being felt in South Asia. We expect that these will intensify."

High Population Growth

High population levels mean greater pressure on an already stressed natural resource base. By 2050, South Asia's population is likely to exceed 2.2 billion from the current level of 1.5 billion. "With an estimated 600 million people currently subsisting on less than $1.25 a day in South Asia, even small climate shocks can cause irreversible losses and tip a large number of people into destitution," *said Damania.* About 70% of South Asians live in rural areas and account for about 75% of the poor. Most of the rural poor depend on agriculture for their livelihoods. Damania said agriculture employs about 60% of the labor force, but contributes only 22% of regional GDP. "With their rural economies closely tied to climate sensitive sectors such as agriculture, the poor are likely to be disproportionately affected by climate change."



The population projection tables are produced by the World Bank's Human Development Network. Base year (mid-2000). (http://go.worldbank.org/H4UN4D5KI0)

Mountains and Rivers

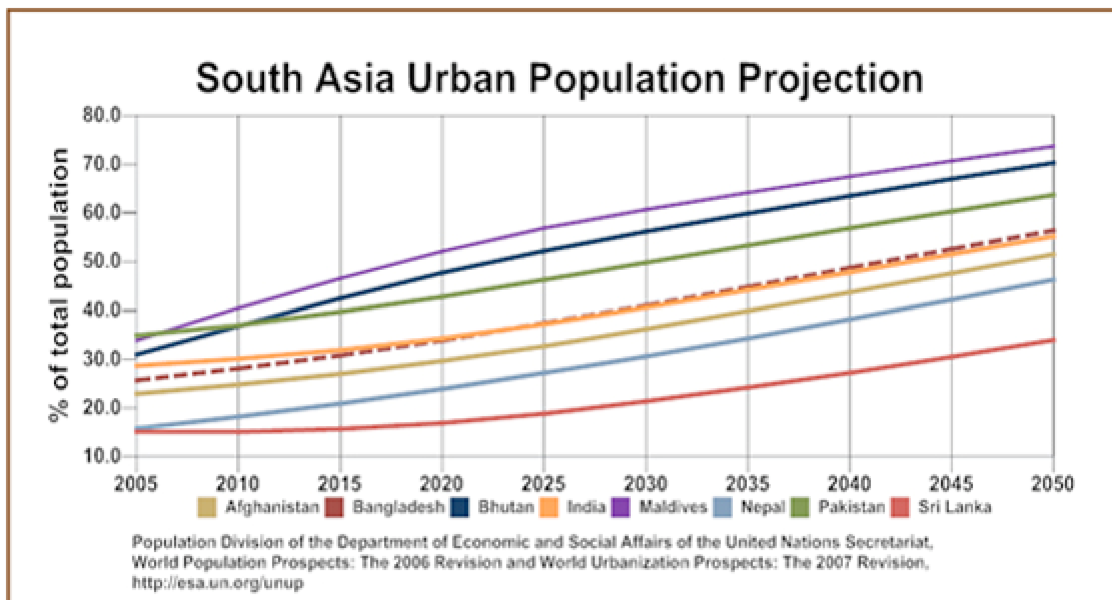
South Asia is endowed with great rivers, which are the lifelines of the regional economy. The ice mass covering the Himalaya-Hindu Kush mountain range is the source of the nine largest rivers of Asia, including the Ganges, Brahmaputra, and Indus. The Himalayan system shapes the critical and often unpredictable monsoon dynamics**.** It acts as a natural reservoir for sustaining crops and providing groundwater recharge. The Himalayan ecosystem also sustains some 1.5 billion people who live directly in the floodplains of its many rivers.

There is general agreement that widespread retreat of the global ice cover has been occurring since at least the early 1800s. The receding trends of some glacier masses could threaten water supplies, livelihoods and the economy of the region. With melting of some glaciers, flood risks would increase in the near future.

Rapid Urbanization

South Asia is home to some of the fastest growing cities in the world. By 2020, Mumbai will be the second largest city in the world, closely followed by Delhi, and Dhaka**.** With Karachi and

Kolkata, 5 of the world's 11 megacities (10+ million) will then be in South Asia. In Mumbai, more than half the population is crowded into about 2,000 densely populated slums that are at risk from flooding and where settlements lack basic protective infrastructure. There are particular challenges in making cities climate resilient. High population densities, a large concentration of poverty, and climate variability have all combined to make South Asia highly sensitive to the consequences of climate change. "Climate change will likely compound the pressures on key resources associated with growth, urbanization and industrialization," said Damania.



Vulnerability to Natural Disasters

South Asia suffers an exceptionally high number of natural disasters**.** Between 1990 and 2008, more than 750 million people - 50% of the region's population - were affected by at least one weather-related disaster, leaving almost 60,000 dead and resulting in about $45 billion in damages. As climate-related risks intensify, there will be a need to respond proactively to build resilience through prevention and preparedness rather than through relief and response.

Need for Regional Cooperation

Regional cooperation can play a key role in adaptation and development in the Himalayan region. With climate change, the monsoons and their associated droughts and floods are expected to become more intense and less predictable. Coping with these mounting extremes in the river basins of South Asia will require more basin-wide information to predict and warn against calamity. It will also call for more basin-wide river management, with coordinated capacity to lower flood peaks and augment low-season flows.

WB

Latin America: Aids Epidemic under Control but Prevention Still a Challenge

Tuesday, 01 December 2009

WASHINGTON**:** As the world commemorates today the struggles to defeat the HIV/Aids epidemic, Latin America's own plight reminds us that it is still a region engaged in a fierce battle against time to defeat a disease that has inflicted great havoc on its population. As the world commemorates today the struggles to defeat the HIV/Aids epidemic, Latin America's own plight reminds us that it is still a region engaged in a fierce battle against time to defeat a disease that has inflicted great havoc on its population. "We've made progress with respect to treatment, reducing the mortality rate and delaying the onset of the disease in infected persons, but we must increase our focus on prevention among sexual workers, homosexuals and drug addicts," says World Bank Latin American health specialist, Joana Godinho.

Statistics are on Godinho's side. According to the 2009 United Nations' *AIDS Report* (UNAIDS), there are two million people living with HIV/AIDS in Latin America, while 170,000 new cases and 77,000 deaths linked to the epidemic have been reported. In the Caribbean, meanwhile, 240,000 people are living with the disease, with 20,000 new cases and 12,000 deaths reported. Unprotected sexual relations between men, sex workers and injecting drug users are the main focus of new infections, according to the report. For example, in Peru the number of male AIDS cases reported in 2008 was nearly three times higher than the number among females, "although this 3:1 differential represents a considerable decline from 1990, when the male: female ratio of AIDS cases approached 12:1", says the UN study.

This continuing source of fresh cases is fueled both by a shortage of clear-cut prevention policies for high risk groups and by institutional prejudice, which in some countries still penalize homosexuality and prostitution, making the educational effort needed to stop HIV transmission even harder.

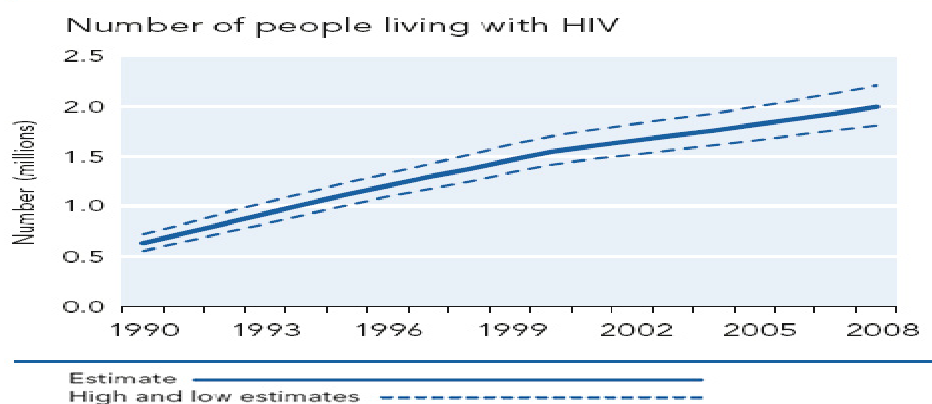
Challenging Regulations

Although prevention programs in Latin America have tripled since 2005, more than 40% of the region's countries still have laws, regulations or policies that hinder treatment for high risk population groups. In the Caribbean, more than 20% of countries have these regulations. In spite of this somber scenario, however, there still seems to be reason for cautious optimism. Take Brazil, where the government and the World Bank maintain a healthy partnership through various projects aimed at combating the spread of the epidemic.

After two decades of joint efforts and a US$400 million investment, the results are clear: 620,000 Brazilians are infected with HIV/AIDS today, half of the 1.2 million expected to have become infected by 2000. Approximately 180,000 people are on antiretroviral drug treatments. As a result, AIDS mortality has declined by 50 percent in Brazil, preventing an estimated 90,000 deaths. Progress can be attributed to a transparent government prevention policy, which has enabled it to focus on high risk groups, and also to innovative World Bank-supported programs aimed at improving the governance of AIDS projects, fully integrating disease treatment in public health systems and overall strengthening of health systems.

Although prevention is still a great challenge –50% of new cases have their origin in high risk groups- the Brazilian government has taken control of the situation and "is making progress in this area too", according to Godinho. As the AIDS epidemic turns 30, Brazil's experience in

reducing the transmission rate can be a good lesson for the entire region, according to Keith Hansen, World Bank regional manager for health issues. “The goal is not to stabilize HIV, an easily preventable but difficult virus, but to drive it back and get rates as low as possible,” he added.



Central America at a Crossroads

AIDS does not measure everyone with the same yardstick, and despite standardized regional statistics, transmission and infection rates vary across the region. One of the most troublesome areas is Central America, where the constant migration to and from the United States contributes to the spread of the disease and hinders any effective prevention and control policy.

Since journeys tend to last several weeks and migrants travel without their families, this area has struggled with this disease more than others, according to Marcelo Bortman, World Bank program leader for Central America. As a consequence - warns Bortman- “hidden [HIV/AIDS] epidemics” have been detected in the area which in addition to regional interdependence and similarity of circumstances, call for the implementation of a joint regional strategy. Such strategy, financed by the World Bank through a US$ 8 million donation, includes a sophisticated diagnostic laboratory and an advanced monitoring system for migrant populations, among other measures.

“We believe that the best option is to look at this problem regionally because there is a lot of horizontal migration, and also because in that way we achieve economies of scale”, Bortman said.

The Caribbean Looking Stable

In the Caribbean region, meanwhile, the epidemic seems to have stabilized and the number of people dying because of AIDS – as well as the number of new cases – is going down, largely due to the availability of free antiretroviral medicines, according to specialists. Furthermore, a greater number of people in the region now have access to antiretroviral therapy and many are turning up for treatment during the early phases of the disease, said Carmen Carpio, health specialist at the World Bank. “This is a positive development but it questions the sustainability of further treatments, especially costlier second- and third-line drugs,” Carpio maintained.

In light of recent evidence, Caribbean countries need to prioritize young people as a critical high risk group. There are approximately 11,000 children under 15 years of age living with

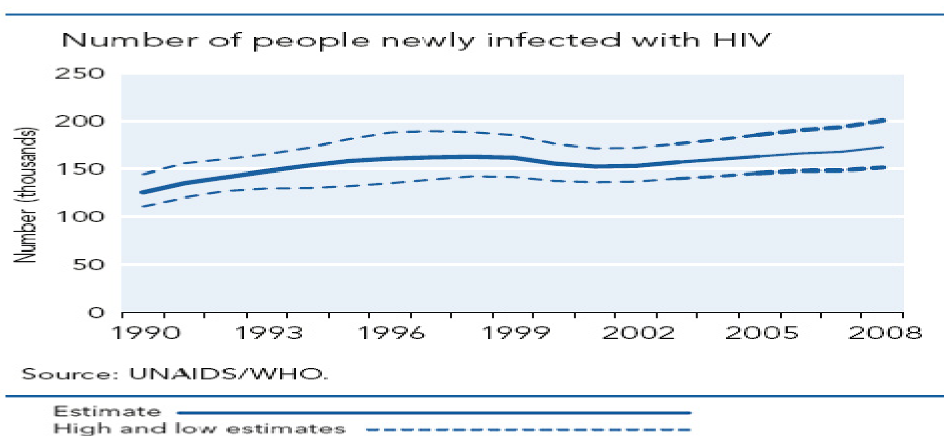
HIV/AIDS in the Caribbean, making them the group most affected by the epidemic, the expert said.

The World Bank has provided US$ 150 million in resources and funding for a wide variety of initiatives against AIDS in the Caribbean, including scientific research and laboratories, prevention programs and support for direct treatment. It has recently approved two new projects for Jamaica, worth US$ 10 million, and Barbados, worth US$35 million, to reinforce those countries' prevention strategies and contribute to slowing down the infection rate, according to experts. "The epidemic has stabilized, and even though there's still a great prevalence among high risk groups, it's not growing at the rate we feared", Carpio added.

All these initiatives have done their bit in the global and regional struggle against the Aids scourge and have had relative success in what is really important: saving lives. Looking forward, though, the developing world will have to deal with the increasing costs of combating the epidemic, estimated to reach US$ 35 billion – three times the current figure – by 2031 if the status quo is maintained.

That's why Godinho, and many experts like her, insist on refocusing current prevention efforts on policies that have a greater impact on prevention and effective treatment, which could slash costs by half. They also recommend investing in new prevention tools and targeted initiatives to change behavior patterns that can result in further progress against this illness.

"We should not lose sight that the final objective, and our greatest satisfaction, is to save human lives", Godinho concluded.



WB

Ibero-American Summit Backs World Bank's Recapitalization

Tuesday, 01 December 2009

Estoril, Portugal**:** The Heads of State and Government of Ibero-America, gathered for the 19th Ibero-American Summit, expressed their support for the work carried out by the World Bank (WB) and the Inter-American Development Bank (IDB) in Latin America and the Caribbean, while at the same time they proposed increasing their capital in order to handle the region's growing demand for financial assistance. In a special press release, Ibero-American leaders indicate that they "support a substantial increase to the IDB and World Bank's capital to ensure

that they have sufficient resources to fulfill their mandates with regards to development financing."

The World Bank tripled its financial commitment to Latin America and the Caribbean in the last fiscal year, increasing its assistance from US$5 billion to US$14 billion, and is expected to reach US$15 billion this year.

It is estimated that 60 million Latin Americans rose out of poverty between 2002 and 2008. However, between eight and ten million of them could fall back into it due to the impact of an economic crisis that began last year at the center of the global economy.

The heads of state particularly emphasized the World Bank's willingness to have its capital review process "come to an end during the next Spring Meetings in April 2010." They added that, in the case of both multilaterals, they hoped to "make a contribution to the adoption of efficient and rational measures in those institutions' best practices."

For its part, some time ago the WB started a process aimed at increasing the transparency of its operations, and at the same time has been implementing an aggressive disclosure of information plan that includes the publication of a broad spectrum of internal documentation on its web site. The institution is also undertaking a process of change to promote inclusion, innovation, efficiency and accountability, which includes widening its cooperation with the United Nations (UN), the International Monetary Fund (IMF), other multilateral development banks, donors, civil society and foundations.

The World Bank undertakes this effort fully knowing that the institution needs to represent the international economic scenario of the 21st century, acknowledging the roles and responsibilities of interested parties and allowing greater participation to developing countries.

WB

Ibero-American Heads of State Support World Bank's Recapitalization

Tuesday, 01 December 2009

ESTORIL, Portugal: Aware that the road to recover y in the post financial crisis scenario is steep and fraught with perils, the Ibero American heads of state gathered in Estoril, threw their considerable weight behind the bid to provide additional capital to multilateral organizations working in the region, including the World Bank and the Inter American Development Bank. The top political executives from 34 countries praised the work that both institutions have done in the region by helping countries weather the global financial crisis, while stressing that they would like to see those efforts continue seamlessly in the future.

In a special communiqué the Ibero-American leaders said that they "support a substantial capital increase for the Inter American Development Bank and the World Bank in order to ensure enough financial resources to meet the growing financial needs of the Latin American region."

In the past fiscal year the World Bank tripled its financial commitment to Latin America and the Caribbean - from US$5 billion to over US$14 billion- and as the region begins to emerge from the global financial crisis, the Bank is expected to maintain a similar level of assistance.

Support for the recapitalization of the World Bank has been growing in the run up to the meeting of Ibero-American leaders. Last month Argentina's president Cristina Fernandez de Kirchner met with World Bank regional officials to express her Government's support for the key role the Bank has been playing in providing financial assistance and advice to regional economies in the wake of the worst external crisis the region has ever confronted.

The World Bank financial crisis assistance has focused on strengthening social protection networks in the region, which are likely to become the first victims in dire economic times. Around 60 million Latin Americans were lifted out of poverty between 2002 and2008 but the economic crisis could push back into poverty between 8-10 million people, according Bank calculations.

In channeling the Bank's resources, officials have insisted that the financial crisis should not turn into a human crisis. "We have contributed, within our means, to providing a quick response that has enabled the region – which has demonstrated its strength in the face of a global crisis – to come out of it as soon as possible, even more reinvigorated, to become ever more competitive at a global level and continue the social work undertaken in the last years," said World Bank Vice-President for Latin America and the Caribbean, Pamela Cox.

In their statement, the Ibero-American leaders made clear their expectations that strengthening the World Bank would be a prompt process. "We expect that its review process will be completed by the Bank's Spring Meetings in April 2010," said the communiqué. The heads of state also emphasized their commitment to "contribute to the adoption of efficient and rational measures in those institutions' best practices."

The World Bank has already set in motion a vast mechanism to ensure transparency in its decisions and operations which include a new disclosure policy of internal documents. The landmark policy represents a fundamental shift in the Bank's approach to disclosure of information – moving from an approach that spells out what documents it can disclose to one under which the Bank will disclose any information in its possession that is not on a list of exceptions. The policy statement will be finalized in December 2009 and become effective on July 1, 2010.

These measures are part of a broader reform effort to promote inclusiveness, innovation, efficiency, effectiveness, and accountability. As part of this process the Bank is expanding cooperation with the UN, the IMF, other multilateral development banks, donors, civil society, and foundations.

It also acknowledges that further efforts should be made to realize a World Bank Group that represents the international economic realities of the 21st Century, recognizes the role and responsibility of growing stakeholders, and provides a larger voice for developing countries.

WB

The Global Financial "Crisis Hits Home" in Europe and Central Asia

Households need social safety nets now more than ever, warns World Bank report

Wednesday, 02 December 2009

WASHINGTON: The global financial crisis is having a devastating impact on families in emerging Europe and Central Asia, with the risk of the region giving back a fifth of the poverty reduction gains of the past decade, according to a new World Bank report. By 2010, there could be over 10 million *more* poor people in the region, and close to an additional 25 million *more* who were almost middle class but now just above the poverty line (relative to pre-crisis projections) with the potential of losing their homes, jobs, and basic services.

The new report, *The Crisis Hits Home – Stress-Testing Households in Europe and Central Asia*, takes a unique look at the impacts of the global financial crisis at the household level in this region. According to the report, families are being hit by credit market shocks, the increasing prices of goods and services, and rising unemployment.

Credit Market Shocks

The report says that stress tests recently conducted by the World Bank on household loans show that ongoing macroeconomic shocks to interest rates, exchange rates, and household income may increase the numbers of families that are unable to pay back their debt. For example, up to 20 percent more families with mortgages and other loans in Lithuania and Hungary could be at risk of defaulting on their loans.

Price Shocks

The food and fuel crisis may not be over. International commodity price levels have not returned to pre-2007 levels. In addition, falling currencies in some countries are resulting in a new round of price increases. Because food represents a very large share of the poors' total consumption – in some of the low-income countries of Europe and Central Asia, the food share of consumption among the poor is 70 to 80 percent – the poorest consumers will again be vulnerable. In addition, in a number of countries, such as Belarus, Moldova, and Ukraine, the utility reform program remains largely incomplete. As a result, a number of countries will have to adjust their energy tariffs to cost-recovery levels in the coming years.

Employment and Income Shocks

Over the recovery period following the 1998 Russian crisis through 2006, more than 50 million people moved out of poverty in the region. However, the poverty impact of the crisis will be enormous. The rapidly deteriorating global economic environment is eroding the region's substantial gains and, given the increased poverty projections, is threatening the welfare of a total of about 160 million people – close to 40 million people who are poor and about 120 million

people who are just above the poverty line. According to the report, it is the middle-income Commonwealth of Independent (CIS) countries that have seen the largest and most significant downward revisions to their gross domestic product growth projections.

Coping with the Crisis

According to the report, lessons from the region's own experiences with previous crises suggest that temporary economic shocks have a lasting impact on human development, as families cut back their education and health investments in response to a banking or exchange rate crisis. Compared to past crises, the scope for households in Europe and Central Asia to fall back on their traditional coping strategies – from secondary employment and money transfers from friends and family to working abroad – is much more limited. Against this background, social safety nets will play a crucial role and should be protected even though revenues are expected to fall. Indeed, protecting these programs – and possibly expanding the well-performing ones where some reallocation of resources is possible – is critical to helping families deal with the crisis.

The region's social protection systems currently vary in size and targeting performance across countries. However, according to the report, most countries in the region have at least one targeted safety net program that can possibly be scaled up in response to the crisis by increasing the value of benefits they provide or by expanding their coverage to reach those households still currently outside the system.

WB

India could be a New Pole of Global Growth
By: Robert B. Zoellick**,** President, The World Bank Group Washington

Op-ed Special to Hindustan Times India

Wednesday, 02 December 2009

Change is the great constant of the world economy. India was still a colony when the allied powers shaped the international architecture at the end of World War Two. Today, India is a rising economic power that is contributing to world growth in new and powerful ways.

Economic reforms in India and China, and the export-driven growth strategies of East Asia all contributed in the last 20 years to a world market economy that surged from about 1 billion to 4 or 5 billion people. This shift offers enormous opportunities. But it has also shaken an international economic system forged in the middle of the 20th Century.

The international architecture needs to accommodate India and other powers whose growth rates far exceed those of developed countries. We must recognize this reality and anticipate the future -- shape it or be shaped by it.

India is already an indispensable part of the global conversation. Its voice at the G-20 table, for example, is an important force for designing a future global architecture, not least because it has well-managed the impact of the economic crisis and is helping support the world's recovery.

Shifting influence is also reflected in the numbers. As India's $1.2 trillion economy returns to growth rates of eight to nine percent, we can expect it to grow not only as a market but as a supplier of a range of services and increasingly knowledge-intensive goods.

With India's strong human capital and cutting-edge innovation, it is clear that the knowledge and technology content -- the real competitive smart-edge of India's exports -- is going to rise. India's increasing globalization will be driven by the country becoming a source for some of these specialized products. As it further integrates with global production chains, it will do so not by making more of the same, but by making products and components of new value.

Of course, India still faces enormous challenges as a developing country yet if it can remove bottlenecks that slow its economy, and then India is well positioned to become one of the new poles of global growth.

India will need innovative financing to move on its massive infrastructure agenda. I hope the World Bank Group can help to attract global partnerships for knowledge and funding. Access to finance is another area where changes will mean a difference to the lives of millions of citizens, that difference being a share in the opportunity of India's growth. There are also huge technology advances that India can put to work to make government more efficient, to make service delivery easier to monitor and track and public financial flows more visible. Half a billion Indians now have cell phones. This translates into a powerful information flow to – and critically from – some of the remotest and poorest areas.

A sustainable globalization means an India that shares some of its remarkable achievements more widely. Call it South-South cooperation or good global citizenship, India has much to offer the world: lessons from its model of economic development; cooperation between private and public sectors to generate microeconomic efficiency and macroeconomic stability; working on global financial regulation as part of the G-20 task forces; and considering ways forward on migration and cross-border labor mobility.

Everyone cites India's Green Revolution. But I am even more intrigued today by what is known as SRI, or system of rice intensification, and I know this is also an area of interest for Prime Minister Manmohan Singh. Using smart water management and planting practices, farmers in Tamil Nadu have increased rice yields between 30 and 80 percent, reduced water use by 30 percent, and now require significantly less fertilizer. This emerging technology not only addresses food security but also the water scarcity challenge that climate change is making all the more dangerous. These are all lessons for our world.

India's status as a rising economic power is closely connected with how it can create opportunity and inclusion. It is not an option to exclude hundreds of millions of Indians from the country's growing prosperity. One in three of the world's poor are in India and the country has one of the highest malnutrition rates in the world, with 44 percent of children born underweight. Actions to address poverty widely -- and education, health, rural roads and livelihoods more specifically -- have a renewed urgency.

The World Bank Group can support India through assistance with urban development, transport and power infrastructure; elementary and secondary education; and agricultural and rural development. India is now the biggest client for IFC, the World Bank Group's private sector arm, with $1 billion a year invested over the last three years. IFC is improving access to infrastructure and finance, and addressing climate change as central to its work. Working together, India and the World Bank Group can become even stronger partners as India rises both at home and abroad.

WB

Leading International Financial Institutions Commit to Fight against Climate Change and Call for Comprehensive Copenhagen Agreement

Joint Statement by Multilateral Development Banks (MDBs) and the IMF in Anticipation of the Copenhagen Conference

Wednesday, 02 December 2009

WASHINGTON: The heads of the world's leading international financial institutions today called for a comprehensive agreement to combat climate change at this month's Copenhagen Conference and agreed to further coordinate their own efforts to help achieve the meeting's ambitious goals. In a joint statement, the leaders pledged to use their own organisations' mandates, expertise, and resources to help authorities combine with the private sector to confront the challenges of climate change and to make the best possible use of available financing.

The heads of the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, World Bank Group, and International Monetary Fund also committed their organizations to the use of technical assistance and funds to further support their environmental goals.

They recognized the primacy of the United Nations Framework Convention on Climate Change (UNFCCC) in setting the targets for dealing with global environmental challenges.

An agreement in Copenhagen must provide an ambitious, comprehensive, and equitable global climate change regime beyond 2012 that enables all countries to achieve sustainable development, they said. The institutions will coordinate with the European Commission and other partners supporting efforts by developing countries to cope with climate change.

The leaders reiterated their commitment to help developing nations adapt to climate change and to facilitate the development and transfer of climate-friendly technology and knowledge according to the needs of individual countries.

The Joint Statement

We, the Heads of the MDBs and the IMF, appeal to the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) to agree in Copenhagen the foundations for an ambitious, comprehensive, and equitable global climate change regime that enables all countries to achieve sustainable development along climate-resilient and low greenhouse gas emission-intensive paths. We recognise the primacy of the UNFCCC, whose principles and process we have supported from the start. We endeavour, in accordance with our organizations' respective mandates, expertise, and resources, to further coordinate our financing and analyses of climate change actions and enable our client partners to maximise the effective use of new financial flows.

The Context

Climate change is a major threat to sustainable development in all regions of the world and, in particular, to the achievement of the Millennium Development Goals (MDGs). Scientific evidence reveals unequivocal proof of the human footprint on the global climate and the adverse impacts that will ensue. With climate change already happening and with more severe impacts to follow, it is essential that all countries integrate consideration of risks associated with climate change into their planning functions and development strategies. There is an urgent need to support the poorest countries and communities that are most vulnerable and least able to adapt to climate change.

It is critical that developed countries continue to take the lead in the mitigation of climate change by adopting adequate quantitative emissions reduction targets beyond 2012, and support and enable nationally appropriate mitigation actions by developing countries with technology, financing, and capacity-building.

The collective development experience of the MDBs suggests that many opportunities exist in developing countries, in particular in middle-income countries, to reduce greenhouse gas emissions while advancing sustainable development, creating opportunities for further growth, and reducing the impact of, and vulnerability to, climate change.

Ultimately, stabilising atmospheric concentrations of greenhouse gases within safe levels would require adequate, predictable and sustainable financial flows to developing countries, as well as policies in all major economies conducive to the creation of a broadly similar carbon price signal around the world.

Common Objectives from Experience Gained

The MDBs collectively are ready, in collaboration with other International Financial Institutions, UN agencies and other development partners, to build upon their respective mandates, expertise, and

resources to help countries and their public and private sectors respond to the challenge of climate change while achieving the MDGs. To this end, we endeavour to:

- Help developing countries, in particular the least developed countries, adapt to climate change and strengthen the climate resilience of their development processes;
- Help ensure that the world economy develops along a sustainable greenhouse gas emissions pathway;
- Promote sustainable development, respecting human rights, in all client countries, and help developing countries achieve the MDGs;
- Facilitate and enable access to finance for the development and transfer of climate-friendly technology and knowledge according to the needs and priorities of partner countries; and,
- Promote market based solutions and mobilize and leverage private sector finance in support of climate change objectives.

MDB Collaboration for Better Results

First, in order to facilitate efficient and effective public and private investment, the MDBs endeavour to further coordinate their financing of climate actions within a common framework in accordance with their respective mandates, expertise, and resources. Such a framework will benefit from lessons learnt from our cooperation past and present, including recently-established Climate Investment Funds executed by the MDBs. As part of this common framework, we will seek to provide and facilitate country-driven, comprehensive packages of technical assistance and financing which may include blends of loans, grants, equity, carbon finance, and guarantees as appropriate and available. We will also seek to leverage public funds with private financial flows so as to mobilize market-based financing for climate investments.

Second, the MDBs will work to scale up financing for adaptation, developing projects and programmes that contribute to greater climate resilience, supporting national adaptation strategies, strengthening related institutions, and providing technical assistance and insurance products.

Third, following the outcome of the UNFCCC negotiations, the MDBs are also ready to scale up their support of processes that generate positive incentives relating to reducing emissions from deforestation and forest degradation in developing countries. We recognize agriculture, the building sector, industry and municipal infrastructure as other important sectors where opportunities exist to reduce emissions with proper incentives, capacity-building and technical support.

Fourth, the MDBs already have projects and programmes in energy efficiency, renewable energy, and sustainable transportation systems, and will further support increasing public and private sector investment to scale-up such projects and programmes using the full array of climate finance instruments and other financing products.

Fifth, the MDBs endeavour to work together to facilitate the continuity of and to reinforce the carbon market and related mechanisms beyond 2012. Our efforts will be directed to support a wider

participation of all client countries and their private sectors in such mechanisms thereby facilitating a more equitable geographical distribution of their benefits. We intend to make available financing instruments to scale-up emission reductions, notably through programmatic and other broad approaches, as well as to provide further help to manage risks related to regulatory uncertainties associated with a post-2012 climate regime. We further intend to support countries in building readiness to participate effectively in these mechanisms by building the capacity of domestic public institutions and the private sector, including for project determination and emission verification, and by facilitating the establishment of domestic regulatory frameworks.

Sixth, the MDBs will seek to continue coordinating and harmonizing their respective approaches, processes and practices in the field of climate change to ensure a high-quality service to our clients, and to coordinate as appropriate with others supporting developing countries efforts to cope with climate change. We will continue to enhance knowledge and shared learning of best practices, including vulnerability and climate risk assessments at the regional, country and project level, low-emissions growth studies and other analytical work and tools.

Finally, the MDBs will support these efforts through technical advice, knowledge, and policy-development work. The IMF will advise countries in creating and managing fiscal space for dealing with the challenges of climate change, and in addressing the fiscal and financial risks that it poses.

The Heads of the MDBs and the IMF stand ready to put the depth and breadth of their human and financial resources at the service of the UNFCCC Parties and their private sectors in confronting the challenges posed by climate change. Rising to these challenges is imperative to avoid dangerous climate change and the threat that it poses to the achievement of the MDGs. An equitable and ambitious outcome in Copenhagen offers the prospect of sustainable development in all regions and countries.

WB

Climate Change: Are South Asia's Ecosystems at the brink of extinction?

Wednesday, 02 December 2009

South Asia is endowed with an exceptional array of biodiversity. Its vast geography spans several diverse ecosystems, from the mountains of the Himalaya-Hindu Kush, to the Thar Desert, and the coral reefs and atolls of Maldives.

UN Climate Change Conference in Copenhagen

The United Nations Environment Program (UNEP 2001) notes that the region's ecosystems occupy about 3.6% of the world's area but contain 16% and 12% respectively of the floral and faunal species found in the world. "But today South Asia's natural resources face tremendous pressure from rapid population growth," said Richard Damania, World Bank Lead Environmental Economist for the South Asia Region speaking ahead of the United Nations Climate Change Conference in Copenhagen, Denmark from December 7 to 18, 2009. "In

addition, rapid economic expansion has led to unsustainable extraction of natural resources and accelerating levels of air and water pollution."

Contributions of Ecosystems

It is seldom recognized, nor adequately acknowledged that the region's ecosystems underpin the economic fortunes of its poorest and most vulnerable people. Poverty through much of South Asia has retreated to the rural hinterland and has become deeply intertwined with resource degradation.

The region's ecosystems support critical life-sustaining services (through soil formation, nutrient cycling, primary production, oxygen production, and habitats) and regulate processes crucial to well-being (air quality, climate, water flow, soil retention, water purification, and biological and disease control). Yet 10–30% of the region's faunal species are currently under threat of extinction.

Impacts of Climate Change

Climate change and biodiversity are closely linked and each impacts the other. Biodiversity is threatened by human-induced climate change, but biodiversity reduces the impact of climate change. The presence of healthy biodiversity builds natural resilience to climate extremes: as an example, forests are nature's social security check in times of disaster and crisis; additionally forests also act as a sink for harmful greenhouse gas emissions.

This degradation can be managed and reduced through adaptive and mitigation strategies. This calls for a greater investment in protecting and enhancing ecosystem services, managing habitats for endangered species, creating refuges and buffer zones, and establishing networks of terrestrial, freshwater and marine protected areas that take into account projected changes in climate.

Risks to Grazing, Mountains and Forests

Forests account for about 20–30 % of the total land area of India, Nepal, and Sri Lanka and about 68% in Bhutan. Savannas and dry forests are grazing areas for the region's large population of livestock, which is essential to food security and agricultural draught. Climate change will affect the vegetation, productivity, and biodiversity of these ecosystems.

While climate change could improve forest productivity in the short to medium term, the resulting transformation of vegetation systems is likely to result in a loss of biodiversity and productivity as critical thresholds are reached.

The 2007 IPCC Fourth Assessment Report projects that carbon fertilization may likely lead to net primary productivity gains in the short and medium term with the gains experienced in some forest types outweighing the losses in others. Some vegetation types are likely shift to higher elevations as a result of global warming. Some vegetation types may disappear in the process, together with dependent species and ecosystems.

Challenges facing marine ecosystems and coastal communities

Coral reefs are not unlike tropical rainforests in biodiversity and are important sources of tourism revenue. Along with mangroves they also protect coastal areas against erosion, sedimentation,

floods, and storm surges. "Climate change will alter these ecosystems through changes in hydrology, sea level, sea temperature, and water chemistry," said Damania.

The irreversible losses to biodiversity would adversely impact economic opportunities in coastal communities. Coral coverage in the Indian Ocean islands and South Asia combined has declined from more than 40% in 1997 to just over 20% in 2002. This is translating into losses to fisheries, mangrove ecosystem productivity, and tourism.

Future Directions

Damania stressed that the impact of climate change on ecosystems and biodiversity is a key development concern to be integrated into development programs and responses to climate change. He cautioned though that there were significant gaps in knowledge about these systems and the impact of changes within them. "Making good development choices now requires a considerable investment in knowledge building."

Also critical would be vastly expanding the protected area networks that have been heavily degraded and fragmented in much of South Asia. So how does this agenda attract funding? Damania said donor development giants and funding for climate change adaptation are some obvious source but market-based instruments and the revenue-generating value of biodiversity itself are of full of potential.

WB

World Bank Promotes Landmark Oil and Gas Dialogue
Thursday, 03 December 2009

ACCRA: As part of its Development Dialogue series, the World Bank on November 30 organized an event titled Potential Impacts of Oil and Gas for Ghana. The event was hosted by GIMPA and aimed to promote a vibrant policy discourse on oil recently found in the Jubilee Fields on Ghana's West Coast. The highly interactive event offered the 150 stakeholders who participated from a wide range of sectors the opportunity to discuss and debate Ghana's experience to date with extractive industries and the potential impacts of the newly found oil and gas resources.

The issue of avoiding the oil curse and the Dutch disease was amply discussed, with participants stressing the need to make the oil a blessing. They consequently recommended that the government proactively support agriculture sector; increase ownership and voice in the industry; avoid spending money on unviable projects; provide good political leadership; and promote transparent and accountability. These virtues among others were identified as critical in ensuring that revenues from the oil and gas industry are put to good use.

Other key issues highlighted by the participants included:

- A review of the legal framework;
- building capacity for oversights bodies;
- strengthening the Ghana National Petroleum Company to make it a financially self sustainable player in the oil industry;
- extending the Extractive Industries Transparency Initiative (EITI) to the oil and gas industry;

- contract transparency;
- training Ghanaians using existing training institutions; and
- legislation on local content policy.

Working Group sessions discussed 5 priority issues and came out with recommendations for government and all stakeholders:

i. Revenue Legislation
ii. Regulatory Legislation:
iii. Gas Policy Framework
iv. Local Content
v. Transparency and Accountability

WB

Op-ed: Is Ethiopia in a low productivity trap?

By: Ken Ohashi, the World Bank's Country Director for Ethiopia and Sudan

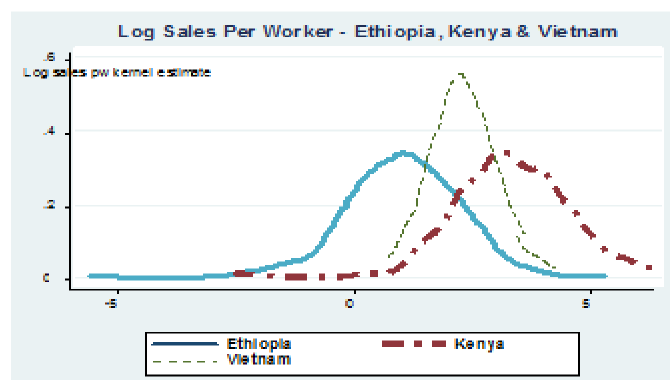
Thursday, 03 December 2009

ADDIS ABABA: The World Bank recently completed a second "Investment Climate Assessment" (ICA) report for Ethiopia. The ICA looks at the state of the private sector and identifies actions that can reduce policy and other hurdles to helping the private sector become the driver of sustained growth. The first ICA was based on a survey conducted in 2001/02 and this one is based on a new survey of about 600 firms in 2006/07. A big part of the survey is about the "perceptions" of business managers. Hence it is easy to dismiss the findings as merely someone's opinion. To do so, however, would seem hasty for two reasons. First, perceptions do matter, especially when they are those of the entrepreneurs critical to a vibrant and growing economy. Second, the ICA also looks at a range of hard data to form a more sophisticated understanding of the problems. So, what does the latest ICA say?

In 2001/02, firms reported a range of serious obstacles, including poor infrastructure, regulatory barriers, administrative obstacles, and access to land and finance. By 2006/07, most of them had become insignificant problems. The Government of Ethiopia (GoE) has done much to bring about this change. Yet, the growth of the private sector has remained anemic, particularly in manufacturing. Given that Ethiopia's wages are about one-third the average of Sub-Saharan Africa, and that Ethiopia has a big domestic market with nearly 80 million people, the puzzle becomes more confounding.

One chart seems to hold a key to this mystery. (If you find a chart like this confusing, please bear with me. The text will explain the basic idea.) It plots the productivity of the average worker in different firms for Ethiopia, Vietnam, and Kenya. The horizontal axis shows the productivity level and the height of the curve shows the concentration of firms at any given level of productivity. Two points stand out. First, the average for all firms (which is somewhere around the peak) is the lowest for Ethiopia. Second, the distribution of productivity levels among Ethiopian firms is very wide, especially compared to the distribution for Vietnam. In Vietnam, competition drives low-productivity firms out of business or forces them to become

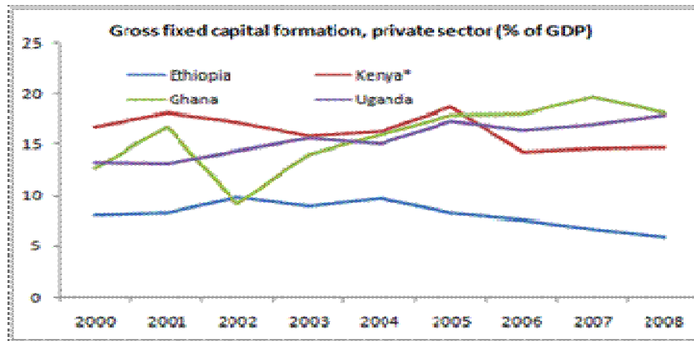
more productive. The technology of the most productive firms is replicated by its competitors. That makes most firms similarly productive (hence the tall and narrow curve). By contrast, in Ethiopia, the chart suggests that a lack of competition allows many firms with low productivity to survive, and that learning from the best firms is limited. This keeps the overall productivity level of the economy low.



The relatively nascent nature of the private sector in Ethiopia, after the repression under the Derg, is surely part of the explanation for the low productivity. But, if the market system works well, then key factors of production (land, labor, and credit) should shift from the firms with low productivity (those on the left hand side of the bell-shaped curve) to those with high productivity (those on the right side), thereby increasing overall productivity even without any technological break-though. That process is not working well in Ethiopia. For some reason, the market is badly organized. That hinders competition, and traps Ethiopia in low productivity. Low productivity means low income.

Several things seem to create complex dynamics that favor certain types of firms regardless of their productivity. First, access to finance is driven in large part by government policy or collateral, rather than the productivity of a firm, and long-term financing is limited (which also makes it difficult to introduce new technology). Second, businessmen lack confidence that contract disputes can be rapidly and equitably resolved. Because of this, transactions between firms tend to be based on long-term relationships, which are less dependent on individual contracts. This stifles innovation. Third, access to land is often limited for small, start-up firms. Fourth, GoE's industrial policy tends to channel resources to a few priority sectors. Fifth, the existence of "endowment companies" hinders open and fair competition. Sixth, there are regulatory barriers to entry for a substantial number of economic activities.

This is not to say GoE should not promote businesses of strategic importance, nor to say GoE should not regulate private companies. The point is to do so without sacrificing competition. But, at the moment, the investment climate (which largely consists of institutional characteristics of the economic system, physical environment, and a set of government policies) is skewed toward selective promotion of businesses and regulation at the expense of competition. This imbalance leads to the low productivity of Ethiopian firms. But, it also shows up in another very direct way, aggregate private investment in the economy. The second chart shows private investment as a percentage of GDP for Ethiopia and three other African countries. The low level of, and more importantly sluggish growth of, private investment in Ethiopia is striking.



* For Kenya, the figures are for private investment, and from national source, while for others they are for gross fixed capital formation, from World Development Indicator.

Public discussions on the findings of the new ICA have confirmed that the key concerns raised by it remain relevant. I believe this process has identified a set of issues that should form a shared agenda to be addressed jointly by the GoE and the private sector.

- Increasing effective competition is central to raising productivity. Concerted efforts need to be made to address the complex web of obstacles to competition. In describing the problem and identifying possible solutions, open and honest dialogue between the GoE and the private sector is indispensable.
- Many industries seem to be segmented (into a state-owned segment, endowment-owned segment, "policy priority segment," foreign segment, etc.). This seems to limit effective competition. While the discussion on this issue tends to take on a political overtone, it need not. It is a policy issue of fundamental importance, for the weak competition is the central concern. This needs to be openly discussed.
- The financial system must be more effective. The lack of long-term financing holds back the growth of the private sector as well as competition and productivity. Given the need to sustain growth, the time has come to find practical solutions to this old problem. Ethiopia also needs to expand vastly its rural financial network to encourage savings, and channel those savings into productive uses and expand credit access in the rural areas.
- The industrial policy regime needs adjustments. It has to be able to promote a much wider range of industries, not just a few as was done in the past.
- Diaspora Ethiopians can play an important role in increasing productivity in this country, bringing not just financial resources but innovative ideas. There has been much talk of supporting their engagement back home. It is time to translate talk into action.
- Improving corporate governance deserves attention. Part of the reason why long-term financing is difficult to come by and firms tend to shy away from new business relationships is poor corporate governance. Regardless of the ownership structure, Ethiopian businesses should strive to improve transparency in their corporate governance and financial reporting.

Competition is scary; it suggests some companies losing out and going out of business. Actually, most may well survive by improving productivity. It is not a zero-sum game, for the

market for Ethiopian firms can continue to expand both in Ethiopia and elsewhere. But, without effective competition, it is almost certain that Ethiopia's productivity growth will remain slow. That is not a viable strategy.

WB

Multi-Country Poll Reveals that Majority of People Want Action on Climate Change, Even If It Entails Costs

Thursday, 03 December 2009

WASHINGTON: A new poll of 15 nations, most of them in the developing world, finds that majorities of the people canvassed want their governments to take steps to fight climate change, even if that entails costs. People signaled they would support public measures to limit greenhouse gas emissions and step up adaptation measures. For example, respondents would support higher fuel efficiency standards for cars, preserving or expanding forests, and extending funding to vulnerable countries so they can develop hardier crops suited to more severe climates.

Carried out by WorldPublicOpinion.org and commissioned by the World Bank, the poll questioned 13,518 respondents in 15 nations— Bangladesh, China, Egypt, France, India, Indonesia, Iran, Japan, Kenya, Mexico, Russia, Senegal, Turkey, the United States, and Vietnam.

Other key findings include:

- Public concern about climate change is high worldwide, but it's generally higher in developing countries.
- Publics, particularly in developing countries, believe climate change is already having negative effects.
- In most countries, wealthy and poor alike, large majorities are willing to pay to fight climate change.
- Support for increased adaptation funding to poor countries is widespread worldwide

Marianne Fay, World Bank Chief Economist for Sustainable Development and Co-Director of the *World Development Report 2010: Development and Climate Change* explained that the poll was commissioned as a follow-up to the recently released WDR. The aim was to gain a better understanding of how the recommendations of the Report to invest substantially and immediately to manage climate change ("Act now, act together, and act differently") resonate in a cross-section of countries.

In the low-income country of Vietnam, for example, 98% say their government should commit to limiting emissions as part of a deal, and 93% support the same course in the absence of a deal. At the other end of the wealth spectrum, the people of France express 97% support if an agreement is reached at Copenhagen and 87% if no agreement emerges.

Majorities in 14 of 15 countries are willing to pay to fight global climate change. In each country, the poll asked people whether they were willing to bear higher prices for energy and other goods, as part of taking steps to fight climate change. These price increases were calculated as 0.5% and 1.0% of each country's per capita GDP, and then described to respondents as defined monthly amounts in local currency. Majorities in five countries - China (68%), Vietnam

(59%), Japan (53%), Iran (51%) and Mexico (51%) - say they are willing to pay 1%. In addition, majorities in an additional eight countries are willing to pay between 0.5% and 1.0%.

Majorities in most countries also support measures that would raise costs for energy and transportation.

Majorities in all countries support *"limiting the rate of constructing coal-fired power plants, even if this increases the cost of energy."* In China, which is highly reliant on coal, 67% support this measure. On average across all countries polled, 68% support the idea (31% strongly) and 26% oppose it (8% strongly).

Similarly, majorities in 12 countries support "gradually increasing the requirements for fuel efficiency in automobiles, even if this raises the cost of cars and bus fares." Majorities in 11 countries support "gradually reducing government subsidies that favor private transportation, even if this raises its cost." Majorities in all countries polled support *"preserving or expanding forested areas, even if this means less land for agriculture or construction."*

The poll also asked about helping poor countries adapt to the effects of climate change. Fourteen majorities and one plurality say their countries "should contribute to international efforts to help poor countries deal with these climate-induced changes." Many developing countries (such as Vietnam, Indonesia, Kenya, and Senegal) express more than 90% support for acting in solidarity with other countries facing problems like their own.

WorldPublicOpinion.org operates as a collaborative project involving research centers from around the world that is managed by the Program on International Policy Attitudes (PIPA) at the University of Maryland. The margins of error for each country range from +/-3 to 4 percentage points. The surveys were conducted across the different nations in September and October 2009.

WB

Finance Ministers Meet to Tackle Challenges of Financial Crisis in South East Europe through Strengthened Financial Reporting

Action plan for reforms will aid in EU Accession efforts and increase financial stability in the targeted countries

Thursday, 03 December 2009

VIENNA: Finance Ministers from eight countries in South, East and Central Europe met in Vienna today in support of a unique regional action plan that will increase stability in their country economies and help support their accession to, or alignment with, the European Union. The conference, hosted by the World Bank's Centre for Financial Reporting Reform included Finance Ministers and representatives from Albania, Bosnia & Herzegovina, Croatia, Kosovo, Macedonia, Moldova, Montenegro and Serbia.

In light of the current financial crisis, the action plan seeks to urgently assist each economy in fundamentally improving financial reporting regulation as well as in modernizing professional

and academic education systems in the area of accounting and auditing.

“Financial Reporting reforms are critical for economic development,” said Philippe Le Houérou, Vice President for the World Bank’s Europe and Central Asia Region. “The action plan agreed to by the Finance Ministers will assist each economy in overcoming the immediate challenges of the current financial crisis, by improving the climate for internal and external investment, which is important for job creation and economic growth. It will also help each economy to speed up the harmonizing of financial reporting and auditing to be in line with EU requirements.”

In statements at the conference, the Ministries reaffirmed their support for the jointly developed “Road to Europe – Program of Accounting Reform and Institutional Strengthening” (REPARIS) plan for the period 2009-2013. The REPARIS Program is designed around the introduction, implementation, and effective enforcement of relevant portions of the EU acquis communautaire. The acquis communautaire not only includes the Company Law Directives and Regulation referred to above, but also the implementation of European Union best practices, which incorporate the international standards.

Representatives from the European Commission and the Regional Cooperation Council welcomed the timeliness and importance of this initiative.

REPARIS aims to contribute to foreign direct and portfolio investment, foster private and financial sector developments, improve the business environment and investment climate, and facilitate integration into the European Union.

To achieve this, regional communities of practice that comprise the major stakeholders within each economy have been established to address the urgent implementation challenges in financial reporting, auditing and professional accountancy education.

“Though all economies are not at the same stage of their journey on the Road to Europe, and transition to a thriving market based economy, the desired destination is the same and the challenges identical,” said John Hegarty, Head of the World Bank’s Centre for Financial Reporting Reform. “Some economies have already succeeded in solving some of the transitional challenges, and through the new Communities of Practice, have usefully shared their experience with their neighbor economies.”

Key interventions of the program include strategic input on (a) drafting and phasing-in of legal and regulatory instruments to comply with the EU acquis communautaire; (b) institutional design and operating procedures; and (c) design of ongoing education and training programs, both academic and professional. In addition, the Program includes twinning arrangements with leading foreign institutions, as well as the establishment and start-up support of a network of regulators, standard-setters, and officials from participating countries.

The conference was addressed by the Austrian Foreign Minister, Mr. Michael Spindelegger, and

the State Secretary in the Austrian Finance Ministry, Mr. Reinhold Lopatka, who highlighted the Austrian Government's support of this initiative and partnership. Funding for the REPARIS program is made available by the Austrian Development Agency.

"We recognize the importance of this initiative because sound financial reporting and auditing are indispensable elements of an investment climate conducive to foreign investments and sustainable economic growth," said Ambassador Brigitte Oeppinger- Walchshofer, Managing Director of the Austrian Development Agency.

WB

Key Findings from World Bank Trade Research in 2009
Friday, 04 December 2009

- A quick conclusion to the Doha Round would restrain protectionism
- Research sheds light on reconciling climate change and trade policy
- Marked increase in use of import-restricting trade "remedies" during the crisis
- Crisis pushes up trade costs, making aid for trade facilitation more urgent than ever
- Export promotion policies need to be carefully designed

According to the OECD's latest outlook, world trade, which suffered a historic contraction in 2009 of about 12.5 percent from 2008, appears to be set for a modest recovery. The OECD projects that world trade will grow 6 percent in 2010. However, trade, which soared during the boom, remains depressed and short of pre-recession levels. This week, WTO ministers agreed in Geneva that rapidly concluding the Doha Round of multilateral trade negotiations - which began in Qatar in 2001 - would help the global economy recover from the crisis and developing countries to alleviate poverty.

Bernard Hoekman, Will Martin, and Aaditya Mattoo of the World Bank noted earlier this month in a working paper that the Doha Round must be concluded not because it will produce dramatic liberalization but because it will create greater security of market access. This would strengthen, symbolically and substantively, the WTO's valuable role in restraining protectionism in the current downturn. Doha would also create some new market access. For example, tariffs on Bangladesh's exports of tennis shoes to the U.S would decline from 32 to 6 percent. The resulting boost in global real income is estimated to be as much as $160 billion.

Further, as some ministers also noted in Geneva, a Doha deal would create space for multilateral cooperation on key issues outside the Doha Agenda, including on the scope for trade policy actions related to climate change mitigation. This is highly relevant given the Copenhagen climate negotiations currently in the news.

A wealth of other World Bank trade research sheds light on key aspects of the global recovery and on trade's intersection with other pressing economic issues. What follows is a selection of findings and trends that cover climate change and trade policy; export growth and export promotion policy; and protectionism.

Reconciling Climate Change and Trade Policy

Important trade issues are surfacing as the push to limit carbon emissions and fund adaptation and mitigation gets underway in Copenhagen. For instance, concern is growing over the likely impact of carbon-related border taxes and their optimal design.

If countries cut emissions by different amounts, carbon prices will vary too. Countries with higher carbon prices may seek to impose additional border taxes on imports from countries with lower carbon prices - to help their domestic firms stay competitive, and to reduce the "leakage" of carbon emissions through increased production where carbon is cheap.

In a new working paper, Aaditya Mattoo, Arvind Subramanian (of the Peterson Institute), Dominique van der Mensbrugghe, and Jianwu He confirm that emissions cuts by rich countries will have minimum carbon leakage effects. However, their outputs and exports of carbon-intensive industries may decline, potentially creating pressure for protection.

The impact of border taxes on trade is dramatically different if they are based on the carbon content of imports rather than on the carbon content in domestic production. The authors conclude that the former, when applied to all merchandise imports, would address competitiveness and environmental concerns in rich countries but have serious consequences for trading partners. China's manufacturing exports would fall by a fifth and those of all developing countries by 8 per cent.

However, border tax adjustment based on the carbon content in domestic production might be less seriously damaging. This is because domestic production in developed countries has lower carbon content than in developing countries, and would result in lower border taxes on imports. It is critical to note, however, that the first best outcome from a developing country trade perspective is to have no border taxes at all.

Trade "Remedies" During the Crisis

Most major WTO member countries respond to calls for additional protection from imports by resorting to a basic set of trade "remedy" policy instruments, which includes antidumping, safeguards, and anti-subsidy policies.

In a September 2009 working paper, Chad Bown examined new data from the World Bank-sponsored Global Antidumping Database tracking the use of these remedies during the crisis. He found a marked increase in WTO members' combined resort to these instruments in 2008 and early 2009 and observed that their use is increasingly affecting "South-South" trade between developing countries, with a special emphasis on exports from China.

However, the collective value of G-20 imports that were affected by import-restricting remedies during this period is small - less 0.45 percent of these economies' total imports. Still, Bown's analysis of case-level data shows a number of ways in which use of these remedies in the context of the global crisis may have welfare-distorting effects on economic activity. His findings are elaborated in an October 2009 *trade policy note.*

The Crisis and the Cost of Trade

As the global economic crisis exacerbates trade costs through channels such as the higher cost of trade financing and the proliferation of trade-distorting policies, the opportunity costs of not enacting trade facilitation reforms has increased significantly.

Indeed, research shows that actions that facilitate trade - such as investing in trade-related infrastructure or quick "behind the border" steps such as standards harmonization and removing regulatory barriers to trade - can play a key role in reducing trade costs.

Simeon Djankov, Caroline Freund, and Cong S. Pham found in 2008 that an additional day's delay in getting goods from the factory gate and onto the ship reduces trade by at least one percent. Celine Carrere, Jaime De Melo and John S. Wilson suggested in 2009 that distance to markets remains a major barrier for poor countries. An earlier article describes why trade costs matter to Sub-Saharan Africa.

It is clear that governments need more aid to carry out trade facilitation reform. A new working paper by Matthias Helbe, Catherine Mann and John S. Wilson shows that a 10 percent increase in such aid - targeted at regulatory reform alone - translates into an $8 billion increase in global trade. The rate of return to each dollar of this type of trade-related aid is about $700 in additional trade.

Designing Export-Promotion Policies

It is widely accepted that exporting firms everywhere are significantly larger, more productive and capital-intensive, and pay better wages than non-exporting firms. Ana M. Fernandes and Alberto Isgut also find evidence from a study of manufacturing firms in Colombia that firms become more productive as a consequence of participating in export markets.

"Learning-by-exporting" tends to have strong benefits on total factor productivity, the authors find. The results also show that learning-by-exporting effects are absent for firms that discontinue exports, and are reduced for those that already have export experience. So export promotion policies need to be carefully designed, and further research is needed on the connection between export promotion policies and their resulting learning effects.

In related research, Daniel Lederman, Marcelo Olarreaga and Lucy Payton have investigated the effects of services provided by Export Promotion Agencies (EPAs) around the world, based on new survey data. Results suggest that on average they have a strong impact on exports. The evidence highlights the importance of EPAs in overcoming market access barriers abroad and in solving asymmetric information problems associated with exports of differentiated products.

This research also provides insights into what types of activities and institutional designs work best, and public-private partnerships appear to be quite effective. The data also suggest that there are strong diminishing returns to export-promotion expenditures, suggesting that as far as EPAs are concerned, small is beautiful.

WB

Opening remarks at the 2009 IC4D South Asia Regional Launch, Colombo Sri Lanka

Naoko Ishii, Country Director World Bank Sri Lanka Opening remarks (as prepared for delivery) at the 2009 IC4D South Asia Regional Launch, Colombo

Friday, 04 December 2009

Before I started working for development, I somehow thought that ICT is a monopoly of developed countries, or, that ICT was beyond the reach of developing countries. Happily, I was completely wrong!

When I look back at the last three years of my stay here, I am continuously amazed at how much ICT can do for development. I have witnessed the innovative use of mobile technology in helping farmers to get better prices for their crops. I have also seen a school child in a rural village here chatting with his friend in Korea through the internet, and a small scale entrepreneur selling his craft to business partners abroad. ICT has empowered the Sri Lankan rural population and connected them with global markets and knowledge without the need to come to the capital Colombo. In Sri Lanka another delightful and interesting discovery is the noticeable increase in efficiency of the government service through the e-Government program. All Sri Lankans stand to benefit from this.

These personal impressions of mine on the power of ICT is confirmed by this report which has introduced the econometric analysis that for every 10 percentage point increase in the penetration of broadband services, there is a 1.3 percentage point increase in economic growth. More interestingly, this growth effect is proven to be stronger in developing countries than in developed countries. I also happily found that the report mentioned that innovative ICT solutions often emerge in developing countries. These countries can accelerate development process from within.

In South Asia, the report has identified a number of impressive and very positive developments in the ICT sector during the last five years. Reformed regulatory frameworks in the region now promote competition and private investment in the ITC sector. The region has also become a strong player in the global information and innovation economy. While India's success in the information technology (IT) and IT-enabled services (ITES) sectors is well known, Pakistan and Sri Lanka have also emerged as potential destinations for offshore services.

The report also identifies areas for improvement, including, access, affordability, and the quality of the Internet and mobile services. The report gave each of the South Asian countries scores of 3 or 4 on a scale of 1-10 in overall ICT performance, a measure that includes access, affordability, and adoption. There is much more to do to fully realize the development impact of ICT in the region.

It is because of this impact and potential of ICT for development that has brought the World Bank Group to be fully behind ICT4D agenda. We are the largest development partner in this area in over 100 countries. This report illustrates new opportunities offered by ICT, analyzes issues it faces and introduces good practices. The team here will present these and lead the discussion. I trust you will join in. I look forward to an interesting dialogue.

WB

How to further boost consumption?

By: Louis Kuijs, Senior Economist, World Bank Office, Beijing

Increasing the role of domestic consumption is one of the key objectives of China's 11th Five Year Plan. China's overall economic growth and development in recent decades has been truly impressive. However, it has been accompanied by some imbalances. A relatively low and declining role of consumption has been one of the key imbalances, together with increasing income inequality, intense use of resources and impact on the environment, and a rising trade surplus. The imbalances are largely an outcome of China's capital-intensive, industry-led pattern of growth. The 11th Five Year Plan (2005-10) aims at redressing the imbalances, in large part by adjusting the pattern of growth.

Consumption has actually grown briskly in China in the last decade. Overall consumption (private plus public) rose by 7.8 percent per year on average since 2003, in real terms. The imbalances that the government is trying to address have arisen because consumption and services have lagged investment and industry for a long period. Real investment grew 11.9 percent per year on average in this period.

When the global crisis broke out, China's senior leaders stressed that, with the outlook for exports more subdued in the "new normal," rebalancing and getting more growth out of the domestic economy has become even more important.

China's short term policy response to the crisis has mainly focused on investment, but it also helped in keeping up consumption growth. The RMB 4 trillion stimulus plan largely fueled infrastructure investment. But some policy measures have helped consumption directly, such as subsidies for rural consumption, lower taxes, and higher pensions. And the government has been increasing its role in financing health, education, and social safety, which makes people feel less restrained to consume. The stimulus and its impact have also helped to contain the decline in consumer confidence during the global crisis.

But, more is needed to boost the role of consumption in China's economy on a sustained basis. With the economic recovery now consolidated, there is room to switch the policy focus from short term stimulus to structural reforms to rebalance the pattern of growth and get more growth out of the domestic economy. What is the best approach to achieve this?

In my view, increasing the role of consumption should be part of the overall rebalancing of the pattern of growth, towards less emphasis on industry and investment and more on services and consumption. Such a shift would result in more labor-intensive growth, with more urban job creation as well as more upward pressure on wages from the higher demand for labor. By boosting the share of wages and household income in GDP, this would increase the role of consumption in an economically sustainable way. By rebalancing the relationship between the expansion of production capacity and consumption capacity, it would also reduce the external

imbalance (the trade surplus). More labor-intensive urban growth would help reducing surplus labor in agriculture as well, thus raising rural per capita income and therefore the capacity to consume on the countryside. Rebalancing would also make growth less intensive in energy and resources and be less detrimental to the environment.

What Kinds of Policies are Most Suited?

Building on the substantial progress made in recent years, there is further room to increase the government's role in financing health, education, and social safety. In addition, structural reforms in two areas are the keys.

One important area of reform is measures to ensure that, as China's growth needs to be led more by services and less by industry, new resources are channeled to the growth sectors. This calls for making service sector production more attractive, compared to industrial production. This means removing the subsidies to industry by raising currently under-priced prices of inputs into industry such as land, energy, water, electricity, the environment, and capital. It also means increasing private sector participation and removing entry barriers in several service industries. A stronger real exchange rate would also help improving the terms of trade for services (non-tradables) compared to manufacturing (tradables). In the financial sector, further reform can improve access to finance for small and medium sized enterprises and service sector firms. Further SOE dividend reform can help channeling corporate earnings more efficiently, to either government consumption or investment in a growth industry. Removing the cap on deposit rates would support household income and consumption as well as efficiency (by raising the cost of capital).

The second main area of reforms is supporting more successful, permanent migration to the cities, to foster more labor-intensive, service sector-oriented, and consumption-based growth there. China's traditional migration pattern has meant that family members have often stayed in the rural areas, with migrants saving most of their income and sending it back to the country side. This pattern served well the traditional growth pattern centered on export-oriented manufacturing. However, a rebalanced pattern of growth requires adjustment to the migration pattern. If migrants are able to take their families with them to the cities, with their children able to go to normal urban schools, they will start to spend more of their income in the cities. This will set in motion powerful "feedback" effects boosting urban service sector activity, employment, and consumption. Much of the service sector activity generated this way will not be high brow. However, given the still very large gap between urban and rural productivity, such additional urban employment will boost overall growth. By improving the quality of education of children of migrants, such a migration pattern will also be good for long term productivity growth.

More successful, permanent migration calls for further liberalization of the Hukou system and, relatedly, reform of the inter-governmental fiscal system that give local governments the means

and incentives to fund the necessary public services. More rule-based transfers from richer to poorer areas would probably need to be part of this. But, allowing municipalities to benefit financially from migration, for instance via property taxes, would also help. Further land reform would both increase the mobility of migrants and, by facilitating land consolidation and mechanization, boost incomes and consumption on the countryside.

Louis Kuijs's Blog

http://blogs.worldbank.org/eastasiapacific/blogs/louis-kuijs

Building Knowledge Economies for Job Creation, Increased Competitiveness, and Balanced Development in MENA region

High Level Conference 1-3 December, Tunisia

Dr. Shamshad Akhtar, Regional Vice-President of the World Bank Middle East and North Africa

The organization of this conference in Tunisia is a testimony to the commitment of its President to rising to the challenges of job creation, increased competitiveness and balanced development.

The World Bank is keenly supporting this forum as well as other endeavors of this type to develop and promote better understanding of advantages and merits of KE and how to nurture and foster cross-country collaboration to build knowledge economies. There is a long standing recognition that knowledge and its appropriate application, transmission and diffusion are critical drivers for enhancing productivity that in turn offers higher and sustainable economic growth. Without knowledge diffusion, the incremental dosage of factors of production such as labor and capital would at best yield diminishing returns.

Several economies have adopted development strategies to mainstream and integrate technology diffusion and transmission to take full advantage of globalization. This involves maximizing the benefits from trade and financial integration, labor mobility and technology diffusions, all of which have been made possible by the development of ICT and worldwide interconnectivity. The new economic growth model advocates appropriate formulation, application and mainstreaming of integrated knowledge in the overall development strategy of the economy. Key lessons from the successful cases of knowledge economies suggest that knowledge has to be grounded and rooted in education system and supplemented by research and innovation. Another critical element is to participate to global production networks and outsourcing arrangements.

According to the World Bank's Knowledge Economy Index measures, MENA region has made progress over the last ten years in terms of rolling out education access and ICT and gradually improving the institutional environment for private-sector led growth. At the same time, other regions have made even more rapid progress in these same areas –so that the region is further behind comparators and competitors today on the knowledge economy index than it was in 1995. What is critical to recognize is that a number of MENA countries have yet to develop a well conceptualized strategy for knowledge economy and properly integrate it in their development plans. This would require adoption of a combination of policies including significant transformation of education sector and the innovation system, the overall ICT

infrastructure and the overarching strengthening of economic and institutional regime to properly incentives private sector led economic diversification.

The World Bank has launched multiple initiatives to support building of the Knowledge-based economies. Some countries are being offered development policy support to promote Private Sector or Innovation-Driven Growth by aligning the incentive regime and reducing state's role in production that has nurtured inefficiencies. The World Bank has also launched an Arab World Initiative to address the impediments including inadequate cross border infrastructure that are holding back regional economic integration. These issues - if addressed - would provide a larger context and ground for promoting knowledge economies in MENA region. Furthermore two World Bank MENA regional reports also provide perspectives on the reforms undertaken and transformations still needed in two of the Knowledge Economy pillars: The Road Not Traveled in Education Reforms, and Unlocking Private-led Growth in MENA: From Privilege to Competition.

Despite impressive achievements in primary education enrollments and tripling of secondary enrollments, a principal barrier to the knowledge economy is the weak quality of education and mismatches between the supply and demand of skills. None of the twelve MENA countries that took part in the last international TIMSS test of 8th grade math and science achieved above average scores, and overall scores were stagnant as compared to four years previously. In today's world, competitiveness depends on firms that employ a well-educated, technically skilled workforce that is capable of adopting new technologies and selling sophisticated goods – hence a priority on higher levels cognitive as well as non-cognitive skills.

The scientific base on which the Arab World can build cutting-edge industry is weak. In a region that is home to some of the world's oldest universities, which have thousands of years of contribution to global knowledge, the Arab Leagues' share of World scientific journal articles is a little above 0.5 percent. As a percentage of GDP, Arab countries spend much less on R&D than comparators and competitors.

The World Bank's work on private sector highlights that significant economic reforms have been launched in the region, but private sector dynamism remains relatively muted to date, particularly compares to East Asian countries. Private investment across the MENA region increased by a modest 2 percentage points in response to the reforms enacted to date. MENA average number of registered businesses per 1,000 people is about a sixth of that in the OECD, and less than a third of that in Eastern Europe and Central Asia. The private sector cites partial implementation of reforms and institutional weaknesses as an obstacle to business development. This highlights the importance of the right incentive framework for allowing the private sector to innovate and grow.

The institutional environment for innovation in the private sector is captured by the regional export statistics. There has been growth in high tech exports from some Arab states but the starting base was very low. For example, Tunisia's high tech exports increased fivefold between 1997 and 2005. However, it remain relatively small and across the MENA region, high tech exports still account for only 0.6 percent of the total exports, compared to 3 percent for Eastern Europe, 6 percent for Latin America and the Caribbean and 25 percent for East Asia and the Pacific. The most diversified countries in MENA export around 1500 goods--most of them in low-value added sectors, compared to close to 4000 goods in countries like Poland, Malaysia or

Turkey. Diversification is even weaker in oil-rich countries, many of which export less than 500 goods.

In conclusion, let me emphasize that Arab World is endowed with considerable human capital, creativity and resources. Many countries of the region have already embraced the Knowledge Economy concept, and some are already taking strides towards its realization. The aim of the World Bank is to stimulate and accompany this process. In addition to supporting the transition to the KE in Algeria, Morocco, Saudi Arabia, Tunisia and Qatar, the World Bank Group is aiming to leverage client country demand with the Group's knowledge and investment resources. The AWI launched recently by the World Bank is articulated around three pillars all of which can support the region's growing knowledge economy base:

- Knowledge and capacity building: the AWI will create knowledge on key regional challenges to underpin policy dialogue and project preparation.
- Regional projects: the AWI will support projects in regional and global trade facilitation and regional infrastructure as well as regional approaches to water management and environmental issues.
- Harmonization and standardization of policy and regulatory approaches. The AWI will support regional approaches in trade and financial integration, social services and education, as well as public good areas such as environmental management.

Going forward the AWI will focus on activities with significant cross-border benefits, in areas where consistency of policies and actions add to credibility, economies of scale, or potential competition. We are hoping these endeavors and the countries own development program should help promote knowledge economies of the Region.

WB

World Bank Group President Zoellick Visits India

New Delhi: World Bank Group President Robert B. Zoellick said India's strong crisis management and the sustained global demand from this $1.2 trillion economy is playing an important role in helping the world recover from the global economic crisis. He said India's growth rates could over the next one to two years see a return to the 8-9% envisaged in the country's 11th Plan, and that its strong fiscal and monetary policies had helped counteract a decline in exports and withstand some of the external shocks brought on by the multiple food, fuel and financial crises.

Vast sums are needed to build the infrastructure and human development programs to power India's next generation of growth, he said, spelling out a vision of a "catalytic Bank" as a partner able to leverage not just its financial resources but knowledge, convening power and reputation.

The Bank has already delivered around $5.3 billion to India this fiscal year with commitments to power, roads, banking, rural development and water. Future resources will be aimed at supporting India's urban development, additional infrastructure needs in transport and power, elementary and secondary education, and development in agriculture and the rural sector. India

became the largest portfolio last fiscal year for International Finance Corporation (IFC), the World Bank's private sector arm, at more than $3.4 billion. For the last three consecutive years, IFC investment commitments in India have stood at around $1 billion, with a focus on improving access to infrastructure and finance and addressing climate change as central to its work. Zoellick said his discussions with Indian ministers had revealed a dramatically increased demand from India for World Bank engagement and he hoped to respond with not just financing but also the Bank's ability to help India access global sources of knowledge and funding.

In the villages of Tonk District in Rajasthan yesterday, Zoellick met communities of men and women who have made the best of opportunities provided and got together to address their water needs. "This illustrated to me not only the acuteness of the need but also the tremendous energy of India's people to make the most of an opportunity," said Zoellick.

Making more of these sorts of opportunities was the challenge that lay ahead, he said, naming several government projects designed to do this. In the areas of agriculture and rural development, the Bank plans to raise its commitment during 2009-12 to $5.3 billion, including $300 million from the IFC to support agri-business. This more than doubles the level of support provided in the previous three years. This funding will help to meet needs in the areas of irrigated agriculture, sustainable watershed management and rain-fed agriculture as well as the development of rural livelihoods. To achieve further impact, the Bank is increasingly scaling up from project investments towards supporting state and national programs in India such as the National Rural Livelihoods Mission or a proposed National Dairy Program.

WB