Report Week # 97

BUSINESS AND POLITICS IN THE MUSLIM WORLD

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Dubai debts worry Asia

Sunday, 06 December 2009

Asian bourses, banks and currencies were worried last weekend as investors dumped shares from Mumbai to Tokyo to distance themselves from over-exposure to debts in Dubai, a leading financial and investment player in the United Arab Emirates (UAE).

Dubai recently had to ask creditors of State-owned Dubai World and Nakheel PJSC to agree to a standstill on billions of dollars of debt prior to restructuring. The Dubai World conglomerate had US$59 billion of debt as of mid-August, the bulk of the total Dubai debt of $80 billion.

Adrian Rusmana of BNI Securities in Jakarta said the Indonesian bourse, "With the UAE defaulting, the perception of global investors on other emerging markets such as ours becomes negative."

Leading Indonesian economist Fauzi Ichsan of Standard Chartered Bank said, "The world market is now worried about two things : whether there will be other defaults of major financial institutions in other countries, and whether the Dubai World creditors will be able to act quickly to restructure their debts".

The MSCI Asia-Pacific Index of local shares took its biggest drop in eight weeks while the greenback rose against major currencies. In Asia local currencies fell from the Philippines to Korea.

Korean companies were believed to be exposed to $32 million of Dubai debt as of September according to the Money Today newspaper.

But the bourse was closed in Indonesia, Singapore and Malaysia due to the Muslim holidays and as of Thursday the Indonesian currency was still the best performer in the region with Indonesian exporters of coal and palm oil worried the rising Rupiah could hit export earnings.

The Jakarta Composite Share Index soared 82 percent this year as overseas investors ploughed funds into Indonesian stocks and bonds, with a positive balance of $951 million on trades.

Fadhill Hasan, executive director of the Indonesian Oil Palm Association was worried the Rupiah would hit 9,000 to the dollar soon, "9,000 would be dangerous for our exporters."

However Tetsuo Yoshuikoshi, senior Singapore economist of Sumitomo Mitsui Banking Corp said the Rupiah may weaken on worries next year about the slow speed of global recovery. And now this Dubai downturn means worries for Christmas instead of the New Year.

The Bank of Indonesia is concerned that Indonesia may be attracting some hot money and senior bank deputy governor Darmin Nasution confirmed recently that the central bank was studying the option to limit foreign fund inflows into short-term (one month) bills, so that when the jitters come the rush out does not become bigger than the rush in. And Dubai is making Asia jittery.

Mitul Kotecha of the investment banking unit of France´s Credit Agricole in Hong Kong took a balanced view. “We see Asian currencies a bit vulnerable in this environment. It’s not going to be huge fallout because Asia looks more solid in terms of fundamentals.”

But another aspect worries Asian bankers. Nakheel PJSC cannot repay Islamic bonds worth $3.52 billion due for maturity on December 14th. This is the largest single default on an Islamic bond, but now we hear of at least half a dozen Sukuk in trouble, the first of them being Aston Martin Lagonda.

Indonesian Islamic banking will remain an infant industry for at least a decade although Islamic bonds (state and private) show signs of take-off. Indonesia cannot afford that this promising financing route becomes diminished by doubts from Dubai.

The wheel of history seems to have turned a full circle. In the G20 Indonesia leads with China the arguments of the emerging economies for improved banking discipline in the West, having learned from its own 1998-1999 collapse. And now Malaysia, Indonesia, Hong Kong and Singapore will want to assess if the Dubai debt default will damage their Islamic bond markets, expanding again after a period of doubts, and any implications for regulatory frameworks.

If fact, Asia may be deemed to be a little more dependable at the moment than Dubai in terms of financial data. That is a development we did not dream of.

TZ

Debts of Dubai World to British banks are $5 billion

Sunday, 06 December 2009

According to Financial Times, debts of Dubai World to the British banks are about $5 billion. Thus, they are the largest group of creditors of Dubai State Fund, Kazakhstan Today agency reports citing television channel Vesti.Ru. According to the newspaper, Royal Bank of Scotland (RBS) is the bank that most subject to the risk in the situation with Dubai World and less - HSBC, Standard Chartered and Lloyds Banking Group.

Total debt of Dubai World is $40 billion, thus, $1 - 2 billion accounts for RBS share. The debts of the fund to each British creditor bank do not exceed one billion dollars.

The largest creditor of Dubai World, according to a source, is Emirates National Bank of Dubai. The fund owes it about 3 billion.

Gazeta
http://eng.gazeta.kz/art.asp?aid=140724

Simmons and Simmons wins 'Islamic Finance Law Firm of the Year'

Sunday, 06 December 2009

Simmons and Simmons has been awarded "Islamic Finance Law Firm of the Year" at the Middle East Legal Awards 2009. Simmons and Simmons won the award by demonstrating that it has made a profoundly significant impact on the field of Shariah compliant business in the Middle East region over the previous 12 months. The commercial and social impact of relationships and deals brokered over the last 12 months was considered highly in the judging of the award by an independent panel of experts.

Muneer Khan, partner and Head of Islamic Finance at Simmons and Simmons, said: "We are very happy to have received this award as it recognises the successful implementation of a different vision for the practice of Islamic finance by an international law firm."

Simmons & Simmons has demonstrated a unique strength in the breadth and depth of its practice of Islamic finance. Over the last 12 months, the firm has acted on a number of technically challenging and groundbreaking transactions and has advised on the development of a broad range of structured Islamic products and funds across the region.

Based on its many years of combined practical experience, the Islamic finance team has successfully integrated the practice of law, the ability to foresee and resolve complicated Shariah issues at the earliest opportunity and the application of best practice, leading to the creation of more robust products and structures, greater efficiencies, reduced costs and accelerated timelines for clients.

AE

Beyond Crisis: Dubai Will Build on its Strengths

Monday, 07 December 2009

DUBAI: There is no denying the fact that some companies in Dubai have a debt-repayment problem. But only a few of them may have to take measures out of the ordinary to lower their debt repayments to manageable levels. The truth lies beyond the perception conjured up by the apocalyptic headlines in some media. Much of Dubai’s economy is still viable, growing and generating cash. Despite the slowdown that the economy is likely to suffer, as most companies reduce their debt levels, Dubai will remain a strategic trading and financing hub for the Gulf region and will continue to build on its strengths in areas such as re-exporting, logistics, shipbuilding and tourism.

The bane of Dubai's economy is the over-built real estate sector. But a massive fall in property prices and rents, while inflicting pain on investors and their bankers, has brought down the cost of living and doing business in the city. This will in time contribute to savings and investments and bolster the emirate's ability to grow out of its debts. "Not everything in Dubai is as apocalyptic as a cursory glance at newspaper headlines sometimes seems to suggest," said Eckart Woertz, Program Manager Economics at the Dubai-based Gulf Research Center. "While the real estate sector is still troubled and has failed to deliver on its lofty promises, Dubai has reached critical mass as a regional trading hub and can build on this strength."

News that Dubai's flagship conglomerate, Dubai World, was seeking to delay repayments on $26 billion of its $59 billion in debt sent markets across the globe plummeting last week amid fears of contagion to other emerging markets and on concerns that a possible debt crisis might destabilize the world financial system.

But reassuring statements from Dubai and elsewhere, and closer scrutiny by financial analysts and economists of the issue has since calmed global markets. Most analysts see Dubai as just another victim of the return to stricter credit standards in global debt markets after the financial crisis.

In fact skeptics were surprised by Dubai's ability to refinance most of its debts payments since the global crisis started in October 2008. Dubai this year is estimated to have rolled-over or refinanced nearly $9 billion in debt payments. It was able to raise $1.9 billion in a new Islamic bond issue, just weeks before the Dubai World standstill request. Dubai also raised $15 billion in sale of new bonds from local sources. A few days after the standstill news, Jebel Ali Free Zone Authority or Jafza, a Dubai World company, actually paid a Dh7.5 billion coupon on time.

Dubai's main bankers have also come out with statements showing their confidence in the emirate's ability and willingness to overcome the challenges. "We are confident that Dubai and the UAE as whole will work through these issues and continue to prosper as a dynamic and vibrant part of the world," Peter Sands, Group Chief Executive of Standard Chartered, said in a recent statement.

"I am confident that the leadership of Dubai and the UAE will overcome any short-term issues they face, which appear to have been somewhat sensationalized, and continue to lay the foundations for sustainable growth," Michael Geoghegan, Group Chief Executive Officer of HSBC bank, said in a statement.

World Bank President Robert Zoellick said on Saturday that Dubai's debt workout will be largely contained to the emirate and a handful of large creditors with limited repercussions for debt markets beyond the Gulf. "I personally think that the Dubai financial problems will be contained and manageable," he said.

Masood Ahmed, director of the IMF's Middle East and Central Asia department, had said a day earlier that he doesn't anticipate the UAE needing the International Monetary Fund's financial support because the country has the resources to "easily deal with these issues."

"We don't see that that's going to be an issue" said Ahmed. Because Dubai World has assets abroad such as commercial real estate, "it may well be that some of these assets will be disposed of", which "may lead to some degree of re-evaluation of commercial property more generally", he said.

Expressing confidence in Dubai's ability to bounce back, Neven Hendricks, chief operating officer of Deloitte Corporate Finance Ltd-MENA region, said: "Over the years Dubai has developed the infrastructure and attracted the intellectual capital that will enhance its ability to recover from the economic downturn faster than most persons anticipate. I have no doubt that under Dubai's visionary leadership; the emirate will emerge stronger than before and remain the centre of business activity in the region."

Khaleej

Be more innovative in Islamic finance, says Bahrain banker

Monday, 07 December 2009

ISLAMIC finance can grow at a faster rate if industry players from this region and the Gulf get their act together and become more innovative, said a Bahrain banker. Ithmaar Bank chairman Khalid Abdulla-Janahi said more "kitchen work" should come from countries like Malaysia in developing Islamic finance rather than the West.

"It is happening now albeit artificially. There needs to be more innovation for more financial instruments within Islamic financing," he told Business Times in an interview.

There are now several financial instruments in the system, but they have been developed from the Western ones, he said. "The (Islamic finance) industry players are not doing enough...we got to look at ourselves and become the drivers of innovation."

Islamic banking has become a buzz word in recent times and countries such as France, Switzerland and the UK are endeavoring to be the hub of the industry. A lot of 'kitchen work' for Islamic banking including Sukuk, has been undertaken in London.

"(This is because) the Islamic business community (in Asia and the Gulf) is not talking enough with each other to make things take off and become self-reliant," Khalid said, adding that it is the governments which are talking more now.

"Before, everyone wanted to claim to be the centre of Islamic finance, but this was more of the (respective) governments' wish."

"Industry people (in the private sector) need to bring their heads together as what is being done now among GCC countries like Bahrain, the United Arab Emirates and Saudi Arabia," he added.

Khalid believes that more can be achieved for the players if they complemented each other in banking, insurance as well as business at large.

On its part, Ithmaar Bank, which is listed on the Kuwait and Bahrain bourses, is undertaking some "kitchen work" with MAA Holdings Bhd and MAA Takaful Bhd in Malaysia.

One of Ithmaar Bank's flagship units is Bahrain-based Solidarity Co BSC, an Islamic insurance company that has a 25 per cent stake in MAA Takaful.

Btimes

Bahrain the leading global hub for Islamic finance

Tuesday, 08 December 2009

The world largest gathering of Islamic finance leaders have arrived in Bahrain for the 16th Annual World Islamic Banking Conference (WIBC 2009) which begins today. The event highlights the Kingdom's position as a leading global hub for the international Islamic banking and finance industry, according to Shaikh Mohammed bin Essa Al Khalifa, Chief Executive of Bahrain's Economic Development Board (EDB).

WIBC has grown from 120 delegates in 1994 to 1,200 in 2008. This year, industry leaders from over 50 countries are expected to attend the event, which runs until 8 December at the Gulf International Convention Centre at the Gulf Hotel in Manama. These include representatives from the Central Bank of Bahrain (CBB), UK Trade & Investment and the Monetary Authority of Singapore, and key decision-makers from the most significant markets in the world.

Shaikh Mohammed said: "With Islamic finance increasingly being recognised as an integral part of the global financial structure, the World Islamic Banking Conference has become one of the most important dates in the financial calendar. And having been the first in the Middle East to nurture the concepts of Shariah finance, Bahrain is the ideal location to host debate intended to shape the future of the global Islamic finance industry."

The EDB, which has the overall responsibility for formulating and overseeing the economic strategy of the Kingdom and for creating the right climate to attract inward foreign investment, is supporting the inaugural 'Bahrain pavilion' at WIBC 2009. Hosted by the Bahrain Association of Banks (BAB), the pavilion will showcase the strength and depth of Islamic finance institutions based in the Kingdom. Bahrain is a pioneer in Islamic finance and now has by far the largest number of Islamic banking entities in the world. More than 30 countries have sought the Kingdom's support to develop their own Shariah compliant banking.

Shaikh Mohammed added: "Shariah principles mean that there is a review and oversight process based on ethical foundations of Islamic law and - provided these principles are applied - the case for Islamic finance remains very strong. The ethical content of Shariah finance is by no means the least of the contributions that emerging nations can make to strengthen the financial architecture on which the world depends."

Bahrain is home to leading regulatory bodies for Islamic finance, such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Liquidity Management Centre (LMC) and the International Islamic Financial Market (IIFM). Current Islamic banking initiatives under way in the Kingdom include work on developing a money market framework, developing liquidity, further strengthening the "Shariah Basel II" and further training and education provision.

WIBC will also feature three prestigious international industry awards, each recognising excellence in the Islamic finance industry:

• The Islamic Banker of the Year Award

• The Industry Leadership Award

• The Institutional Excellence Award

The annual Competitiveness Report - conducted by McKinsey & Company - will also be published, providing analysis of the key drivers of competitive performance excellence in Islamic financial institutions.

AME

IFIs less affected by recession: MTI

Tuesday, 08 December 2009

Islamic Financial Institutions (IFIs) have been less affected by the global recession, according to a survey carried out by MTI Consulting. Around 62 percent of the survey respondents cited they had experienced little or no impact from the recent crisis which has ravaged banks and financial institutions worldwide. The survey was conducted as MTI prepares to present at the 16th Annual World Islamic Banking Conference 2009-10 for the fourth consecutive year opens at Gulf Hotel in Manama this week.

Islamic finance makes up only small part of the world finance industry currently, and is estimated to be worth around $700 billion globally. However the industry has been growing at 20-30 percent annually since 2000 and is set for continued strong growth despite the global slowdown. Industry experts and financial institutions predict Islamic assets will reach a whopping $1.6 trillion by 2012.

The survey was conducted to augment MTI's study for the World Islamic Banking Conference. The survey respondents included CEO's and managing directors of Islamic finance institutions from various countries in the Middle East and South Asia.

Speaking on the survey results MTI Consulting CEO Hilmy Cader said unlike conventional banks, Islamic banks are not permitted to have any direct exposure to financial derivatives or conventional financial institutions' securities -- which were hit most during the global crisis. Hilmy Cader's views were reflected in the survey as 72 percent of the respondents said less exposure to derivative products was one of factors driving the demand for Islamic finance during the crisis.

According to findings of the survey IFIs still lag far behind in marketing, which is the theme of this year's conference. Companies in this category still struggle to compete with their conventional counterparts in product development. Around 55 percent of the respondents stated Islamic finance product development has not gone beyond Islamization of conventional products. What is more alarming is the fact 57 percent of the respondents agreed Islamic finance product development is not backed by any consumer research. Like most companies around the globe today, Islamic financial institutions have also had their marketing and advertising budgets trimmed. Forty eight percent of the respondents stated the advertising budgets of their companies have been decreased over the last twelve months. Looking forward 87 percent of the respondents feel their companies will maintain or increase their advertising budget in the next two hours.

On other areas, 96 percent stated risk and governance gained prominence in the last 12 months. As for overall strategic initiatives 12 percent have pursued mergers and acquisition, 40 percent have ventured into new markets, 64 percent went into cost cutting initiatives, while 34 percent have done product rationalizations.

Zawya

Bank lenders in talks with indebted Dubai World ahead of critical creditors' meeting

Wednesday, 09 December 2009

Dubai World's six biggest lending banks have begun talks with the ailing state-owned group before a crunch creditors' meeting that is scheduled for December 21. Four British-listed banks - HSBC, Royal Bank of Scotland, Lloyds Banking Group and Standard Chartered - and two local lenders - Emirates National Bank of Dubai and Abu Dhabi Commercial Bank - met NM Rothschild and Deloitte, Dubai World's advisers, in the Gulf State yesterday. The banks tried to ascertain whether Dubai World would make interest payments due on the bonds of Nakheel, its property subsidiary, next Monday. Last night Dubai World's intentions remained unclear.

The company said last week that it had asked creditors to restructure almost half its $59 billion (£36 billion) total liabilities, adding that it planned a six-month suspension of all debt repayments. The announcement sparked panic in stock markets around the world as nervous investors worried about a second wave of financial collapses.

The leading banks, which are forming a steering committee to represent all 90 of Dubai World's bank lenders, also asked for detailed financial information to help them to revalue the company in the event of a default. A source close to the banks said that they will have created the steering committee and formally appointed KPMG as its adviser by Thursday. The accountancy firm has been advising the banks informally for several weeks.

The banks are expected to start formulating their negotiating stance this weekend, ahead of the formal meeting of all Dubai World's creditors this month in the Gulf State.

Informed sources said that the banks were likely to be far less aggressive than a rival group of bondholders advised by Ashurst, the London-based law firm, because the bank lenders have significant operations in the Gulf and are reluctant to damage relations with Dubai or Abu Dhabi, its oil-rich backer.

The bondholder group advised by Ashurst, which is led by QVT, the American hedge fund, is less concerned about repeat business and has asked legal advisers to assess whether it has a potential claim over Dubai World's trophy overseas assets, such as P&O, the ferry company. Ashurst declined to comment but it is understood that by yesterday the QVT-led group accounted for about 40 per cent of the holders of Nahkeel's bonds by value.

Insiders close to the talks said that yesterday's meeting had been exploratory but would establish the likely direction of future negotiations. The most immediate concern, however, is a $4 billion Islamic bond held by Nakheel, which is due for repayment on December 14. With the Nakheel bond only days away from default, further talks are scheduled this week between Dubai World and its banks and bondholders.

Earlier, a senior Dubai government finance official conceded that Dubai World was prepared to sell some of its key overseas assets as part of the restructuring. The holding company had previously sought to confine the restructuring to its real estate groups, Nakheel and Limitless World, but the comments by Abdulrahman al-Saleh, director-general of Dubai's Department of Finance, has fuelled speculation that trophy assets such as the QE2 cruise liner and the group's stake in Canada's Cirque du Soleil could be sold in an effort to balance the books. Mr. al-Saleh emphasised that the Government itself would not sell any assets to bail out Dubai World.

Bargain-hunters look to Cash in

Overseas property investors are "rubber-necking" in Dubai's downtrodden housing market, trawling websites for evidence of the collapse hitting property prices and the chance to bag a bargain, Rebecca O'Connor said.

Rightmove Overseas, the international division of the British property website, recorded a 176 per cent rise in the number of searches for bricks and mortar in the emirate in the seven days after Dubai World's request for a standstill on debt repayments, compared with the previous week. The surge in interest took the monthly increase in searches in Dubai to 45 per cent between October and November, becoming the fourth-most popular country for people interested in property prices.

Housing prices have risen dramatically in Dubai in the past - doubling in the four years to the end of 2008. However, they sank by 47 per cent in the year to September, according to Knight Frank, the estate agency, and are forecast to fall by a further 30 per cent. There are hopes that they could bottom out next year.

Business Times

IMF to visit Dubai in coming weeks - Fund official

Wednesday, 09 December 2009

WASHINGTON: An International Monetary Fund team will visit Dubai in coming weeks to look closer at the economic impact of the Dubai World debt crisis and actions needed to resolve it, a senior IMF official said on Monday. In an interview with Reuters, IMF Director for the Middle East and Central Asia Masood Ahmed said the visit was an opportunity for the IMF to update and conclude its 2009 assessment of the United Arab Emirates.

Dubai has been shaken by the debt troubles at government-owned Dubai World, which is currently meeting creditors to delay payment on $26 billion in debt, damaging the reputation of the Gulf Arab business hub.

Ahmed said the impact of the crisis appeared contained after a week of concerns among international investors that the crisis could spread. While those worries have subsided, the crisis is likely to have longer lasting effects for the UAE and some of its neighbors.

Ahmed said from now on lenders would likely demand more financial transparency from government-backed companies, trying to borrow money on their own standing and would also call for clarity on the nature of guarantees on quasi-sovereign debt.

"Lenders and investors will want to look at their balance sheets, their profit/loss statements, their liabilities and assets, in the way they would for any other borrower," Ahmed said on the sidelines of the Arab Global Forum, a meeting of the private-sector in Washington. "In today's market place, companies that provide financial information should be able to attract capital on more attractive terms," he added.

Ahmed also said there will probably be a period of uncertainty around regulations and legal frameworks of Sukuk, or Islamic bonds. "That will need to be worked through," he added.

A key tests for Dubai World's restructuring process will the issuance of a Sukuk by Nakheel, the real estate arm of Dubai World, which is due to be redeemed at $4.05 billion on Dec. 14.

Ahmed said it was important for Dubai World to provide creditors and investors with as much information as it could to ensure an orderly restructuring of the debt.

"There is no reason to delay action on trying to provide more information and clarity on the status of companies outside Dubai World," Ahmed said. "Over time those providing that information will be able to respond to the markets requirements and will be able to attract capital at more attractive prices," he added.

Last week, Ahmed said the IMF was set to cut its growth for the UAE non-oil sector to significantly less than the 3 percent the Fund had forecast for next year. "The UAE is much more than just Dubai and Dubai is much more than Dubai World, but we do think the impact of Dubai World ... will hold back recovery," he added.

Ahmed said the UAE did not need the IMF's financial assistance to help it deal with Dubai World's problems. "The UAE has a lot of resources, and the sovereign wealth fund is one of those sources," he said, "Exactly how they use their different financial assets to deal with the current problem is something I'm sure they're working out."

Asked whether the IMF should have spotted trouble brewing at Dubai World, Ahmed said the Fund had long identified the asset price bubble in the UAE and warned of its impact on corporations involved in the development of real estate and associated affiliates, as well as on the banking sector.

"As to whether the IMF can and should be able to get inside a particular company to be able to look at its finances? That is removed from the role of the IMF, and it is harder in the case of companies such as this," he said.

Reuters

Dubai "needs more time"; investors’ confidence hit

Wednesday, 09 December 2009

DUBAI: Investor confidence in Dubai took a fresh knock on Tuesday as officials dithered over a rescue for debt-laden state conglomerate Dubai World and ratings agency Moody's slapped a downgrade on government-related debt. "You can usually take the view that no news is good news, but in Dubai's case it's quite the opposite - investors need to hear some developments on Dubai World's restructuring," said Julian Bruce, EFG-Hermes director of institutional equity sales.

Leading lenders met Dubai World on Monday to negotiate over a $3.5 billion Sukuk, the world's largest, issued by Dubai World subsidiary Nakheel, builder of Dubai's palm-shaped islands. That bond is scheduled to be re-paid on Dec. 14, in less than a week, but longer term, creditors also face a request for a six month standstill on $26 billion of debt.

A banker close to the discussions said Dubai World had not yet shown the creditors a proposal. "You've got to think these guys are either very clever or don't know what they are doing," the banker said.

Shares in some lender banks including Royal Bank of Scotland, HSBC and Standard Chartered took a knock, with traders attributing the drop in part to a Bloomberg report that said Nakheel had suffered a $3.65 billion half-year loss.

While creditors and ratings agencies sought more clarity on plans to restructure the company that spearheaded Dubai's rapid growth, a senior government official suggested on Tuesday the overhaul would take more than half a year to complete.

"The period of six months would be too short for a full restructuring. The six month period would focus on the creditors, the contractors and so on," Abdulrahman al-Saleh, head of the Dubai finance department, told Al Arabiya TV.

Moody's said investors should heed the Dubai government's insistence that it would not bail out corporate issuers of debt. "Moody's no longer believes it appropriate to assume timely support," it said.

Dubai World is a flagship company of the emirate, building everything from ports to luxury apartments. It is owned by the Dubai government, but state officials have said they will not sell other government assets to bail it out, so the company's debt is trading at about half its face value.

Dubai government would support the group "as an owner", Saleh said, without being more specific.

"The government is present to provide backing as an owner ... we would like to emphasize the distinction between guaranteeing and backing. The company receives large backing from the government since its inception," he said.

CONFUSION REIGNS

Further confusion hit home when Saleh said a Dubai fund had given Dubai World $2.45 billion. A source later clarified that the money was not new, and was made as part of $10 billion aid made available to businesses in February.

Dubai stocks slid and debt markets were battered by the continued uncertainty.

The cost of insuring Dubai's debt against restructuring or default rose to 515.6 basis points in the five-year credit defaults swaps market, compared to a U.S. close of 500 bps. Nakheel's Sukuk, maturing this month, one fell 2 points to 50 cents on the dollar.

"The situation isn't clear -- people need further information to decide what to do," says Adel Nasr, United Securities brokerage manager in Muscat.

London-listed Standard Chartered, HSBC, Lloyds and RBS and local banks Emirates NBD and Abu Dhabi Commercial Bank are on the creditor panel.

Dubai borrowed heavily to transform itself from a backwater into the business hub of the world top oil-exporting region. But a boom that saw it launching projects such as the world's tallest building ended when the financial crisis hit the Gulf Arab region last year.

Many investors had lent Dubai money on the implicit understanding that it was backed by the federal government of the oil-exporting United Arab Emirates, of which it is a part, so news of Dubai World's troubles has shaken confidence.

Dubai's debt rescheduling plans could go beyond the recently announced Dubai World standstill, extending to about $47 billion on the back of further restructuring needs of government-related entities, Morgan Stanley said in note on Tuesday.

Saleh said on Monday that Dubai's government and Dubai World were not the same, suggesting the Emirate most valuable firms, such as Emirates airline or its 21 percent London Stock Exchange stake would not be involved in a fire sale.

Reuters

Kingdom unaffected by Dubai debt woes: Jadwa

Thursday, 10 December 2009

RIYADH: The debt problems in Dubai will have little impact on Saudi Arabia, says Jadwa Investment in its latest report. “Saudi banks have minimal exposure to the affected companies in Dubai and the direct impact on the Saudi economy will be small. Confidence about the unique dynamics of the Saudi economy meant that the stock market was largely unscathed,” said the Riyadh-based joint stock company which offers all types of investment services.

The report observes that on Saturday, the first day of trading after Eid holidays during which Dubai World announced a standstill on its debt repayments, Saudi Arabia’s TASI index fell by only 1.1 percent, albeit on very low volumes. On Sunday, the TASI rose before falling back on Monday after another sharp fall on the Dubai stock market. Saudis are permitted to invest in the Dubai stock market and vice versa. It is, therefore, possible that some Emirates’ investors cut their holdings of Saudi shares to cover losses at home.

However, Jadwa says, this would not be significant enough to have an impact on the market as their holdings are small (non-Saudi GCC investors accounted for 1.2 percent of total trade by value on the Saudi stock market in November). Non-Emirate GCC investors were responsible for just over 5 percent of total trades by value on the Dubai Financial Market in September, the Jadwa report observes.

Saudi banks have very little exposure to Dubai World, Jadwa maintains. The SAMA governor put the exposure at just 0.2 percent of total assets. Of Dubai World’s total liabilities of $59 billion, only those of its property companies, Nakheel and Limitless (worth a combined $26 billion) are being restructured. It is possible that some Saudi banks hold the Sukuk issued by Nakheel, but this will only be a very small proportion of their total investment portfolios, the report adds.

“We do not expect serious direct fallout on the Saudi economy. Companies working on projects in Dubai may see some impact and questions are likely to be raised about the projects that Dubai government-backed enterprises are working on in the Kingdom. The only project being undertaken by one of the affected real estate companies is Limitless' $12 billion Al-Wasl real estate development in north Riyadh, which is currently at the infrastructure construction stage. UAE developer Emaar, while owned by the government of Dubai, is not part of Dubai World. We, therefore, do not think that work on the King Abdullah Economic City, being undertaken by its local subsidiary, Emaar Economic City, will be affected. Other Emaar projects in the Kingdom (Khobar Lakes and Jeddah Gate, both in early stages of construction) are potentially more vulnerable to developments in the UAE real estate market," said the authors of the report.

No data is available on Saudi real estate ownership in Dubai. "Anecdotally, we do not think that Saudi investors are heavily exposed. Furthermore, investors in individual units have already seen property prices fall sharply and, therefore, almost certainly suffered the bulk of their losses before the debt standstill. The same applies for those Saudi companies that financed developments in Dubai," it said.

Saudi businesses in Dubai will be exposed to a likely renewed downturn in the local economy. Prior to the standstill there had been signs that confidence was returning (notably, property prices had risen and the exodus of expatriate workers during the summer was far lower than had been expected), but this process has been set back. As a result of the renewed troubles in Dubai, the IMF has said it is likely to revise down its real GDP growth forecast for the UAE as a whole from 3 percent to around 2 percent.

According to Jadwa, a final potential implication of what happened in Dubai for Saudi companies is in the Sukuk market. Saudi companies have been looking at Sukuk as an alternative source of finance, given the reluctance of commercial banks to lend.

A $3.5 billion Sukuk issued by Nakheel, due to mature in mid-December, is set to be the first major Sukuk default. This will provide a serious test for the mechanism for resolution of legal issues around Sukuk and if not handled smoothly and equitably could complicate Sukuk issuance for local companies.

Investors will also insist on clarity of government support for part- or fully-owned government companies after the government of Dubai distanced itself from the debts of Dubai World, contrary to the assumption of many investors.

Arab News

Westlaw Business Islamic Finance Centre Expands to Include AAOIFI Islamic Finance Standards

Thursday, 10 December 2009

DUBAI; LONDON; EAGAN; Minn.: Westlaw Business, part of Thomson Reuters, and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) today announced their agreement to provide current standards and other Islamic finance industry information for global business law professionals within the Westlaw Business Islamic Finance Centre.

“AAOIFI is a thought leader in the development of international standards applicable to Islamic financial institutions,” said Kevin Ritchey, senior vice president, Westlaw Business. “We are pleased to provide this exclusive information within the Islamic Finance Centre of Westlaw Business, ensuring business lawyers are confident they have the background and guidance they need for structuring Shariah-compliant transactions.”

AAOIFI helps address issues that determine whether certain transactions or activities are compliant with Shariah laws and this information is essential in providing practitioners with the insights necessary to successfully structure transactions. AAOIFI standards are developed in consultation with leading Shariah scholars and experts in the field of banking, insurance, economics, law and asset management, thereby contributing to the professional development of the industry.

AAOIFI provides accounting, auditing, governance, ethics and Shariah standards for the Islamic finance industry as well as professional qualification courses for certified Islamic professional accountants and certified Shariah advisers and auditors. AAOIFI members include central banks, Islamic financial institutions, and other Islamic finance industry leaders from around the world.

According to Dr. Mohamad Nedal Alchaar, Secretary General of AAOIFI, the partnership with Westlaw Business Islamic Finance Centre has been driven by the global demand for the application of AAOIFI standards in international Islamic finance products and services. “AAOIFI standards are currently used by almost all financial institutions that offer Islamic finance. This has helped to promote harmonization of Islamic finance practices in the leading financial centres across the world,” added Dr. Alchaar.

The Islamic Finance Centre within Westlaw Business is the first Islamic transactional law site for the business law community, and provides insights and guidance on Islamic finance deals and industry standards for lawyers, investment bankers and product structuring teams. It is part of a global suite of research and workflow process tools aimed at business lawyers working on high-value transactions.

In addition to the Islamic Finance Centre, Westlaw Business features a global Business Citator, with filings and information relating to over 900,000 public and private businesses worldwide. Westlaw Business also includes these specialized online centres: M&A; Corporate Finance; Restructuring; Securities-UK; Securities-US; Securities-Canada; Private Equity; and LIVEDGAR.

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AFX

Islamic Finance Still Profitable

Saturday, 12 December 2009

Prior to the current financial crisis in Dubai, Sukuk issuance had started to revive following two difficult years since the August 2007 peak. New issuance for the year to November 2009 exceeded $17.5 billion with 69 separate offerings. Confidence was demonstrated by the announcement on November 19 by General Electric that it was to raise $500 million through a five-year Sukuk - the first Western industrial company to raise such financing.

Liquidity

There are many varieties of Sukuk, some--such as the short-term Sukuk issued by the Government of Bahrain--being a substitute for treasury bills with a three-month maturity. Such Sukuk are attractive for Islamic banks to hold, as they cannot hold conventional treasury bills paying interest, and the alternative of holding cash means they receive no return. Bahrain's regular Sukuk bill issuance continued throughout the credit crisis, but the amounts raised are modest - $40 million on average.

Still profitable

Although Islamic capital market activity was negatively affected by the global financial crisis, the impact on Islamic banks has been limited, largely because most are focused on retail business:

- Dubai Islamic Bank, for example, has reported a decline in third quarter earnings for 2009 of 33% compared to the same quarter of 2008, but this was 8% above market expectations.

- Trade financing through Murabaha - in which a bank buys a good on behalf of a buyer, and sells it on to them in installments at a marked-up cost - has remained buoyant, as has personal financing for vehicles and household goods.

Real estate has been the most troublesome, with mortgage lending reduced. In many instances, the value of property has fallen below the amount of credit outstanding. This only becomes an issue in the case of defaults and the bank acquiring the property, which has rarely arisen in the case of Dubai Islamic Bank, or indeed Al Rajhi Bank in Saudi Arabia or Kuwait Finance House. As Islamic banks in the GCC had more conservative housing finance policies than their conventional competitors, they have been less affected by the fall in real estate prices.

Forbes

ISLAMIC BANKING & INSTITUTIONS

Asian Finance Bank eyes Islamic fundraising in Brunei

Sunday, 06 December 2009

ASIAN FINANCE BANK (AFB) is looking into the possibility of establishing a representative office in Brunei Darussalam by 2010, its chief executive based in Malaysia told The Brunei Times by phone yesterday. AFB hopes to work with Islamic banks in the Sultanate to develop and specialize in fundraising facilities for the shipping of oil and gas, aviation and environment projects, as well as in establishing sovereign funds, said Datuk Mohamed Azahari Kamil, the Islamic bank's CEO.

"There is so much development of oil and gas in Brunei; hence there is a demand for shipping vessels and bunkering services. The fund, named Safeena, is to raise money from the general public to finance vessels which will be acquired by oil and gas companies for a long-term contract of 10 years and is expected to achieve a net return of 10 per cent yield per annum," Datuk Mohamed Azahari said.

The bank also sees the possibility of raising funds to finance investments in the aviation sector, including the purchase of commercial aircraft.

AFB's green fund will raise money for carbon credit, for example, manufacturing of solar panels, as it is important for the development of "green" projects in Brunei.

Datuk Mohamed Azahari said by the end of 2010, the bank will be able to see a clear direction of its planned presence in the Sultanate but its entry and activities here are subject to the relevant authorities' approval, feasibility studies and other factors.

Even though Brunei's market is small, its sovereign wealth is huge, making it attractive to the bank.

"We hope to work with government-linked agencies like the Brunei Investment Agency," said Datuk Mohamed Azahari. "Besides Brunei, we are also looking to Indonesia, Singapore and other parts of Malaysia," he said.

AFB said in a statement the Safeena Fund is structured as a Syariah-compliant 10-year closed-end fund constituted via an incorporated entity namely Safeena (L) Ltd domiciled in the tax haven of Labuan.

"The Fund is a private fund and is to be offered only to select sophisticated investors. It aims at raising US$300, 00,000 ($41 million) through equity and debt participation to invest in structures and/or acquire a portfolio of good quality yielding vessels that will provide a stable income stream to investors. The Fund is jointly managed by AFB and AmanahRaya Investment Limited," the bank said.

It stated that the Safeena Fund successfully completed its first investment on November 26 this year through "Istisna" (construction contract) and "Ijarah Mawsufah fi Dzimmah" (forward lease) with Jimbaran AS, a Norwegian entity that owns and manages chemical tankers. The bank is one of the three foreign Islamic banks that have been granted a license by Malaysia's central bank to undertake Islamic banking business.

AFB is a full-fledged Islamic bank incorporated in November 2005 and backed by a consortium of shareholders from leading Middle Eastern financial institutions: Qatar Islamic Bank and associates, RUSD Investment Bank Inc of Saudi Arabia and Financial Assets Bahrain WLL.

Asia One

http://business.asiaone.com/Business/News/Story/A1Story20091204-183972.html

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BSN to Increase Full-Fledged Islamic Banking Centres, Says GM

Sunday, 06 December 2009

KUALA LUMPUR: Bank Simpanan Nasional (BSN) is to increase full-fledged Islamic Banking centres in the country. The initiative to offer Syariah-compliant financial products is part of the bank's efforts to contribute towards the growth of Islamic banking in the country. BSN commenced full-fledged Islamic Banking centre operations in Pengkalan Chepa, Kelantan, and Kuala Nerus, Terengganu, on Tuesday.

General Manager and Chief Executive Datuk Adinan Maning said the bank was committed to develop wider range of Syariah-compliant products and services to serve businesses and individuals from all races regardless of religion.

BSN offers a wide array of Syariah-compliant products and services from deposits to financing, he said in a statement today.

The new full-fledged Islamic Banking centres would continue transactions for conventional banking services to customers with conventional accounts.

"This is to ensure BSN continues to provide convenience to customers while promoting Syariah-compliant products and services to them," it said.

Syariah-compliant products and services are available at all its 374 branches nationwide, it added.

BERNAMA

Emirates Islamic Bank 'Super' Savings Account launched

Tuesday, 08 December 2009

Emirates Islamic Bank, a leading Islamic financial institution in the region, has always been a leader when it comes to pioneering innovative products and services. Staying true to its tradition, the bank has announced the launch of "Super" Investment Savings Account.

Through this new offering, "Super" Savings Account holders will be entitled to complimentary bonus as well as ongoing Skywards miles, the latter being rewarded on a quarterly basis based on deposit balances maintained or salary transfer (subject to bank's terms & conditions), high profit rates, a 50% waiver on Skywards EIB Credit Card's first annual fee, free 24 hour roadside assistance including free car registration service, plus a host of other benefits covering account related facilities and lifestyle benefits. Emirates Islamic Bank is also offering an additional incentive of 5,000 bonus Skywards miles for the first 500 customers availing this product.

Mr. Faisal Aqil, GM Retail Banking at Emirates Islamic Bank, commented: "Emirates Islamic Bank continues to be at the forefront of innovating banking products that offer tangible and meaningful value, convenience, and lifestyle benefits to customers. We are proud, to be yet again, the first bank to offer a path breaking product. The new "Super" Investment Saving Account is a well researched product that stands beyond competition as none of the other banks provide such an advantageous deal. What makes it even more special is that with this product every body is a Winner. In short, unlike other bank schemes, customers do not need luck to be winners."

Emirates Islamic Bank is a pioneer in the field of Islamic banking. This new addition is consistent with the bank's philosophy of continuously introducing inventive and modern banking initiatives.

AME

ADIB plans expansion throughout Asia

Tuesday, 08 December 2009

Abu Dhabi Islamic Bank plans to develop Shariah wealth management opportunities in Asia, with Malaysia, Indonesia and Singapore seen as the fastest-growing markets, a top official said on Monday.

Speaking on the sidelines of an Islamic banking conference in Bahrain, Malik Sarwar, the bank's executive vice president for global wealth management said: "Ethical investing has now become a norm and Islamic banking and wealth management to us is the next level of ethical because there is a spiritual element to that."

"The segment that's growing the fastest is asset management or investments business and especially targeted towards the affluent and high net-worth customers."

Arabian Business

Deal to boost Islamic banking

Wednesday, 09 December 2009

A new agreement that is set to boost the growth of Islamic banking was inked between Singapore and Bahrain on Monday. The Monetary Authority of Singapore and the Central Bank of Bahrain (CBB) signed a Memorandum of Understanding (MOU) at the 16th World Islamic Banking Conference (WIBC) plenary session in Bahrain on Monday morning, designed to improve supervisory cooperation and information-sharing between the two organisations.

MAS managing director Heng Swee Keat said at the event that Singapore, as an international financial centre, was looking to develop Islamic finance by leveraging on its existing strengths in banking, insurance, asset management and capital markets. He cited progress already made in this area, such as Singapore's Keppel T&T and Saudi Arabia's Al Rajhi Holding Group's agreement to establish a joint venture asset management company to manage the world's first Shariah-compliant data centre fund. To develop the infrastructure and talent to facilitate the growth of Islamic finance in Singapore, Mr. Heng said MAS will continue to work with fellow regulators and the private sector to fine-tune its regulatory approach.

In the wake of the of the Dubai's debt woes, neighbouring Bahrain, Qatar and Saudi Arabia are likely to pick up much of its Islamic banking business. The Islamic financing industry is currently worth an estimated US$1 trillion and, like conventional banking; it is thought to be back on a growth trajectory following the ebbing of the global credit crisis.

At the WIBC session, Mr. Heng announced that Singapore will be hosting the first Annual WIBC Asian Summit next year, which will bring together regional leaders in finance and business.

Strait Times

Indonesian Islamic banks to expand further in 2010

Wednesday, 09 December 2009

Islamic banking assets could grow by 81 percent next year, but only if they fully use the supporting regulations, the central bank says. As of November, Islamic banking had mobilized total assets of Rupiah 61.4 trillion (US$6.54 billion). Bank Indonesia (BI) predicted total assets could reach Rupiah 68 trillion by the end of 2009, a 37 percent increase from the previous year.

Islamic banking grew significantly in the last five years, but growing from a modest starting point, at above 32 percent annually, BI said on Monday. "The growth of Islamic banking in 2010 is expected to further increase, not only because of an organic growth from the existing industry but also due to an increase in the number of banks or new players in the industry," BI acting governor Darmin Nasution said in a speech, read by BI deputy governor Budi Mulya, in a seminar on the prospects for Islamic banking in the country. The seminar saw international participants, including those from the neighboring country of Malaysia, which has a well-developed Islamic banking industry.

The global economic recovery will support the financial sector, while the elimination of double taxation on collateral used in Shariah-based financial transactions will benefit Islamic banks, BI said. The elimination of double taxation is regulated under the newly-endorsed law on value added tax, to be effective as of April 2010.

However, in a press conference, Mulya Siregar, deputy director of BI's Shariah banking directorate, said the optimum 81 percent growth in assets could only be achieved if all the supporting regulations were made use of by the Islamic banks. Otherwise, the projected growth may only reach a moderate 43 percent based on some new players entering the industry, or the more pessimistic 26 percent growth would be supported only by organic growth from existing players, he said.

Two foreign players, the Bahrain-based Al Baraka Islamic Bank and the Malaysia-based Asian Finance Bank, which have representative offices here, have called BI recently to convey their plans to buy local banks and turn them into Islamic banks, said Mulya. "They want to open Islamic banks here but all this time they have concluded that the laws on double taxation have hampered their plans," he added.

Bank BNI, Bank BCA and Bank Victoria, as well as regional development bank Bank Jabar, will also set up their own Islamic banks, he said.

Ventje Rahardjo, president director of Bank BRI Syariah, said tax incentives, like a lower tax rate for Shariah banks, might help boost Islamic banking. "Incentives needed by Islamic banks include tax incentives, a lower capital adequacy ratio, or to put government budget allocations in Shariah banks," he added.

As of September, Shariah banks disbursed Rupiah 44.52 trillion in loans, or only 2.32 percent of the Rupiah 1,922.6 trillion channeled by all banks nationwide.

Jakarta Post

Al Salam Bank achieves a step ahead in Islamic products innovation

Wednesday, 09 December 2009

Al Salam Bank-Bahrain has scored yet another achievement in innovative Shariah-compliant products by exclusively designing the Takaful-principle-based credit card which came as a result of extensive researches and studies conducted by the Bank's team. Al Salam Bank-Bahrain B.S.C. was incorporated on 19 January 2006 in the Kingdom of Bahrain with a paid-up capital of $318m (BD120m)

Al Salam Bank-Bahrain was licensed by the Central Bank of Bahrain to provide financial services compliant with Shariah. The Bank's vision is to become a leading and influential power in the Islamic banking industry through the provision of Shariah compliant banking services to a selected segment of clients.The Bank was listed on the Bahrain Stock Exchange on 27 April 2006 and on the Dubai Financial Market on 26 March 2008.

i-STock

Bahrain Islamic Bank launches first Islamic youth account 'Vevo'

Thursday, 10 December 2009

With its continuous interest in offering all the appropriate banking services and products to its customers of various age groups, Bahrain Islamic Bank (BisB), the first Islamic bank in Bahrain, has announced the launch of the new Vevo savings account for youngsters in the 15-25 years age group. The account was launched under the slogan "Your Account, Your future, Vevo, It's all yours."

Speaking about the benefits and services offered by this account, Mr. Abdul Rahman Mohamed Turki, BisB Retail Services General Manager, said: "We are pleased to offer the new Vevo youth account. It is an account that highlights our support to young members of the community who are the focus of attention from both the local authorities and social organizations in the Kingdom."

BisB General Manager said, "We seek through the launch of this account to educate and enhance the awareness of our young people about how to take the responsibility of the financial aspects of their lives. It is understood that most young people need guidance and support when it comes to their knowledge of financial issues, which the BiSB Vevo account would help them with. In addition, this account will provide them with many services and offers that we hope will meet with their expectations."

Commenting about the choice of the name "Vevo" for this account, Mr. Turki said, "Vevo comes from the word "Vivo" which is Latin for "within the living" and since youngsters are the pulse of life, Vevo was created to fit into the lives of young people."

Turki spoke about the details and benefits of this account by saying that Vevo account gives youngsters more offers from leading stores and commercial companies that focus their products and services on the youth group such as Zain, Bahrain International Circuit (BIC), Adhari Park, Wahoo! Water Park and Maya Chocolaterie. In addition, the account offers customers up to 50% off at more than 100 stores on many items such as fashion, electronic appliances, automotive, restaurants, games outlets and many more.

Turki further said opening a Vevo account is easy for the Bank young customers. All they have to do is to visit any BisB branch and show that they are in the 15 to 25 years age group by providing two official identification documents.

Concluding, Mr. Abdul Rahman Turki urged young people to enjoy the benefits of this new account and stressed that the Bank welcomes all their inquiries upon calling the Call Centre.

AME

Islamic Banking will benefit India more than Muslims: Mufti Abdul Kadir Barkatullah

Thursday, 10 December 2009

New Delhi: The Islamic Banking and Finance system will benefit the development of India more than the Muslim community here, said Mufti Abdul Kadir Barkatullah, Islamic Shariah Advisor to several banks and financial institutions in Britain. He was interacting with media persons today at India Islamic Cultural Centre in New Delhi.

“The rank and file of the Indian bureaucracy has deep prejudice against Muslims. By allowing Islamic Banking they don’t want to give Muslims undue political capital although it will benefit the development of the country more than the Muslims,” said

Mufti Barkatullah, Member, Shariah Supervisory Board at Islamic Bank of Britain, United National Bank, Lloyds TSB and Alburaq of ABC Bank International (UK).

A trained mufti from Darul Uloom Deoband where he also did Alim and Fazil courses before doing BSc (Hons) in Economics in London and MPhil in Informatics from the University of Wales, Mufti Barkatullah is on a 30-day visit to India meeting individuals and groups and visiting institutions with an aim to pave the path for Islamic Banking in India.

Asked if Reserve Bank of India can introduce Islamic Banking or it can be done only by the government, Mufti Barkatullah said: Though lawyers have both opinions but the RBI can do it if it has a will to do. RBI can sympathetically interpret the current banking law of the country to introduce Islamic Banking. The British example is there. Fifteen years ago the Bank of England rejected introduction of Islamic Banking, citing it will harm the current banking laws of the country but around 2000 they were able to find out a way to introduce Islamic Banking in the country without changing the law. They just sympathetically interpreted the law to accommodate Islamic Banking.

Mufti Barkatullah, who has also advised Indian financial institutions like Bajaj Allianz, Taurus Ethical and General Insurance, talked to TwoCircls.net on related issues:

What are the blockades in the way to the introduction of Islamic Banking system in India?

Three main blockades: First is the mindset of resistance to change. The financial world and banks are the last ones to change themselves in response to the needs of the society. Second hurdle is bureaucracy. Bureaucracy is overburdened with current regulatory task, and they don’t want to learn new things. Third is the political bickering. The government and the opposition will use Islamic Banking as a football. So they don’t want to bring this issue in the public and introduce legislative changes to allow Islamic Banking.

Britain introduced Islamic Banking about a decade ago. What important role did the British Muslim community played in this regard?

It is difficult to assess their role but the Muslim community has been very much participatory within the ranks of the ruling Labor Party. So lobbying for Islamic Banking was very much there. Besides, the Labor Party is thought to be traditionally very soft to immigrants. More importantly, the terror attacks in America and UK also gave the feeling that the Muslim community is uncomfortable with current situation, so the UK government designed inclusive financial policy to include every section of the society in the economy of the country. Muslims on religious ground were not participating in the financial system. Most importantly, as US, Europe and Far East were stealing the global economic importance of London, so the British Government wanted to reassert their financial position at international stage and they did it by opening up the Shariah complaint finance. Today there are one retail bank, two retail windows and five investment banks in the country.

Efforts have been made by individuals and groups in India also to impress the government to introduce Islamic Banking system. They have met Finance Minister Pranab Mukherjee and even Prime Minister but these two have shied from giving any clear indication about opening Islamic Banking system in the country. What do you think is lacking with the Muslim community in India?

I can guess that there is not enough pressure from the Muslim community as a united front on the current Congress government. Muslims and non-Muslims, financial world and politicians they all are in the same category as far as their getting convinced on the issue is concerned. I am not surprised that Muslims also need to be won over for the Islamic finance. That's why Muslim community is not putting enough pressure on the government.

2Circles

Islamic interbank rates shoot higher

Thursday, 10 December 2009

Exposure of Islamic banks to the debts of Dubai World, the troubled State-owned conglomerate in the Gulf, has rattled the industry and caused funding costs for them across the region to soar, according to bankers. Dubai has been one of the most active issuers of bonds that comply with Islamic principles, known as Sukuk, and the announced restructuring of $26bn of debts at the state-owned Dubai World conglomerate – including billions of dollars of Sukuk – has shaken the Islamic finance industry. "Islamic banks have a very large exposure not only to Dubai but to structured finance in general," said Nish Popat, regional head of fixed income at ING Investment Management.

The Islamic interbank rate is small and opaque, and its rates are hard to gauge, but Mr Popat estimates the cost of overnight and short-term funding has shot up 100 basis points in the wake of Dubai World's debt restructuring. The cost of longer-term financing, procured through bonds and bank loans structured to comply with Islamic principles, has also soared at a time when repayments loom for many Islamic institutions.

"Credit committees in New York and London view this region as one and don't necessarily differentiate," said Nabeel Kazerooni, head of private equity at Gulf Finance House, an Islamic investment bank based in Bahrain. "Islamic banks are facing re-financings that they'll now have a hard time with." Mr Kazerooni estimates the cost of longer-term financing has gone up by "at least" 300bp.

Though Islamic banks avoided the complex debt instruments that were central to the initial stages of the credit crunch, they have proved as susceptible to the subsequent economic deterioration as conventional banks.

Shariah law curtails the asset classes open to Islamic banks and requires a physical asset to underlie most transactions, so many piled into real estate. As a result, non-performing loans and investment impairments have mounted this year.

“When crises happen, they [have an] impact [on] all financial institutions, Islamic or conventional, to the extent of their exposure to the underlying markets,” said Iqbal Khan, chief executive of Fajr Capital, an Islamic investment company. “You have to do proper due diligence on all investments, regardless of whether you are a conventional or Islamic institution.”

Islamic finance has been one of the fastest-growing niches of the financial industry in the past decade, swelling to about $1,000bn, by some estimates, as Muslims seek services that comply with their religious tenets. But it has never faced a downturn and the credit crunch has started to test the industry’s resilience.

Until the crisis struck, no Islamic bank or bond had failed, but three Sukuk have now defaulted. If Dubai World’s property developer Nakheel were to fail to meet a $4bn repayment on December 14, it would be the largest Sukuk default on record.

FT

Dubai Islamic Bank’s Pak unit expands operations

Thursday, 10 December 2009

Dubai Islamic Bank’s subsidiary in Pakistan has opened 10 new branches in the country, taking the total to 35 branches, and plans 30 more branches in 2010, according to a bank statement. Dubai Islamic Bank Pakistan Ltd made a pre-tax profit of 280mn rupees ($3.33mn) in the first nine months of the year, up 207.5% over the same period last year, the emailed statement said.

Islamic lenders in the Gulf are eying potential new opportunities in Pakistan, whose Islamic banking sector remains largely undeveloped. In October, the former director of Islamic banking at the State Bank of Pakistan said the country will likely issue a new Islamic banking license to a Gulf bank in 2010.

GT

SUKUK (ISLAMIC BONDS)

Dubai World creditors await court definition of Sukuk

Monday, 07 December 2009

Dubai World's request to restructure its debt is likely to reshape the understanding among investors and issuers of who holds the upper hand when it comes to bond-like Sukuk. Like with so many other things, when Dubai's credit-crazed corporations decided to tap the global Sukuk market to raise funds few investors thought twice about the Shariah-compliant bonds. It's taken the threat of default to shake investors out of their complacency with regard to these structures.

Dubai World property developer Nakheel, best known for its Palms development in the Gulf, has $5.25 billion in outstanding Sukuk subject to the standstill agreement that the government asked creditors for on November 25, including $3.5 billion due on December 14. While the rest of the $26 billion debt restructuring looks to be contained, such a restructuring is unprecedented in the nascent Islamic finance industry.

"This will mark the first test of the legal framework underpinning Sukuk in general, and it could therefore have implications for Islamic fundraising globally," said Fahd Iqbal, an analyst at Middle Eastern investment bank EFG Hermes, in a report.

According to Kuwait Finance House Research, the yield on the Nakheel Development Sukuk 2, which matures in 2011, spiked to 80% on November 30 from 22.3% on November 24, the day before markets closed for the Eid holiday. The instrument's price simultaneously fell 40% to Dh53 ($14.43).

At issue with Nakheel's Sukuk is how a court will handle the restructuring, note observers familiar with Islamic finance. Much depends on the structure of the instrument. A court could declare the instrument the equivalent of a conventional bond with repayment terms comparable to international norms, or it could find the Sukuk to be structured as either a Mudharabah (profit-sharing) product or a Musyarakah (a partnership involving profit- and loss-sharing) product, both of which would likely involve the creditors sharing some of the issuer's losses.

Creditors stand to benefit if a Sukuk is declared essentially the same as a conventional bond, whereas the issuer stands to benefit if it is defined first and foremost as an instrument that is compliant with Shariah (Islamic law) -- and thus subject to the idea of profit-sharing.

"The whole presentation of the structure is one where investors are meant to receive a share of the profits and not interest on debts - two very different obligations," said

Mohamed Damak, a senior analyst at Moody's. "It could be argued that, because an issuer is not generating profits, it should not have to pay Sukuk investors."

Not everyone agrees: "This is a credit issue, not an Islamic issue," said Raja Teh Maimunah, global head of Islamic markets at Bursa Malaysia. "A Sukuk is a bond and issuers need to pay back the money they borrowed."

She noted that this is not the first time an Islamic finance instrument has had to be restructured to avoid default. She would not discuss the details but said there were a few Sukuk in Malaysia that had to be restructured during the 1997-1998 Asian financial crisis.

The full impact of Nakheel's debt restructuring on global Sukuk issuance is unlikely to be known for some time, but at this point it looks minimal. During the first 10 months of the year, issuance was up 40% annually according to Moody's, and banks report robust pipelines. But investors may come out of this event wiser (if not wealthier) than before.

"Dubai World has created confusion over what a Sukuk is," says one banker. "This will likely somewhat delay the revival of the market [after the decline in 2008] but it won't kill it. Demand won't change but people will be more cautious."

Maimunah agrees that investors will learn from Dubai World. "Cash flow was completely ignored in Sukuk coming out of the Gulf. Markets will learn from this and they'll [know to] look at credit," she said.

Asia Investor

Islamic Finance Forum to Focus on Global Stability

Monday, 07 December 2009

DUBAI: The inaugural forum on “Islamic Finance and Global Financial Stability,” which will be held in Khartoum in April 2010, will explore the scope of bolstering the framework of cooperation among Islamic financial institutions to address the new challenges posed by the global financial crisis. Zeti Akhtar Aziz, Governor of Bank Negara Malaysia, is heading a panel to prepare the agenda for the forum on Islamic finance and global stability. The forum will be held under the auspices of the Council of the Islamic Financial Services Board, or IFSB.

“Islamic finance continues to become an integral part of the global financial system. The forum aims to be a dialogue to explore the scope of strengthening and broadening the current framework of cooperation among Islamic financial institutions to address the new challenges that have emerged in the aftermath of the global financial crisis,” IFSB said in a statement.

Governor Zeti Akhtar Aziz hosted the 15th Meeting of the IFSB Council in Kuala Lumpur on November 23.

Dr. Muhammad Sulaiman Al Jasser, Governor of the Saudi Arabian Monetary Agency, chaired the meeting that was attended by the President of the Islamic Development Bank, Central Bank governors and governors' representatives of the IFSB 21-member council.

The IFSB meeting discussed a paper on "Islamic finance and global financial stability" and resolved, as part of its future meetings, to discuss pertinent issues relating to financial stability, especially as they relate to the Islamic financial services industry. According to IFSB, the agenda for the inaugural forum on financial stability issues would give priority to capacity building and financial stability in Islamic finance sector.

The inaugural forum on Islamic Finance and Global Financial Stability is scheduled after the 16th Meeting of the Council of the IFSB in April 2010 in Khartoum.

Khaleej

Sukuk: Defaults destabilize a reviving market

Wednesday, 09 December 2009

Conventional debt markets have gone through many crises over the years, but the credit crunch has been the first big test of the nascent Islamic bond market. And it has not emerged undamaged. The Sukuk market has benefited from thawing debt markets and robust appetite from Islamic banks that have no choice but to invest in Shariah-compliant debt. But it has recently been rattled by a series of defaults – a first for the market. US-based East Cameron Partners, Kuwaiti company Investment Dar, and Saudi Arabia Saad Group have all defaulted on their debts, including Sukuk.

More recently, though, investors have become increasingly worried that Nakheel, the property arm of Dubai World which is owned by the debt-laden city-state in the United Arab Emirates, could default on its $3.5bn Islamic bond repayment on December 14. If it does, that could constitute the largest Sukuk default on record. This has raised pressing questions on how the instruments are settled, and how Islamic creditors are treated compared with holders of conventional debt in a restructuring or bankruptcy.

"Clarity needs to be forthcoming quickly. For present Sukuk-holders and for the future growth of the Sukuk market," says Nish Popat, head of fixed income at ING Investment Management in Dubai. "This is the largest Gulf Sukuk, and the largest [potential] default, so Sukuk-holders want to know what their rights are."

Sukuk have to be backed by an asset, but some investors are uncertain whether they have recourse to this asset, or whether the assets are merely placed in the structure to comply with Shariah requirements.

Bankers and lawyers say most Sukuk are unsecured instruments, where assets are placed in the structure merely to comply with the Islamic requirement that tangible assets change hands. Bankers and lawyers therefore differentiate between “asset-backed” and “asset-based” Sukuk.

So far, none have gone to court, but the recent defaults means the Sukuk market is likely to face its first legal test soon, which will set an important precedent, bankers and lawyers say.

“It’s important that Sukuk-holders are treated in a manner that captures the essence of the instrument – which is pari passu [equal] to all other senior unsecured creditors,” says Yavar Moini, head of Islamic finance at Morgan Stanley.

The market continues to operate under another cloud of uncertainty, this one cast by one of the industry’s most influential figures. Early last year, Sheikh Taqi Usmani, a cleric and one of the world’s leading scholars of Islamic finance, threw the market into turmoil when he said that a number of Sukuk did not comply with Shariah principles.

Most industry figures blame the market’s decline over the past 12 months primarily on the credit crunch, but some are privately more critical.

“The crisis got the Shariah scholars off the hook,” says one leading Islamic lawyer. “They created a real problem and people are still unsure of what it means to the industry. Many of the leading scholars disagree with Sheikh Taqi Usmani, but cannot say so openly. It’s becoming a big problem for the market now that the credit markets are reopening.”

So far, the result has been a return to basics. Recent issues have largely been Ijarah transactions, a sale-and-leaseback structure that uses revenues from an underlying asset, such as a building, to pay investors. Returns are rent profits, not interest which is banned under Islamic law.

However, this restricts the number of potential issuers, as many companies do not have access to suitable tangible assets that they can place in the structure for the duration of the bond.

“If the Sukuk market is to develop we need to get back to a greater variety of structures,” says Mr Moini. “We need to work with scholars and lawyers to come up with more varied solutions; otherwise the industry becomes very restricted in the solutions it can offer to clients for financing.”

Nonetheless, after a turbulent year the Sukuk market is making a tentative comeback.

Islamic banks across the world, many of which have weathered the global downturn in relatively good shape, require more Shariah-compliant instruments to manage their liquidity – particularly highly rated sovereign debt that carries a low risk weighting on balance sheets.

“We’re seeing large deals being done, and very large order books,” says Anzal Mohammed, a partner at the law firm Allen & Overy. “There’s been a dearth of Islamic debt issuance over the past year, and Islamic banks haven’t had anything to invest in, so demand is robust.”

Encouragingly for the Islamic finance industry, interest seems to be spreading outside traditional, Muslim markets.

South Korea, France, the UK and Hong Kong are all at various stages of selling Shariah-compliant bonds, and General Electric, the US conglomerate, last month raised $500m in an inaugural Sukuk. A number of other western companies are also said to be mulling Sukuk sales.

“The traditional sources of financing are still cautious, and there is still demand for Islamic paper,” says Isam Salah, head of the Islamic finance practice at King & Spalding, the law firm. “This is why some unusual entities are looking to sell Sukuk.”

Ft.com

Conyers advises on first ever US Fortune 500 issued Sukuk

Thursday, 10 December 2009

Multi-jurisdictional law firm Conyers Dill & Pearman advised GE Capital in the offering of its $500m Sukuk certificates, the first of its kind to be issued by a major US company. The Islamic financing structure, known as Sukuk, is believed to be the first of its type to be used to finance aircraft leasing. The transaction was finalized on Friday, Nov. 27.

Conyers lawyers David Cooke and Brian Blugerman provided advice to GE Capital, the finance arm of General Electric Co., on the Sukuk, which consisted of five-year dollar-denominated certificates, in association with lawyers from Allen & Overy. The Sukuk certificates will be listed on the London Stock Exchange and Bursa Malaysia and GE has applied for a secondary listing on the NASDAQ Dubai Exchange.

David Cooke commented: "Over the last decade, Islamic finance has been very active in the Gulf region and Malaysia. Our Dubai, Singapore and Hong Kong offices are all witnessing increasing interest from Western businesses in the Islamic market, as they look to tap new sources of investment using Sukuk and other Islamic finance products. The GE Capital Sukuk suggests renewed confidence in the market and follows other Sukuk issuances this quarter."

The certificates were issued through GE Capital Sukuk Ltd.

AME

PLN to Issue Bond-Sukuk in 2010

Thursday, 10 December 2009

Jakarta: The state power company PLN is planning to issue the XI-2010 bond, valuing maximum Rupiah 1 trillion. Meanwhile, PLN will also issue Ijarah Sukuk IV-2010. In the corporate prospectus publicized in Jakarta on Wednesday, Dec. 9, it was stated that the bond is issued without script. The bond includes two series, fix-interest A series with a seven-year period, and fix-interest B series with a 10-year period. The bond is offered with a 100 percent value of the bond principal. The bond coupon will be pain every three months.

Around 50 percent of the bond and Ijarah Sukuk issuance will be used to replace the internal fund which has been used for financing the transmission investment in 2009. Meanwhile, the rest of the 50 percent will finance the transmission investment activities in 2010. The offered bond and Ijarah Sukuk each have received an idAA- and idAA-(sy) with a stable outlook.

PT Bahana Securities, PT Danareksa Sekuritas and PT Mandiri Sekuritas will act as the bond and Ijarah Sukuk emissions' underwriters.

Viva News

GE Capital Lists Recently Completed $500 Million Sukuk on NASDAQ Dubai

Saturday, 12 December 2009

GE Capital, the finance arm of General Electric (NYSE: GE), has listed a recently completed $500 million Sukuk (Islamic bond) on NASDAQ Dubai, the Middle East International Exchange. The Sukuk was the first to be issued by a major US company and was sold to investors across the Middle East, Asia and Europe on November 27, 2009.

"We continually strive to diversify our funding base. The Sukuk platform helps complement and solidify GE's growing presence in the region and allows us to attract incremental liquidity from Islamic investors," said Aris Kekedjian, President and CEO, GE Capital Middle East & Africa Ltd. "We are proud to announce our secondary listing on the NASDAQ Dubai and look to continue supporting the region in our ongoing efforts."

NASDAQ Dubai now has 22 listed Sukuk with a nominal value of $17.2 billion. Other issuers on the exchange are based in Bahrain, Kuwait, Saudi Arabia, Malaysia and the UAE.

Chief Executive of NASDAQ Dubai Jeff Singer said: "The listing of this Sukuk by one of the most prominent companies in the world is an important step in the growth of NASDAQ Dubai as a centre of the global Islamic finance industry. Sukuk have become an increasingly significant segment of global financial services, serving a widening base of issuers and investors."

GE Capital's five-year, fixed-rate dollar-denominated Sukuk is an Ijarah based structure and was issued through GE Capital Sukuk Ltd, a subsidiary of GE Capital. The assets underlying the Sukuk are interests in a portfolio of aircraft and rental payments from the lease of such aircraft.

With regional activity since the 1930's, GE's presence today comprises a wide array of established projects across the region via strategic partnerships, investments, and solutions, with a focus on infrastructure development and major challenges such as cleaner energy and transportation, water scarcity and improved healthcare systems.

Dubai

TAKAFUL (ISLAMIC INSURANCE)

Al Salam designs Takaful credit card

Tuesday, 08 December 2009

Al Salam Bank - Bahrain said it has designed a Takaful-principle-based credit card following extensive research and studies conducted by the Bank's team, and would soon launch it in the market. The Bank has successfully obtained the necessary legislative approvals for this unique product from both the Central Bank of Bahrain and the Bank's Shariah Supervisory Board, and is now working for its launch. The bank has scored yet another achievement in the innovative Shariah-compliant products, said a top official.

Nabeel Al Tattan, executive vice president – head of MENA, said that "the current popular Takaful concept in the Islamic financial industry is limited only to the insurance sector, but, however, ASBB was able to introduce the idea of the Takaful-principle-based credit card, which provides practical Shariah-compliant solution to Islamic Banks who have been trying to come up with one for sometime.”

While being a new addition to the bank's range of innovative products and services, the concept of the Takaful-structured credit card is considered the first of its kind to be introduced globally in the Islamic Banking industry, Al Tattan pointed out.

This concept has fulfilled the original objective of introducing a Shariah-compliant credit card that offers flexibility, easy implementation, payment terms and fairness to all card holders and yet has features of the conventional credit cards which are available in the market.

"There is quite a good reason to go for this Takaful credit card as the structure of the card in terms of contract and banking procedures is considered unique in the sense that it has all features of the conventional credit card and yet being Shariah-compliant."

"The card is designed according to Takaful principle that offers protection, manages the risk of banking from client perspective and provides support to all ASBB clients who utilize this service," he noted.

The smart credit card enjoys high security level that protects its users from theft or manipulation as it contains a dynamic mechanism for personal data verification in addition to ease of use at all points of sale.

Al Tattan pointed out that the card holders will benefit from more than 30 million ATM machines and retail shops worldwide, while the security features and benefits of the card would further enhance their confidence and encourage them to use it more without any fear of loss or forgery.

The Takaful Credit Card concept is based on co-operation and minimal fee which is different than any fee-based credit cards offered in the market. The surplus of the Takaful credit card fee pool will be paid back to the card holders.

Al Salam Bank-Bahrain has launched recently several Shariah-compliant products and services to meet its customers’ needs such as Dari property finance, Moteri vehicle finance, Resala SMS notification service, Golden and Platinum Charge Cards, Al Salam Wakala Deposit, Step-up Wakala Deposit and Al Salam Online Banking, he added.

Trade Arabia News Service

Standard Chartered turn tables on Amana Takaful

Saturday, 12 December 2009

After conceding a six point lead at half time, Standard Chartered Bank rallied in the second half to beat Amana Takaful to enter the Delmege sponsored MSBA ‘D’ division basketball final at the Otter Aquatic court on Thursday. At half time, Amana Takaful was leading with 36 to 30.

For the winners, R. Yusoof was in cracking form with 36 points, while S. Palliyaguru 14 and L. Fernando 13 were also on target. For Amana Takaful R. Samidon 27 led the scoring while I. Nazir and J. Abrar added 15 points each.

SriLankan Airlines ‘B’ into final

SriLanakan Airlines ‘B’ sent Expo Lanka home by 62 points to 39 to book their place in the Delmege sponsored MSBA ‘D’ division final. At the short whistle, SriLankan Airlines led by 27 points to 24.

L. Jaleel 20 points, R. Herath 13 and G. Rajapakse eight were the best shooters for the winners. While H. Weerasinghe 12 and N. Senanayake 10 played best for Expo Lanka Group.

Daily Mirror

ISLAMIC INVESTMENTS; EQUITIES/SECURITIES & FUNDS

Ince & Co advises Islamic Shipping Fund Safeena (L) Ltd on first investment

Sunday, 06 December 2009

UNITED KINGDOM: In Singapore, international law firm Ince & Co has advised Islamic shipping fund Safeena (L) Ltd on its first investment made through an Istisna'a and Ijarah Mawsufah fi Dzimmah structure (a deferred purchase and forward lease arrangement) in a 19,900 dwt stainless steel chemical carrier with Jimbaran AS, a Norway-based entity which owns and operates chemical carriers. Safeena, a joint venture between Asian Finance Bank Berhad and Amanah Investment Bank (L) Ltd, is the first shipping fund to enter into an investment using such a structure, which was arranged by RS Platou Finans.

Ince advised Safeena in structuring the investment, ensuring the transaction was Shariah compliant and that it complied with the fund's obligations to investors. Ince also advised on the drafting of the purchase and lease documentation, its security in a sister vessel and

conformity with the conventional financing arrangements in place in respect of the sister vessel.
Safeena is a private fund. It aims to raise US$300 million through equity and debt participation to invest in structures and/or acquire a portfolio of vessels.

Commenting on the transaction, Safeena chairman, Datuk Abdul Latif Abdullah said: "The structure provides an opportunity for Safeena Fund to participate in the cash flow of the underlying asset and offers an additional security arrangement through a charge on Jimbaran's vessel." He added that the transaction was structured to ensure that it was capable of "meeting the minimum return set for the Fund".

Consultant Martin Brown of Ince & Co, said: "We were delighted to assist Safeena in putting together this innovative structure, which is an effective method for mitigating the risks involved for the fund and its investors. Its application may assist other sources of equity finance to invest in the shipping industry in the future." Ince & Co's team, led by consultant Martin Brown in Singapore, was assisted by London partner Peter Measures and Gregory Xu, an associate in Ince & Co's Singapore office.

Ince & Co is an international law firm with 86 partners. The Ince network includes offices in Dubai, Hamburg, Hong Kong, Le Havre, London, Paris, Piraeus, Shanghai and Singapore. The firm's lawyers practice English, French, German, Greek, UAE and Hong Kong law. We also advise on Singapore law in arbitrations. Ince Singapore has three partners; Richard Lovell, Simon Spark and Elliot Woodruff. Martin Brown is a consultant in the Singapore office.

Ince & Co is the current holder of the Asia Law Leading Lawyers Survey, Leading Lawyers in Shipping, Maritime and Aviation 2009 award and Seatrade Asia Maritime Law Award 2008. Lawyers in the firm advise in the core business areas of aviation, business & finance, commercial disputes, energy, insurance & reinsurance, international trade and shipping. Our teams regularly use knowledge of one sector to advise clients in another.

Ince & Co's ship finance practice is involved in all aspects of asset financing for global shipping and off-shore oil industries, acting for both borrowers and lenders. The practice encompasses the acquisition of new buildings and the sale and purchase for trading or scrap of second-hand tonnage and all aspects of financing: structured and syndicated financing, primary and bareboat registration, refinancing and workouts and related advisory work.

WS

Kuwait's Noor to launch property fund

Wednesday, 09 December 2009

Kuwait-based Noor Financial Investment Co. (NOOR) has announced plans to launch a Shariah-compliant real estate fund for public subscription, in partnership with Al Riyada Finance and Investment, KUNA has reported. The KD50m fund's dividends are to be reimbursed in monthly payments ranging between 6% and 8% on an annual basis, the firm said. Al Riyada Board Chairman and Managing Director Mohamad al-Sanea said the fund had been made public following deep consideration of the economic situation in general and the real estate market in particular.

AME

Prime Rate Capital launches Shariah-compliant fund

Wednesday, 09 December 2009

Fund manager Prime Rate Capital Management has launched its first Shariah-compliant liquidity fund. The Islamic liquidity fund will offer a pooling mechanism that can be used for investment of overnight, call and short-term cash surpluses. It will invest in commodity Murabaha transactions and be made available in pounds, dollars or euros. It has been designed for Islamic institutional investors as well as the Islamic clients of financial institutions.

Civil.UK

Emkay Secures RM120mil Islamic Term Financing

Tuesday, 08 December 2009

CYBERJAYA: The Emkay Group, via a joint venture called Joyful Gateway Sdn Bhd, has secured Islamic term financing worth RM120mil from RHB Islamic Bank Bhd to pay for the construction of an office building in Cyberjaya. The construction cost was estimated at RM151.4mil, according to a joint statement issued yesterday by RHB and Emkay Group. The building, when completed, would be leased to Shell Shared Service Centre for 10 years, with an option to extend for another five years.

Project developer Joyful Gateway is a joint venture between Emkay's MKN Embassy Development Sdn Bhd and Lucky Cottage Sdn Bhd. "With Joyful Gateway's support from its parent company Emkay Group, and the global presence of the Shell Group, we are optimistic that this project will be a success," RHB Banking Group Managing Director Datuk Tajuddin Atan said in the statement.

The 323, 00 sq ft “built-to-suite facility” will upon completion be the first building to be accredited with the internationally recognised LEED Gold certification and be the first Green Building in Cyberjaya.

Biz Star

ISLAMIC FINANCE EVENTS; SEMINARS, WORKSHOPS & CONFERENCES

Islamic banking growth strategy to be reviewed

Monday, 07 December 2009

MANAMA: More than 1,200 delegates from 50 countries will take part in the World Islamic Banking Conference (WIBC), which opens today at the Gulf Hotel. Themed New Strategies for New Economic Realities, the event has attracted leading figures from the Islamic finance industry to debate the way forward following the credit crisis and the global economic downturn.

"As cautious optimism returns to the global economy and financial markets begin to move towards stabilization and economic recovery WIBC 2009 will help to shape the future trajectory of the Islamic finance industry at this crucial time," said Mega Brand organizer and managing director David Mclean.

"WIBC will provide the platform as industry leaders grapple with the need to manage risk, seek new growth markets and deliver on market expectations as well as remain competitive."

He said a major highlight of the conference would be the launch of the 2009/2101 WIBC Competitiveness Report by McKinsey & Company.

Yesterday, the event got off to a start with a series of pre-conference workshops attended by more than 300 delegates covering areas from Islamic capital markets to the marketing challenges facing the industry.

Launched in 1994, the WIBC has become an iconic brand internationally recognised as the largest and most significant gathering of Islamic banking and finance leaders anywhere in the world.

Gulf-Daily

Singapore to host Asian edition of World Islamic Banking Conference

Tuesday, 08 December 2009

SINGAPORE: Singapore will be hosting the first Asian edition of the World Islamic Banking Conference (Asia WIBC) in June next year. This was disclosed by the Monetary Authority of Singapore's managing director, Heng Swee Kiat, at the 16th WIBC in Bahrain.

The Asian edition is aimed at promoting deeper relations between the Middle East and Asia. It is expected to provide a platform for more established industry players to share their experiences in Islamic finance.

The WIBC is seen as the world's largest and most significant gathering of Islamic banking and finance leaders.

CNA/ms

GENERAL ECONOMIC & BUSINESS DEVELOPMENTS

Wither the US dollar?

By Adhip Chaudhuri in Washington

Sunday, 06 December 2009

During a recent visit to Tokyo, Timothy Geithner, the secretary of the US treasury, said that a strong dollar is "very important" to Washington, even as the American currency continued its noticeable depreciation. This is a very curious statement as it seems to indicate that the US treasury is going to defend the dollar from any further slide in the near future. But this is highly unlikely as the US treasury does not have a history of intervening in foreign exchange markets.

It is true that the treasury's Exchange Stabilisation Fund (ESF) can be used to prop up the dollar, but it has never really been used for that purpose. The ESF, which right now has about $50bn, was originally created by the Roosevelt administration in the early 1930s to deal with currency upheavals as the Gold Standard was being dismantled.

The ESF was used only once in international financial markets and that was to defend the Mexican peso in 1994. Therefore, the treasury's use of the ESF to defend the dollar can be ruled out. In any case, it would take a lot more than $50bn to stabilize the greenback if there were to be a speculative attack on the dollar, like there was against the British pound in 1992.

On September 16, 1992, the UK withdrew the pound sterling from the European Exchange Rate Mechanism (ERM) after short selling in global markets brought the value of the British currency below its agreed lower limit.

Liquidity and the Fed

The US Federal Reserve (popularly known as the Fed) is also unlikely to be defending the dollar any time soon. To prop up the currency, the Fed would have to buy back dollars which would require that the US offer euros, British pounds and Japanese yens in exchange. The Fed does not have much foreign currencies in stock because the US has been running trade deficits continuously for a long time now.

The fact that the Fed does not have a war chest big enough to intervene credibly in the foreign exchange market on behalf of the dollar, paradoxically, discourages short and swift "shark attacks" - the massive selling of dollars by speculators in a very short span of time.

Speculators need some entity to bet against, and typically such opposition is provided by a central bank, such as the role the Bank of England played in its defence of the pound in 1992.

In fact, the Fed is at present much more interested in supplying dollars than in buying them. It has committed itself to providing liquidity to the banks at rates closer to zero per cent.

The banks can then presumably lend this money to households and firms at much higher interest rates and pocket the difference. For example, the mortgage rate in the US has been hovering around five per cent.

While getting near-free money from the Fed and then being able to lend it at five per cent provides enormous potential for profits (and large bonuses and salary increases for top management), it also reflects the high risk of default the banks perceive as a threat, given the defaults that have taken place on past lending.

The Fed creates this cheap money by paying for US government bonds that it buys from the public. Thus, the Fed ends up financing US government debt, albeit indirectly. Hence, a lot of the bailout money for AIG, Fannie Mae, and GM, has been indirectly financed by money created by the Fed.

'Too much money'

However, could the creation of all this money lead to inflation? After all, was it not the danger of rising inflation that principally fuelled the dollar's downward spiral? These concerns stem from the simplest, yet best-known economic theorems: inflation is caused by "too much money chasing too few goods". While it is true that the treasury and the Fed acting together are creating a lot of money, we are not even close to an excessive demand for goods and services in the US. Sales are down significantly across the board.

Most households get frequent solicitations from Direct TV, the phone company, or the cable company offering high-definition connections at highly discounted rates; airline fares have declined, if not collapsed. It is easy to find seats in movie theatres and restaurants as there are no people lining up to get in.

The deals that auto companies are offering, be they American, Japanese or Korean, are extremely lucrative to the consumers. All round, it feels more like the economy is producing too many goods, not "too few".

If inflation is not a real danger then why is the dollar depreciating? Since 2002, the US government deficits have been mounting as have the trade deficits. These two trends have brought about a long-term average decline of the dollar in spite of several short-term upswings.

Part of the new dollar crisis can be attributed to new monetary policy from the Fed which is to lend money to the member banks in the US at virtually 0 per cent. This has enabled these banks to invest some of that money in the high-performing emerging economies in Latin America and Asia where the rate of return is much higher than what can be earned in the US. This is called the dollar "carry" trade.

Finally, the more recent and conspicuously sharper decline of the dollar has also been due to diversification on the part of central banks from the dollar to gold, euros, and the yen. India's central bank, for example, recently used $6.7bn from its reserves to buy gold.

China power

The foreign institution which matters the most regarding the value of the dollar, by far, is the central bank of China, the People's Bank of China (PBC). Ever since China joined the international monetary system in the late 1980s, the PBC has pegged the Yuan to the dollar, and only recently allowed the Yuan to appreciate slightly.

The implication of China's fixed exchange rate policy has been that on a daily basis the PBC has been able to reap all the excess dollars flowing into China in the form of trade surplus with the US.

Instead of holding on to these reserve dollars in the form of cash, the PBC has invested them in interest-paying US government bonds.

The accumulation of the US government bonds in the coffers of the PBC, including those with the central bank of Hong Kong, is now valued at well over a trillion dollars. The PBC has, for all practical purposes, become a lending agency to the US government. But China has lately started becoming very nervous about its dollar holdings because of the sharp increase in the recent US government deficits. The deficit for the fiscal year 2009-10 could be close to $2tn.

However, as long the Chinese authorities want to manage the exchange rate of the yuan to the dollar, they are stuck with the status quo and will have to continue absorbing the dollar surpluses.

Washington feels stuck too. It realizes that it is the Chinese authorities who control the floor value of the dollar. No wonder, then, that Geithner made reassuring statements about the US government's commitment to a "strong dollar" when Barack Obama, the US president, visited China last week.

Adhip Chaudhuri is a professor of International Economics at Georgetown University in Washington, DC.

Al Jazeera

Dubai companies given 'junk status'

Sunday, 06 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

North Korea cash switch 'sparks panic'

Sunday, 06 December 2009

A surprise decision by North Korea to re-denominate its currency has sparked panic among many North Koreans who find themselves suddenly left with piles of worthless bills, activists have said. At least one couple was driven to suicide by the switch after finding their savings wiped out, the *Daily NK*, a South Korea-based online news service, reported.

North Korea announced on Monday that it was re-denominating its currency, the won, giving already-impoverished residents less than a week to change a limited number of old bills into new ones. According to one group, citing sources inside North Korea, authorities have threatened "merciless punishment" for anyone violating the rules of the currency exchange.

North Koreans are reportedly entitled to change up to 150,000 old won to new won, at a rate of 100 to 1. Under current black market rates, 150,000 won is worth about $60. Cash in excess of the allowed amount has to be saved in government-run banks, South Korean media said, although it was not clear whether residents would be able to change that money as well into new bills.

Black market

According to South Korea's Yonhap news agency, the surprise announcement sent many North Koreans rushing to the black market to convert hoarded bills into US dollars and Chinese Yuan. Shops, restaurants and other businesses have closed while the switch is taking place.

Groups in South Korea with contacts in the North say the move has hit private market traders with large hoards of the old currency particularly hard. In one case guards blocked the entrance to a bank in the city of Hoeryong after a stampede of people trying to offload old banknotes, the Seoul-based Network for North Korean Democracy and Human Rights said, citing unidentified sources.

Analysts have said the surprise switch appears to be part of a government crackdown on private markets, which have become an essential part of the food-supply system in aid-dependent North Korea. The markets, which have gradually emerged across North Korea in recent years, have become a profitable business for some traders. But their growth outside of government controls is believed to have unnerved authorities.

Faced with mounting food shortages, rigidly-controlled North Korea began allowing some private markets including farmers' markets to begin trading in 2002. The markets have encouraged trade and boosted the supply of food, but they also become a source for banned goods such as films and soap operas from South Korea, which the government sees as a threat to its rule, analysts say. North Korea's largest wholesale market, in the capital Pyongyang, was reportedly closed in mid-June.

Al Jazeera

US slashes bailout cost estimate

Monday, 07 December 2009

The second instalment of the United States' bank rescue programme 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 programme 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 programme, known as the Troubled Asset Relief Programme (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

Denmark urges swift climate action

Monday, 07 December 2009

The biggest climate meeting in history has opened in Copenhagen with hosts Denmark saying a very good opportunity to protect the planet was "within reach".

"The world is depositing hope with you for a short while in the history of mankind," Lars Lokke Rasmussen, the Danish prime minister told delegates who are seeking to agree the first United Nations climate pact in 12 years.

Rasmussen said: "By the end, we must be able to deliver back to the world what was granted us here today: hope for a better future.

"The time for formal statements is over. Copenhagen will only be a success if it delivers significant and immediate action."

'Fresh money'

The high-stakes talks are aimed at agreeing a deal for measures to help curb greenhouse gas emissions and the transfer of hundreds of billions of dollars from rich to poor countries to help developing nations adapt to climate change over the coming years. A major challenge facing the two-week conference, which ends with a meeting of 105 world leaders on December 18, is to overcome deep distrust between rich and poor nations about sharing out the burden of costly curbs on emissions.

A top UN official warned on Monday that providing the money to poorer countries to tackle climate change must not take away urgently needed resources from other issues facing developing countries, such as poverty and hunger. "Before we put all our efforts into climate change, poor countries were faced with a list of other problems," said Kandeh Yumkella, director general of the United Nations Industrial Development Organisation (UNIDO).

Asked what position UNIDO would take at the climate talks, Yumkella said: "We don't want climate change to cannibalize other development financing.

"To deal with the climate change problem, developing countries are looking for fresh money."

He called on industrialised countries to change their consumption and production habits "to send a signal that indeed we do care about the others".

"The request for putting money on the table is not because developing countries just want cash," the UNIDO chief said.

"The fact is there's a moral and equity question here: those who polluted least are suffering the most. There's a moral requirement here that we have to step up to.

"We cannot have two worlds in the 21st century where we say to some: slow your growth, keep the forests alive so we can do what we were doing before."

'Turning point'

Earlier, Yvo de Boer, the head of the UN framework convention on climate change, said he was confident the summit would be a success. "Copenhagen is already a turning point in the international response to climate change," he said.

De Boer said developing nations need to take new action to slow the rise of their emissions. He said he also wanted rich nations to accept deep cuts to their emissions by 2020 and come up with at least $10bn a year in aid to the poor countries to kick off a deal, saying it has to be "new money, real and significant".

The planned attendance of heads of state and pledges to curb emissions by all the top emitters – led by China, the US, Russia and India – have raised hopes for an accord after sluggish negotiations in the past two years.

Manmohan Singh, the Indian prime minister whose country is the world's fourth-largest greenhouse gas emitter, announced on Saturday that he would attend the closing summit, joining 104 other leaders, including Barack Obama, the US president.

'Illegal acts'

Meanwhile, the head of the UN's panel of climate scientists strongly defended findings that humans are warming the planet, after critics said that leaked emails from a British university had undermined evidence.

Climate change skeptics have seized on a series of hacked emails written by climate specialists, accusing them of colluding to suppress others' data and enhance their own.

Speaking on Monday, Rajendra Pachauri, head of the UN's Intergovernmental Panel on Climate Change (IPCC), said: "The evidence is now overwhelming that the world would benefit greatly from early action.

"The recent incident of stealing the emails of scientists at the University of East Anglia shows that some [people] would go to the extent of carrying out illegal acts perhaps in an attempt to discredit the IPCC."

In 2007, the UN panel said that it was at least 90 per cent certain that humans were to blame for global warming.

Kyoto replacement

The climate talks have sparked protests in many European cities, adding to the pressure world leaders are under to reduce rising emissions that the UN says will cause desertification, mudslides, more powerful cyclones, rising sea levels and the extinction of species.

The existing Kyoto pact obliges industrialised nations to cut emissions until 2012, and the idea behind the Copenhagen talks is to get action from all major emitters, including China and India, which were exempt from the Kyoto agreement.

The meeting will test how far developing nations will stick to entrenched positions, for example that rich nations must cut their greenhouse gases by at least 40 per cent by 2020 – far deeper than targets on offer.

World leaders did not attend the last time the world's environment ministers agreed on the existing UN climate pact, known as the Kyoto Protocol, in 1997.

Copenhagen is the biggest climate change meeting in history, with 15,000 participants from more than 190 nations.

Al Jazeera

Russia and India sign nuclear deal

Monday, 07 December 2009

Russian president Dmitry Medvedev and Manmohan Singh, the Indian prime minister, have signed an agreement to co-operate in the peaceful use of nuclear technology. Holding talks in Moscow on Monday, the two leaders agreed to permit an increase in atomic fuel exports from Russia's state-owned Rusatom to India.

Sergei Kiriyenko, Rosatom's CEO, said his company would also build several new nuclear power reactors in India, but did not give further details. The nuclear energy agreement is just one of the deals Singh is expected to sign during his two-day trip to Moscow.

Weapon contracts

India is one of the biggest buyers of Russian weapons, and Singh is due to order billions of dollars worth of helicopters, missiles, and fighter planes. India recently secured production licenses for T-90 tanks and contracts to provide Russian aircraft with BrahMos missiles. The countries are building a modern supersonic fighter, equivalent to the US Raptor stealth fighter.

But tension has appeared over the cost of refurbishing the Soviet-built aircraft carrier Admiral Gorshkov for the Indian Navy.

Al Jazeera

Arctic's ecology feeling the heat

Monday, 07 December 2009

Climate change is having a dramatic impact on the Arctic Circle, with melting ice caps threatening to raise sea levels by up to seven meters.

Rising temperatures are changing the very ecology of the ocean, with many creatures having to adapt to the changes.

Al Jazeera

Brazil pioneers reforestation plan

Monday, 07 December 2009

Brazil's Amazonas state has been pioneering a pilot project in which Brazilian families are taught to survive and prosper from the forest, without destroying it. More than 300 families live on the Juma sustainable development reserve, land that was demarcated by the state government as a no-go area for loggers and ranchers.

The families receive a small stipend from the government in exchange for their commitment not to cut the forest.

It is all part of a conscious effort to break the cycle of deforestation for economic growth. But will the international community help the Brazilian government pay for it?

Al Jazeera

Dubai: The political model

By As'ad AbuKhalil

Wednesday, 09 December 2009

The emirate of Dubai has in the past few decades been more than a shiny example of glitzy capitalism and the insulation from the repercussions (and responsibilities) of the Arab-Israeli conflict. It has represented the type of political model which has been promoted to the Arabs, by their rulers and by the West.

When George W Bush, the former US president, visited the United Arab Emirates during his last year in office, he praised Dubai and its models of economic and political prosperity; he promoted the UAE mantra and ethos as glimmers of hope to the new generation of Arabs.

It took the former president little more than a few hours during his stop-over to assess the conditions in the region, and to reach his conclusions: resistance to Israel clashes with the type of prosperity that was prevalent in Dubai.

Anti-thesis of Palestine

Dubai hit a dramatic rise in the 1990s and became a success story that was carefully calibrated, promoted and disseminated in the Arab media and collective psyche.

Daniel Pipes, who has a reputation for hostility towards Arabs and Muslims, was interviewed two years ago in the *Jerusalem Post* praising Sheikh Mohammed bin Rashid Al Maktoum, the ruler of Dubai, after the release of his memoirs.

There was not one word about Palestine in that book which nevertheless offered a recipe of unregulated and unrestricted capitalism.

Dubai was supposed to be the antithesis of Palestine. It was designed to create a concrete Utopia that would encourage all young Arabs to forget about their political aspirations and dreams.

In Lebanon, the March 14 opposition movement has been posing this question to the Lebanese people for three years: *Hanoi or Dubai?* But Hanoi is today a far more promising model than Dubai.

Not only has Hanoi been liberated from foreign occupation and a corrupt puppet regime, but it has also become part of a sovereign country with a record of fast economic growth.

Much has been written about Dubai and even more will be written about the emirate which was positioned as the success story that all Arabs were to emulate.

However, its success is not based on sound economic or classical political theories. It was in fact a projection of what the West wanted to see in the Middle East.

This projection represented the fruits of US co-operation with Middle Eastern governments, especially in the realm of defence and national security. Dubai was more important for the US due to military intelligence co-operation than for its lavish seven-star hotels.

Playground for the rich

Dubai was supposed to be a vision but one not rooted in the productive sectors of the economy. There were early warnings of the debacle that struck Dubai World - too much glitz and ostentation and little attention to a careful building of culture and economy that reflect the region.

There was a rush to build multi-billion dollar artificial ski slopes and playgrounds for the very rich of the world. But Dubai did not want to be part of the region, politically speaking. Instead it modeled itself as a copy of Las Vegas in the heart of the Arab Middle East.

Dubai carefully steered away from all the issues that alarmed and agitated Arab public opinion.

Instead, Dubai and the other six emirates which comprise the UAE made sure that they operated within the realm of US foreign policy priorities. Dubai became a regular stop on the travel routes of US diplomats.

But people will wonder whether the recent crisis in Dubai is the apparent economic mismanagement resulting from rapid urbanization and modernization that lacked a soul.

Was this an example of a fundamental contradiction between economic growth and lack of democracy?

China and Vietnam have proved that rapid economic growth without democratization could work, and work splendidly. Yet, Dubai's model of economic growth seemed less planned and less guided by a realistic vision of the future.

There was little attempt to match future planning with Dubai's demographic realities or even of the area around it. Instead, the emirate had to rely on the import of large numbers of Asian workers without any effort to integrate them, or even to afford them decent living standards and human conditions.

Lack of co-ordination

Dubai has dominated the imagination of young Arabs for less than two decades. Its rise was rapid and its decline may also be rapid as recent press stories seem to indicate. Dubai's shortcomings may indicate the lack of economic integration between Arabs. Worse, the UAE constituent emirates made no effort to co-ordinate economic planning among them.

In reality, the seven emirates acted like independent sovereign states, up until the recent crisis when Dubai had to plead with Abu Dhabi, the capital, in the name of Arab brotherhood. It is not clear whether Abu Dhabi will bail its neighbor out, but the capital seems glad to be playing the role of the partial rescuer.

Lessons have to be taught. The relationships between the different emirates, and even between the different Arab countries, will have to be rethought.

Dubai was supposed to be the model of non-politics, or the model of anti-politics. Dubai TV, for example, reflected that message in Arab political and popular cultures. Paris Hilton replaced all the symbols of the Palestinian revolution in the Dubai TV culture. Fun, not resistance, was the new catchword.

Educated and skilled Arabs were welcomed in the Utopian emirate provided they left their political dreams and passions behind them. There was neither room for the slogans of the Arab nationalist era, nor for the demands of the democracy or feminist movements.

Dubai would welcome you provided you did what you were told and provided you paid homage to the ruling family.

Arabs questioning policies

But the collapse of Dubai may redraw the political and economic pictures of the region. Maybe governments will now be pressed to explain the purposes and motives behind their economic policies. And maybe the Arab public will now raise more questions about the various models that are promoted as exemplary by the West.

It was only a few years ago that Western governments and media believed the emirate of Dubai could do no wrong. Western publications that had once praised the Dubai experiment and the wisdom and vision of "Sheikh Mo" are now discovering the shortsightedness of the policies that guided the emirate's growth. Western media are suddenly discovering the plight of Asian workers in the region.

The Arab public has experienced disappointments and disillusionments before but this one will have consequences for US foreign policy.

The Arab people have been urged to abandon struggle and the search for justice and to seek the model of Dubai. Now, the young generation of Arabs will not seek pilgrimage in Dubai.

Another destination will be sought and this could signal a return to Palestine.

As'ad AbuKhalil is a professor of political science at California State University, Stanislaus, and author of the Angry Arab blog.

Al Jazeera

UK introduces tax on bank bonuses

Thursday, 10 December 2009

Alistair Darling, the British finance minister, has set the stage for the country's next election after announcing a one-off super tax on bank bonuses and other higher taxes on the rich. Repeated opinion polls show the governing Labour Party is on course to lose the poll that must take place in less than six months and the party hopes Darling's pre-budget report will be enough to help boost its electoral appeal.

With markets keen to see more measures to get the country's record budget deficit down and little money to spend on giveaways, Labour turned up the heat on bankers who many blame for Britain's worst recession since World War Two.

Darling said banks would be charged a 50 per cent tax rate on bonuses they pay to their staff above $41,000 starting today until April 5, 2010, a powerful disincentive for big payouts in this year's Christmas bonus round. The new tax, which Darling announced in his report on Wednesday, would apply to all banks, building societies and branches of foreign banks operating in Britain.

Talent exodus

The government hopes the move will encourage banks to use additional cash to shore up their capital bases, rather than pay high salaries. But banking groups have warned that penalizing high earners in the financial sector will lead to an exodus of talent overseas.

The country's recession has turned out to be much deeper than forecast in April and the minister had to revise up his borrowing forecast for this fiscal year to a record $290bn or 12.6 percent of GDP.

Though Darling stuck to his economic growth forecast for next year of 1 to 1.5 per cent he was forced to admit he expected the economy to shrink 4.75 per cent in 2009, instead of the 3.25 to 3.75 per cent decline originally predicted. "Because of the underlying strength of our economy, the pick-up in world demand, and the substantial spare capacity opened up by the recession, my budget forecast ... of growth of 3.5 per cent in 2011 and 2012 remains unchanged," Darling said.

Britain has been put on warning by markets and ratings agencies that it must rein in its spiraling debt. On Tuesday, Moody's said AAA-rated governments with "stretched balance sheets" such as Britain will come under increasing pressure to announce credible fiscal adjustment plans and start implementing them. Earlier this year, rival ratings agency Standard & Poor's downgraded the outlook for the UK's rating to "negative" and said it could cut the rating after the election if Britain's next government did not produce a watertight plan to cut debt.

Al Jazeera

Japan machinery orders tumble

Thursday, 10 December 2009

Fresh economic figures from Japan have cast further doubt on the strength of the country's economic recovery. Data released on Thursday showed core machinery orders – an indicator of corporate capital spending, and thus of Japanese companies' confidence in the economy - tumbling 4.5 per cent in October from a month earlier. The fall suggests companies are cutting back on spending as the country's economic recovery slows.

Machinery orders had spiked 10.5 per cent in September, apparently pointing towards growing corporate confidence. But since then deflation has intensified and the Japanese currency, the yen, has strengthened against the dollar, pushing up the cost of Japanese exports.

Questions about the future of export demand as the effect of global stimulus measures wanes have also added to corporate unease.

The data is based on figures from 280 manufacturers polled by Japan's Cabinet Office, but excludes orders from shipbuilders and electric power companies which tend to fluctuate more.

Growth revised

The statement follows Wednesday's surprise announcement that the country's economy grew much more slowly in the third quarter of this year than originally estimated. According to revised government data, the world number two economy grew at an annual pace of just 1.3 per cent, compared with the previous preliminary estimate of 4.8 per cent.

Officials said the revision stemmed largely from a misreading of capital investment data which was found to have fallen by 2.8 per cent from the previous quarter after the government incorporated additional data. Capital investment measures spending by companies on equipment, factories and other assets.

The Cabinet Office had initially estimated that companies increased spending by 1.6 per cent.

Al Jazeera

Afghans angry at Obama's Nobel win

Thursday, 10 December 2009

Barack Obama, the US president, has received the Nobel Peace Prize at a ceremony in Oslo - days after he ordered an escalation of US involvement in the war in Afghanistan.

In making Obama the third sitting US President to win the award, the Norwegian Nobel Committee praised Obama's co-operative approach to global issues.

But many critics say that Obama's resume is too thin to stand scrutiny with other Nobel peace laureates.

And for many Afghans, Obama's strategy of even more troops does not fit into their vision of what will bring peace.

Al Jazeera

China's economy picks up pace

Friday, 11 December 2009

China's economic recovery gained momentum in November, government statistics have shown, with industrial production, retail sales and investment all posting solid growth. Consumer prices also rose for the first time in 10 months, climbing 0.6 per cent in November, the National Statistics Bureau reported.

According to the figures released on Friday industrial output rose 19.2 per cent in November over a year earlier, with the strongest growth in heavy industries such as coal, steel, power generation and autos. The growth was boosted by reviving demand for exports and massive investment in factories and other construction which climbed 32.1 per cent in the first 11 months of the year. Also in November retail sales – an increasingly important driver of growth in the Chinese economy - climbed 15.8 per cent in November from a year earlier to $166bn.

Earlier this week, the government moved to bolster the recovery by extending tax cuts and subsidies for purchases of small vehicles and appliances, while adjusting some measures to counter rising property prices.

Officials have pledged to continue policies aimed at countering the impact of the global downturn, including lax credit and lavish spending launched with a $586bn stimulus package a year ago.

In a separate report also released on Friday, customs figures showed the slump in Chinese exports continuing to ease as nascent recoveries in the US and other key markets helped revive demand.

According to data from the customs administration, exports fell 1.2 per cent in November, marking the smallest decline this year. Imports into the world's third-largest economy were also seen to rebound strongly, rising 26.7 per cent over the same month last year. The figures suggest the global recovery is gaining momentum as consumers in the US and other regions begin spending more after months of holding back.

Al Jazeera

Soros reveals $100bn climate plan

Friday, 11 December 2009

The $10bn a year proposed by rich nations to help the poor adapt to climate change is "not sufficient" and the gap between what is offered and what is needed could wreck the Copenhagen climate conference, George Soros, the American billionaire financier, has said. Soros suggested shifting some International Monetary Fund resources from providing liquidity to stressed global financial systems to a new mission of financing projects in developing countries for clean energy and adapting to climate change. About $100bn in a one-time infusion could be generated, Soros told reporter in Copenhagen on Thursday.

Soros' proposal aims to tap into $283bn of IMF money which is kept in reserve in case rich nations need it to keep their economies afloat during financial crises. The financier says $100bn of the money, held in the form of Special Drawing Rights (SDRs) issued by the IMF, should be given to poorer nations to be used to invest in carbon-cutting projects.

'Failure to success'

Talks in Copenhagen, which are aimed at agreeing the outline of a new climate treaty to succeed the Kyoto Protocol, are stuck on splitting the bill for cutting carbon emissions and preparing for more droughts, floods and rising seas. Poorer nations want rich countries to spend one per cent or more of their national wealth on emissions cuts in the developing world, or at least $300bn annually, about double the closest estimates by industrialised countries.

Speaking on the sidelines of the conference, Soros said: "I've found a way for someone else to pay ... to mobilize reserves that are lying idle.

"The whole conference might break down because of this, and this $100bn fund I think could just turn this conference from failure to success."

The IMF made the SDRs available to help combat the global recession, by unlocking financial liquidity after panic froze debt markets - including more than $150bn for the 15 biggest developed economies, Soros said.

Soros investment

The billionaire said developing countries could make money from their low-carbon investments from the SDR fund by selling carbon credits on the carbon markets. IMF gold reserves would guarantee the principle and interest.

Soros said he would invest $1bn of his own $25bn funds in low-carbon assets. The Hungarian-US financier also acknowledged a series of obstacles to his proposal, including getting approval from the US Congress and the director general of the IMF, as well as global carbon prices.

"The IMF directors are not keen to use it [the gold reserve]. If you're on the board of directors you like to have this nice substantial reserve to sit on so they won't actually do this of their own free will," Soros said, adding political will was needed to drive his initiative.

Other ideas on the table to unlock climate finance include a levy on transport fuels in shipping and aviation, a tax on rich nation carbon emissions rights or a fund raised from countries according to their contribution to climate change and ability to pay.

Al Jazeera

US House approves financial reforms

Saturday, 12 December 2009

The US House of Representatives has approved the most extensive reform of the financial sector since the Great Depression of the 1930s. Politicians voted 223-202 to pass the legislation, a key goal of Barack Obama, the US president, in response to the global financial meltdown of 2008.

"This legislation brings us another important step closer to necessary, comprehensive financial reform that will create clear rules of the road, consistent and systematic enforcement of those rules, and a stronger, more stable financial system," Obama said in a statement on Friday.

"We have a responsibility to learn from it [the financial crisis] and to put in place reforms that will promote sound investment, encourage real competition and innovation and prevent such a crisis from ever happening again," he said.

The legislation would give the government new powers to break up companies that threaten the economy and dismantle them in a way that ensures shareholders and unsecured creditors, not taxpayers, bear the losses.

Consumer protection

It would also lead to the creation of a new agency that would take over consumer protection powers from current banking regulators, and examine more closely financial markets that have escaped the oversight of regulators. It also reinforces the powers of the Securities and Exchange Commission to detect irregularities that could provide an early warning of fraudulent investment schemes.

The legislation aims to prevent manipulation and bring transparency to the $600 trillion global derivatives market. It would give the Federal Reserve more powers to oversee large companies at risk of collapse, but also give the Government Accountability Office, the investigative arm of the US congress, more power over the Federal Reserve itself.

The bill has drawn fierce opposition from the financial sector and from Republicans, all of whom voted against it. The US senate will have to pass the bill before Obama can sign it.

Al Jazeera

Lukoil wins Iraq oilfield contract

Saturday, 12 December 2009

Iraq has signed an agreement with Russian energy company Lukoil to develop one of the world's largest untapped oil fields. Lukoil on Saturday agreed the deal, giving it access to the West Qurna-2 reservoir, a day after consortiums led by Shell and CNPC were awarded contracts for other oil fields. "We can announce that Lukoil has won the contract to develop the West Qurna-2 oilfield," Hussein al-Shahristani, Iraq's oil minister, said.

Iraq has so far reached seven oil deals over the course of the two-day auction, making agreements that promise to boost Iraq's oil production by more than 4.7 million barrels per day (bpd) in the coming years.

Split of revenues

Lukoil and StatoilHydro, the Russian company's Norwegian partner in the West Qurna-2 project, requested $1.15 for each barrel extracted from the oil field. Lukoil will take 85 per cent of the revenue from extraction, while StatoilHydro will take the remainder. The companies expect to extract 1.8 million barrels a day from the field. West Qurna-2, which has known reserves of 12.9 billion barrels, lies to the west of the Majnoon field, which was auctioned on Friday to Shell, an Anglo-Dutch company, and Petronas, a Malaysian firm. Shell and Petronas will get $1.39 for each barrel of oil they extract from Majnoon, which has proven reserves of 12.6 billion barrels. CNPC, a Chinese firm, led a group comprising Petronas and France's Total on Friday to get access to the southern Halfaya oil field. Each company in that consortium will receive $1.40 per barrel, based on projected production of 535,000 bpd.

Output target

Contracts were also agreed for access to the Garraf, Najmah, Qaiyarah and Badra fields. Sonangol, an Angolan firm, will work in the Qaiyarah and Najmah oil field, which lie in the northern province of Nineveh. A joint bid from Petronas and Japex, a Japanese company, took the Garraf field in South Iraq, while a consortium led by Russia’s Gazprom was awarded a contract to work on Badra, near the Iranian border.

Oil firms avoided bidding for fields in the most dangerous areas of the country, while companies that did not offer enough value for money were refused the chance to work the oil fields.

The auctions, the second to be held since June, come as Baghdad looks to kick start its economy and generate income for the government. Iraq hopes to raise oil production to seven million bpd within six years, from the current output of 2.5 million bpd.

At 115 billion barrels, Iraq has the world's third-largest proven oil reserves, behind only Saudi Arabia and Iran. Oil sales provide 85 per cent of government revenues.

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

ASIAN DEVELOPMENT BANK

ADB Calls for Ambitious Climate Pact as World Leaders Gather in Copenhagen

Monday, 07 December 2009

MANILA, PHILIPPINES: Asian Development Bank (ADB) President Haruhiko Kuroda marked the beginning of climate change talks in Copenhagen by noting how vital it is for the Asia and Pacific region and the rest of the world that the international community reaches an ambitious and equitable agreement to confront "the most pressing environmental challenge of our time."

"The extraordinary gathering of world leaders in Denmark attests to the international community's resolve to collectively address the issue of human-induced climate change," said Mr. Kuroda.

"The outcome in Copenhagen and beyond is extremely important for the countries of Asia and the Pacific since their development is threatened by climate change and they must adjust their economies to the realities of a carbon-constrained world."

More than 20,000 government leaders, policymakers, private sector and civil society experts from around the world began gathering in Copenhagen today for the start of UN negotiations on a new global agreement to combat climate change.

ADB is hosting a range of events in Copenhagen aimed at informing the discussions and highlighting what Mr. Kuroda described as the Asia and Pacific region's high vulnerability to climate change and its pivotal role in curbing future greenhouse gas emissions. While per capita emissions in the region are currently low, as economies grow and incomes rise, the vast majority of new global emissions will emanate from its vehicles, power plants and disappearing forests. Developing Asia's share of global emissions could easily top 40 percent by 2030.

Recent studies funded by the ADB show that climate change poses fundamental threats to Asia's agriculture and energy security which, if left unchecked, will threaten the livelihoods of over two billion people.

The ADB delegation to Copenhagen will include specialists from a number of technical areas – such as transport, carbon market financing, forest management, oceans and river basins. Key ADB sessions in Copenhagen will include two side events (7 and 10 December) co-hosted by The Energy and Resources Institute (TERI).

An ADB seminar (13 December), entitled *"Responding to Climate Change in Asia and the Pacific*", and an ADB press conference (15 December) will present on how Asia and the Pacific can balance continued domestic economic growth with addressing global climate concerns.

ADB

ADB Signs New Trade Finance Pacts with Sri Lanka Banks

Tuesday, 08 December 2009

MANILA, PHILIPPINES: The Asian Development Bank (ADB) today signed new trade financing agreements with Bank of Ceylon, DFCC Vardhana Bank Limited, and NDB Bank Plc.

The agreements are part of ADB *Trade Finance Facilitation Program* (TFFP) and will give the banks additional room to provide essential financing to Sri Lanka's exporters and importers. At the same time, the agreements will help the banks develop relationships with their international peers, which should promote partnerships and knowledge sharing in the future.

Bank of Ceylon Plc signed its first agreement under the program while DFCC Vardhana Bank Limited and NDB Bank Plc expanded their existing relationships with ADB.

Trade finance is less risky than many other forms of lending because it carries shorter maturities and supports the transfer of tangible goods. Nevertheless, companies in emerging markets, particularly small and medium-sized firms, have typically faced difficulties in accessing enough credit to fill export orders or get the goods they need from overseas.

The TFFP addresses this challenge by working with international and local banks to provide the support they require to ensure their importing and exporting clients get the loans and guarantees they need to do business.

"Trade is a key tool for promoting economic expansion. Stronger economic growth translates into jobs and higher incomes which, in turn, help to reduce poverty," said Philip Erquiaga, Director General of ADB Private Sector Operations Department.

ADB *Asian Development Outlook 2009 Update*, released in September, forecast Sri Lanka's economy would grow 4% this year and 6% in 2010. At the same time, the report predicts the country to have a current account deficit of 3% of gross domestic product this year and a 5% shortfall next year.

"Sri Lanka's banks and companies will benefit enormously from greater access to international trading and banking networks as the Sri Lankan economy emerges from the turmoil of a conflict that has restrained investment and growth for several decades," said Robert van Zwieten, Director of ADB Private Sector Capital Markets Division, of which the trade finance program is a part.

Under the $1 billion TFFP, which began operating in 2004 and was expanded earlier this year, ADB provides finance and guarantees through and in conjunction with international and developing member country banks to support trade deals in developing countries. Since trade finance can roll over and as the program attracts private-sector support, the program can provide $3 billion in finance every year.

ADB

Indonesia Gets $200 Million for Further Reforms to Spur Growth, Cut Poverty

Tuesday, 08 December 2009

MANILA, PHILIPPINES: Indonesia will receive a $200 million loan from the Asian Development Bank (ADB) for further reforms that support the government’s ongoing efforts to spur sustainable growth and cut poverty.

The ADB Board of Directors today approved the single-tranche loan for the *Fifth Development Policy Support Program.* The program provides co-finance for the development policy loans aimed at helping the government strengthen the investment environment, and improve public financial management and the delivery of services to the poor.

Indonesia has carried out wide ranging economic reforms since emerging from the 1997-1998 Asian financial crisis, and more recently has taken swift and decisive steps to address the threats posed by the global financial crisis. There have been broad improvements in the investment environment, governance and other key areas, but significant challenges remain. To continue the reform process, the government has sought financial assistance from development partners.

"The primary rationale of this fifth support program is to reinforce the government's efforts to improve competitiveness, to boost public financial management and governance and to contribute to poverty reduction and improved public service delivery to the poor," said Sharad Bhandari, Senior Country Specialist in ADB Indonesia Resident Mission.

It is also designed to harmonize policy reform work with key development partners - including World Bank and Government of Japan, who are supporting the development policy loans - in order to improve the effectiveness of aid delivery.

The fifth program encompasses reforms focused on strengthening the regulatory environment for investors, reducing the cost of regulatory compliance, improving the government's budget process and management of public funds, and fine tuning poverty alleviation programs to make sure they reach the neediest. The program loan complements a broad range of ADB assistance to Indonesia, including a $1 billion equivalent Public Expenditure Support Facility Program loan and a countercyclical support loan of $500 million to help the government counter the impacts of the global economic crisis.

The loan, from ADB ordinary capital resources, has a 15-year term with a grace period of three years and an interest rate determined in accordance with ADB's LIBOR-based lending facility. The Coordinating Ministry for Economic Affairs is executing agency for the program.

ADB

ADB Approves $1 Billion in Funding to Support Landmark Rail Program in PRC

Tuesday, 08 December 2009

MANILA, PHILIPPINES: The People's Republic of China (PRC) is to receive up to $1 billion from the Asian Development Bank (ADB) in a landmark program to support cleaner, safer and more energy efficient railway services in poor southwest regions of the country.

The ADB Board of Directors today approved a $1 billion multi-tranche financing facility for the *Railway Energy Efficiency and Safety Enhancement Investment Program.* It is the first program of its kind to target the promotion of energy efficiency, environmental sustainability, and improved safety through ADB transport operations and in the PRC transport sector. It is also the first investment in the PRC transport sector to utilize the multi-tranche funding mode, which has major advantages, including flexibility for both the government and ADB, and the linking of the release of funds to project readiness.

The program will support the Government $25 billion 7-year plan to expand and improve railway services in underserved and underdeveloped southwestern regions, including

Guangxi, Guizhou, Sichuan, and Yunnan provinces, and Chongqing municipality. The program is a priority government investment and is part of its economic stimulus package, announced in October 2008, in response to the impacts of the global financial crisis. By focusing on safety, energy efficiency, and environmental improvements, ADB will be able to deliver significant benefits to railway development for a far smaller cost than would be needed to fund tracks or other major infrastructure.

"The program will deliver broad benefits including reduced economic losses and lower energy bills for the government, reduced carbon emissions, safer trips for the public, faster more cost-effective freight services, new employment opportunities in underdeveloped areas, and increased integration of the southwest with its neighbors, including Viet Nam and the Greater Mekong Subregion," said Manmohan Parkash, Principal Transport Specialist in ADB East Asia Department.

Program funds will be used to purchase equipment to improve safety and energy efficiency, and to protect the environment, including a moving train fault detection system, and smart electronic devices that can help reduce power consumption and carbon emissions. Technical assistance will also be provided to review and overhaul existing arrangements for integrating energy efficiency and environmental considerations into railway management and operations, and to train staff in the use of new technologies and maintenance techniques.

The program continues ADB support to the government for safety and energy efficiency improvements in the railway sector where ADB works closely with development partners, including World Bank, Agence Française de Développement, and others. It is also expected to spur new opportunities for the private sector to get involved in developing new technologies for the railways industry, and to provide modern, energy-efficient equipment.

The multi-tranche facility will provide just over 30% of the full program investment cost of $3.24 billion, with the government contributing about $2.24 billion. ADB funds are in the form of loans from its ordinary capital resources, with the tenor and other terms to be decided under individual agreements, and interest rates set in accordance with ADB LIBOR-based lending facility.

In the first tranche, ADB will provide a $300 million loan with a term of 26 years, including a grace period of six years. A technical assistance grant of $600,000 from ADB concessional resources will be provided. The Ministry of Railways is the executing agency for the program, which will be implemented over seven years to 2016, with between three to six periodic requests to ADB for finance.

ADB

Cambodia Seeks to Expand Growth, Boost Rural Incomes in Tonle Sap Basin

Wednesday, 09 December 2009

MANILA, PHILIPPINES: Cambodia will target sweeping new measures to boost incomes and livelihood opportunities for thousands of poor households in the Tonle Sap Basin region, in a bid to broaden the country's economic base and address growing income disparities between urban and rural areas.

To aid the government's goal, the Asian Development Bank's (ADB) Board of Directors approved a loan and grant totaling $30.7 million for the *Tonle Sap Poverty Reduction and Small Holder Development Project.* Two of ADB development partners in Cambodia, the International Fund for Agricultural Development (IFAD), and the Government of Finland will also contribute a combined $19.1 million.

Cambodia's economy has grown between 6%-10% in recent years, driven by the construction, garment and tourism industries. However, growth in the agriculture sector, which provides livelihoods for up to 85% of the population, has been uneven because of weak infrastructure, low productivity, a lack of access to markets and poorly developed rural financial services. The result is persistently high levels of rural poverty and food insecurity, with almost a third of rural households lacking sufficient food during each year.

The project will spur agricultural productivity and increase incomes for up to 2.5 million people in 630,000 households in the poor Tonle Sap Basin provinces of Banteay Meanchey, Kampong Cham, Kampong Thom and Siem Reap. It will fund new or upgraded infrastructure, which is likely to include small-scale waterworks for irrigation and flood control systems, and improved farm-to-market roads. In addition the project will help to establish commune-based livelihood improvement groups that will provide revolving funds to members to buy agricultural supplies such as seeds and fertilizers. Support will be given to build up the capabilities of microfinance institutions and rural service agencies, to train farmers in modern agriculture technologies, and to boost access to information through internet centers or e-kiosks that can be utilized by commune members.

"The project will deliver a broad range of benefits including increased crop productivity and output, improved post-harvest management, market access and prices, greater access to rural financial services, and increased knowledge of agriculture technologies, all of which will help raise living standards, boost incomes, and provide livelihood opportunities for poor households," said Ian Makin, Senior Water Resources Management Specialist with ADB Southeast Asia Department.

It is also part of a broader ADB-led initiative to develop the Tonle Sap Basin, and complements the work of other development partners in the agriculture sector, including IFAD.

The project is strongly focused on providing grass roots support for individual communities, who will be fully involved in identifying priority investments that reflect their specific needs. It also includes a gender action plan to ensure women are able to participate fully and to benefit equitably from the project.

ADB funds from its concessional *Asian Development Fund* make up 55.5% of the total project cost of $55.3 million and include a loan equivalent to $3.4 million, and a grant of up to $27.3 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. IFAD loan and grant of up to $13.38 million, and Government of Finland's grant of $5.75 million equivalent will be administered by ADB, with the Government of Cambodia providing $5.47 million to make up the balance of the total.

The Ministry of Agriculture, Forestry and Fisheries is the executing agency for the project, which is due for completion around August 2017.

ADB

Indigenous Peoples in Asia Struggle to Preserve Communal Land Rights - A Study

Wednesday, 09 December 2009

MANILA, PHILIPPINES: Indigenous peoples' hold on communal lands and resources in Asia is under pressure, although national and international laws and safeguard policies provide a platform for them to claim their ancestral land rights, according to a new Asian Development Bank (ADB)-funded publication.

Land and Cultural Survival: the Communal Land Rights of Indigenous Peoples in Asia examines the development of international and national laws, safeguards policies, and other mechanisms designed to protect and promote the interests of indigenous communities. It then looks at how successfully they have been applied in different settings, using case studies of various communities in the region.

One third of the world's poor are indigenous peoples and more than half of them live in Asia. Access to ancestral land and other natural resources is crucial to their survival but that access has become precarious in the face of development pressures, driven by industries, such as mining, forestry and plantation agriculture.

The book traces the rising global awareness of the rights of indigenous peoples and the broad array of actions taken to support their claims to communal land and resources. It points out the key role played by non-government organizations in giving a voice to indigenous groups. It also notes the importance of safeguards policies, adopted by ADB and other multilateral agencies, to ensure the interests and rights of indigenous communities particularly when development interventions directly affect their cultural space, identity and livelihood.

"This book, which involves inputs from a wide variety of experts on indigenous issues, makes a valuable contribution to understanding the identity, vulnerabilities and opportunities of indigenous groups in the region, and sounds a warning about the threats posed to their identity and way of life," said Jayantha Perera, Principal Safeguards Specialist in ADB South Asia Department, and the editor of the book.

Despite many mechanisms available to uphold the rights of indigenous communities, the book notes that too often such rights are ignored when they clash with state interests and business plans. Globalization and a growing appetite for natural resources have seen communal land taken from indigenous communities often without their consent. Pressure from conservationists on the use of ancestral land has also caused conflict.

The book argues that national laws pertaining to indigenous peoples should be further strengthened in order to protect their rights, and policy makers will have to consider ways of reconciling development demands with livelihood needs of vulnerable indigenous communities.

ADB

ADB Provides $39.5M to Restore Maldives' Ailing Economy to Health

Wednesday, 09 December 2009

MANILA, PHILIPPINES: The Asian Development Bank (ADB) will support the Maldives government's plan to implement sweeping economic reforms to restore its ailing economy to sustainable growth.

ADB Board of Directors today approved a loan and technical assistance package totaling $39.5 million to support the *Economic Recovery Program*. The emergency program is designed to address the economy's longstanding structural problems that have weakened the country's macroeconomic fundamentals, and made it more vulnerable to external shocks.

The Maldives, a small island economy in the Indian Ocean, grew an average rate of 6.6% in the decade prior to 2004, largely driven by tourism, which accounts for 33% of GDP. However, since the 2004 tsunami, the country's economic performance has rapidly deteriorated as a result of a narrow economic base focused mainly on tourism, a rigid tax system, subsidized social services, and a rapidly growing civil service.

"The Maldives is a small, open economy and is therefore vulnerable to potential shocks, including changes in tourism flows, fluctuations in the prices of key commodities such as food and fuel, and capital inflows," said Abid Hussain, Principal Economist in ADB South Asia Department. "By supporting long-overdue structural reforms, the program will help the country move toward a more broad based and sustainable development."

Through the program, the government will diversify the tax base to boost revenue collection, better manage public spending by aligning it with available resources, privatize state-owned enterprises, strengthen internal audit, and improve debt management. Once the program is completed by the end of 2012, economic imbalances, including fiscal and current account deficits, will be reduced and macroeconomic management improved.

ADB loan, from its concessional *Asian Development Fund*, totals $35 million equivalent. The loan has a 24-year term, including a grace period of eight years; interest is charged at 1% per annum during the grace period and 1.5% per year for the rest of the term.

The technical assistance consists of a grant for $3 million, and a loan for $1.5 million equivalent, both from ADB Asian Development Fund, with a term of 32 years, including a grace period of eight years, and an annual interest charge of 1% during the grace period and 1.5% thereafter.

ADB

Poverty Reduction Key to Sustaining Economic Growth in Philippines: ADB

Thursday, 10 December 2009

MANILA, PHILIPPINES: A package of reforms, investments and long-term strategies must be instituted by the Government of the Philippines to free the country from persistent poverty, which is constraining its economic and social development, according to a new Asian Development Bank (ADB) study.

The Philippines' poverty reduction rate of 0.47% per year is slower than those of neighboring Cambodia, Indonesia, the Lao People's Democratic Republic, Thailand, and Viet Nam. Among Southeast Asian nations, only the Philippines has recorded an increase in the absolute number of poor people since 1990.

The ADB-published study, Poverty in the Philippines: Causes, Constraints, and Opportunities, released today, cites the lack of quality employment for many poor people, especially in the agriculture sector, as the main reason for the relatively slow decline in poverty rates. Other reasons include inequality across income brackets, high population growth, natural disasters, and long-standing conflicts in various regions.

A more coordinated response to poverty will help the Philippines attain higher levels of sustained growth and bolster the country's overall development.

"Poverty reduction will not only benefit the poor themselves but society as a whole. It is in everyone's interest to make poverty reduction a priority," said Camilla Holmemo, a Poverty Reduction Specialist in ADB Southeast Asia Department.

The government has shown commitment to poverty reduction through a number of projects and programs. However, the transition to a higher and sustained growth has been hampered by low domestic investments, weaknesses in institutions and social infrastructure, and a failure to generate quality jobs for the poor.

The result, according to the latest official available statistics, is an increase in poverty incidence from 30% in 2003 to 32.9% in 2006, with one in five households living in chronic poverty. It is estimated that poverty rates have increased even further in the wake of the global economic crisis, external price shocks, and natural disasters in 2008 and 2009.

While gains have been achieved in meeting several of the Millennium Development Goals, the Philippines is trailing targets on access to primary education, maternal mortality rates, and access to reproductive health care. "Chronic poverty jeopardizes the Philippines' chances of achieving high levels of economic growth needed to improve the wellbeing of all the country's people," said Ms. Holmemo. To improve the Philippines' campaign against poverty, there is a need to enhance current strategies and to involve a full range of partners for a collective and coordinated response.

The study shows that key priorities should include strengthened social protection, improved human development, more efficient population management, job creation, infrastructure investments, and continued economic reforms for sustained and inclusive growth, including fiscal reforms that can increase resources for social services, poverty reduction efforts, infrastructure, and agriculture reform.

ADB

ADB Guarantees $342 Million Commercial Loan for Viet Nam Power Sector Upgrade

Friday, 11 December 2009

MANILA, PHILIPPINES: The Asian Development Bank (ADB) Board of Directors today approved a proposal to extend a $325 million guarantee for a 13-year syndicated loan of $342 million to state-owned Viet Nam Electricity, which will be used to fund urgent transmission and distribution improvements needed to meet rising power demand. This is ADB third guarantee operation in Viet Nam. Viet Nam has made big strides in rolling out infrastructure to aid its economic expansion, but the electricity sector still suffers bottlenecks.

The loan will fund new transmission lines, and upgrade rural and urban power grids, helping to expand service coverage, reduce system losses, and address growing demand. Funding that extra capacity will require substantial levels of private investment, and while the government has had some success in attracting private investors, and forging public-private partnerships in the power sector, the process has been slow.

ADB guarantee gives Viet Nam Electricity the ability to access long-term commercial bank loans on competitive terms and should help spur more private investment in the sector. Given the global economic crisis, foreign commercial banks require additional credit enhancements similar to the type of guarantee that is being provided by ADB.

“This ADB guarantee enables Viet Nam Electricity to reduce its borrowing costs and to increase the tenor of the loan, while it also allows commercial banks to reengage in lending in Viet Nam’s infrastructure sector,” said Xavier Humbert, Senior Energy Specialist in ADB Southeast Asia Department. ADB will also provide technical assistance on a grant basis from its Technical Assistance Special Fund of $600,000 to ensure Viet Nam Electricity complies with procurement, and environmental and social safeguards, in carrying out infrastructure improvements.

ADB

4M People to Benefit from Improved Road Transport System in PRC Central Region

Friday, 11 December 2009

MANILA, PHILIPPINES: One of the People's Republic of China's (PRC) most densely populated and poorest provinces, Anhui, will receive a $200 million loan from the Asian Development Bank (ADB) to help finance an integrated road transport system that is expected to benefit as many as four million people. The ADB Board of Directors approved the loan for the *Anhui Integrated Transport Sector Improvement Project.* The $1.35 billion project includes building of a new 139 kilometer-long expressway in the province's neglected northern region, upgrading 452 kilometers of existing roads, improving village bus services, and strengthened capacity in the province's transport departments.

Anhui is a landlocked province in central PRC that lies across the basins of the Yangtze River and the Huaihe River. Despite its strategic central location, Anhui lags behind the rest of the country in economic development, with a GDP per capita around one third the level of the national average. There is great regional disparity as well, with most of the wealth concentrated in industrial cities close to the Yangtze River. Sixty one percent of the province's population of 66 million is classified as rural, with poverty incidence climbing to 10.5% in the countryside.

"An underdeveloped transport system is one of the major barriers to development and poverty reduction in Anhui, particularly in the rural areas," said Xiaohong Yang, Principal Transport Economist in ADB East Asia Department. "A well-developed transport network will help the central region capitalize on its strategic location and transform it into a major hub linking PRC East and West, North and South."

The proposed project is expected to benefit four million people in 14 counties, six of which are officially designated poverty counties. As a result of the improved transport corridor, two poor counties in the northeast of the province will gain direct access to markets and development opportunities in the more affluent neighbouring Jiangsu Province.

ADB loan, from its ordinary capital resources, covers almost 15% of the project cost of $1.35 billion. 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 remaining cost will be financed through the PRC Ministry for Transport ($119.1 million), Anhui Provincial People's Government ($116.2 million), Anhui Communications Investment Group Co. Ltd ($320.9 million), and co-financing loans through the Industrial and Commercial Bank of China and Bank of China ($598.8 million). The Anhui Provincial Department of Transport is the executing agency for the project, which is due for completion around the end of 2015.

ADB

The Islamic Development Bank Provides US$ 121 Million to participate in Financing of Two Development Projects in Mauritania

Tuesday, 08 December 2009

Nouakchott: A delegation from the Islamic Development Bank (IDB) headed by the IDB Vice-President Birama Sidibe visited the Islamic Republic of Mauritania on an official mission during the period 1-3 December 2009. An agreement was signed by the IDB Vice-President under which the IDB shall provide an amount of US$ 108 million to participate in the Modernization and Development Program for the Mauritanian Industrial and Mining Corporation (SNIM). The agreement was signed on behalf of the Mauritanian counterpart by H.E. Sidi Ould Tah, Minister of Economic Affairs and Development, H.E. Sidahmed Ould Rayess, the Governor of the Central Bank of Mauritania and Hon. Talib Ould Abdivall, the General Manager of SNIM.

The Total cost of this huge project is about US$ 1 billion. In addition to the IDB, a number of regional and international banks and financial institutions are to participate in financing the project, including the African Development Bank, the European Investment Bank, the French Development Agency and other financial institutions and commercial banks.

The Mauritanian government accords this project the highest priority as SNIM constitutes the backbone of the Mauritanian economy. After the implementation of the project, SNIM will be able to increase its production by 4 million tones of steel annually and create 1500 new job opportunities. Under the same project, a steel factory will be constructed, in addition to a new water distribution network.

The IDB Vice-President Birama Sidibe, and H.E Sidi Ould Tah, Minister of Economic Affairs and Development, signed another financing agreement on 2.12.2009 amounted to USD 12.92 Million in favor of R'KIZ Irrigation Development Project, within the framework of Jeddah Declaration to help member countries which have been mainly affected by the global food crisis.

H.E. the President of the Republic, Mohamed Ould Abdel Aziz, received a delegation of the financiers headed by the IDB Vice-President Birama Sidibe of the project at the Presidential Palace. The IDB delegation also met with a number of high Mauritanian government officials during the visit including the Prime Minister, H.E. Dr. Moulai Ould Mohamed Alaghzaf, where the two sides discussed the ways and means to further strengthen cooperation.

IsDB

Guyana and World Bank to Launch Dialogue on Agricultural Risk Management and Insurance Strategy
Monday, 07 December 2009

GEORGETOWN, Guyana**:** The Government of Guyana, supported by the World Bank and the Inter-American Institute for Cooperation on Agriculture (IICA), launched today the first Symposium on Agricultural Risk and Insurance which seeks to develop a national agricultural risk management strategy.

Over the course of three days, the event will gather about 70 participants from the policy, agriculture, risk management, and financial sectors to review the critical risk factors for agriculture in Guyana and share ideas on innovative policies and mechanisms that could serve as effective mitigation strategies.

Agriculture makes up around a third of Guyana's gross domestic product (GDP), provides approximately half of its foreign exchange earnings, and employs around one-third of the country's labour force. However, the agriculture sector is disproportionately vulnerable to external shocks resulting from increasingly volatile and extreme weather patterns, the removal of preferential access for EU markets and international commodity price fluctuations.

This intervention by the Government of Guyana is part of the action in the country to alleviate one of the nine key binding constraints, inadequate risk management, for agricultural development in CARICOM - the Jagdeo Initiative. IICA is one of the agencies mandated by the Agriculture ministers of the region to support the CARICOM Secretariat and the member states with the alleviation of this constraint.

WB

Mauritania Seeks Harmonious Development through an Improved Business Climate
Monday, 07 December 2009

NOUAKCHOTT: Despite its low ranking in World Bank "Doing Business" reports and numerous constraints identified in various studies, Mauritania has a wealth of attributes that should make it an attractive destination for foreign investors and help it generate sustained economic growth.

A team of private sector experts from the World Bank recently visited the country as part of a move to formally re-launch Bank operations after a twelve-month crisis-related suspension. One of its primary goals was to re-start a 2008 Business Environment and Enterprise Performance (BEEP) survey that was also interrupted when the last government was thrown out of office, plunging the country into a deep political crisis. The BEEP project has been re-launched and its future activities have been validated.

To better improve its performance and use its resources more judiciously, Mauritania received an envelope of US$5 million in 2008 as part of the BEEP agreement. The BEEP is expected to serve mainly as a catalyst by addressing bottlenecks pointed out in two earlier studies. The agreement provides for an additional allocation of US$5 million, and World Bank experts are working with local authorities to properly identify activities to be included in the envelope.

As was the case in many other African countries, the Mauritanian economy very quickly opened up to private investment in the early 1990s. Since that time, the World Bank has supported public authorities with their strategy to create a favorable business climate, in particular by providing technical assistance needed to implement institutional reforms.

Several studies have been conducted by World Bank teams to identify the factors that most restrict the emergence of a private sector as a source of sustainable growth. Mauritania's current Country Assistance Strategy (CAS), which was adopted in July 2007, emphasizes the critical role played by private investors as agents of development.

A joint World Bank/IMF Financial Sector Assessment Program (FSAP) conducted in 2006 identified key constraints hampering private sector growth and recommended reforms aimed at restoring access to internal and external private financing, a major obstacle in developing countries.

Another study was also conducted in 2006, aimed at allowing public officials and private investors to fine-tune their knowledge of the business environment so that they can best address its constraints. The main feature of this study, known as an Investment Climate Assessment (ICA), is a survey of local and international private operators in both the formal and informal sectors in Mauritania. More than 100 private operators and various government representatives attended its validation session in 2008 in Nouakchott. This validation process provided a forum for dialogue with a view to discussing such important topics as taxation, infrastructure, and governance.

More recently, World Bank reports on ease of doing business indicators have demonstrated that over a two-year span, Mauritania fell five places – from a ranking of 161 in 2008 to 166 in 2009 (out of 181 countries).

Permanent Reforms

Mauritania can take better advantage of private sector reforms by combining them with social policies aimed at protecting the most disadvantaged. While the factors curbing large-scale private investment still persist, improvements have been made, as can be attested by the establishment of two foreign banks, which ended an existing monopoly in the banking sector. This was a direct result of the 2006 joint World Bank/IMF FSAP mission. The main effect of this opening to foreign capital has been a reduction of almost eight percentage points in interest rates, to the great benefit of local enterprises.

Mention should also be made of the promising work recently done by the Central Bank of Mauritania, in particular the issuance of instructions to facilitate compliance with the new banking and microfinance laws.

The other effects of the World Bank's recommendations include:

- Improvement of the financial sector's institutional framework, with the opening of the market and the enactment of new laws, as well as greater prominence given to the key role played by the Central Bank.
- Validation by the stakeholders of the studies on the constraints that affect both investment and promotion of the national private sector. A number of weaknesses should, however, be noted. They include:
- A lack of clarity and precision by the State in identifying and establishing a private sector strategy or policy. Foreign investment rates in the country remain low relative to the region and available opportunities.
- The private sector promotion policy also lacks a long-term vision.

Other critical aspects for ensuring the sound integration of the private sector into Mauritania's development are the much-needed reform of the justice sector and the establishment of a strategy to combat corruption, which remains fairly widespread in business circles. The eagerly awaited business and procurement codes should certainly contribute to further improvement of the business environment in Mauritania.

WB

World Bank: 10 Years of Carbon Finance Experience, Insights and Lessons Learned

Tuesday, 08 December 2009

Copenhagen: Carbon finance is an important revenue stream for greenhouse gas mitigation projects. It has so far played a catalytic role in leveraging other sources of finance in support of low carbon investments. However, there is still room for improvement, according to an initial assessment released today by The World Bank.

The publication, *10 Years of Experience in Carbon Finance – Insights from working with carbon markets for development & global greenhouse gas mitigation,* looks at the World Bank's experience of working with the Kyoto Protocol's flexibility mechanisms (Clean Development Mechanism and Joint Implementation).

According to the assessment, the experience of carbon finance has - and continues to be - one of rich learning. It says significant capacity-building has occurred and must be sustained. Over the last decade, the assessment highlights the most important lessons learned by the World Bank as:

- The CDM and JI market mechanisms are an important tool for private sector action on climate mitigation, which should be further encouraged.
- There are significant developmental and social co-benefits associated with market mechanisms and these need to be valued.
- Insufficient predictability in the CDM is an obstacle to maximizing the leverage potential of carbon finance for low carbon investments.

- A supportive enabling environment and overall investment climate are keys to attracting CDM investments.
- Some CDM decisions have had a disproportionate negative impact on Least Developed Countries.
- Environmental integrity is essential for both the overall climate regime and the carbon market. However, additionality remains a challenge due to its inherent subjective nature.
- Improvements to the CDM are needed to scale-up emission reductions. Measures are already being taken and must be sustained and stepped-up.

The World Bank's carbon finance operations expanded from the pioneering Prototype Carbon Fund, which helped catalyze a nascent carbon market in 2000, to ten funds and facilities with a current capitalization of more than US $ 2.5 billion. The funds and facilities are financed by public and private entities from industrialized countries to support CDM and JI projects and purchase ensuing emission reductions. The experience and initial insights gained from this work are being presented at the UN climate change meetings in Copenhagen, to serve as a springboard for discussions and further analysis.

The World Bank supports greenhouse gas (GHG) emission reductions through ten funds and facilities, which focus on a number of different sectors and countries. These include, for example, the Bio-Carbon Fund which focuses on forestry and land-use projects, and the Community Development Carbon Fund, which focuses on projects in least developed countries that have strong social co-benefits in addition to reducing GHG emissions.

WB

World Bank Group Vice-President Financial and Private Sector Development ends visit to Rwanda

Tuesday, 08 December 2009

Kigali, Rwanda: Mr. Janamitra Devan, the new Vice President of Financial and Private Sector Development of the World Bank and IFC, has just completed a two-day visit to Rwanda. The objective of his visit was to further strengthen the good relationship between Rwanda and the World Bank Group and to confirm support to the country's reform efforts in the financial and private sectors.

Mr. Devan met with his Excellency the President of the Republic of Rwanda, Paul Kagame; the newly appointed Ministers of Finance and Economic Planning, Mr. John Rwangombwa; of Trade and Industry, Mrs. Monique Nsanzabaganwa; and Mr. Vincent Karega; Minister of Infrastructure. Mr. Devan met also with the Governor of the National Bank of Rwanda, Francois Kanimba; key private sector representatives and development partners, and visited private sector initiatives supported by the World Bank Group.

The Vice President commended Rwanda's leadership and commitment to creating a favorable investment climate, which resulted in Rwanda's top reformer ranking in the WBG Doing Business 2010. He stressed the need to continue systematically with the reforms and strengthen the public private dialogue at all levels going forward. He noted Government's strategy to develop key economic clusters and confirmed the WBG's commitment to support the development and implementation of the strategy.

During his visit, Mr. Devan signed an agreement with Rwanda's Central Bank to provide local currency loans to support growth of the country's emerging private sector. "Through this initiative, the National Bank of Rwanda and IFC will work together to further develop Rwanda's financial markets to support private sector growth and promote sustainable economic growth" said Francois Kanimba, Governor. IFC is the Private Sector Lending arm of the World Bank Group.

The WBG is providing support to Rwanda's financial and private sector development program through various projects and technical assistance including the Competitiveness & Enterprise Development Project (CEDP), Entrepreneurship Development Program, Rwanda Investment Climate Reform Project (RICRP) and the Rwanda Leasing Development Program (RLDP).

WB

Thoughts on the Outlook for Foreign Direct Investment and Political Risk
MIGA/Financial Times Global Political Risk Summit London, UK

December 3, 2009

Keynote Address by Graeme Wheeler, Managing Director, The World Bank

In Les Miserables, Victor Hugo describes the actions of a little black cat, "We all know the habits of cats of hesitating in an open doorway – hovering uncertainly at the risk of being crushed by the closing of the door."

Today, most investors are equally hesitant.

International capital flows increasingly dominate our cycles of industrial production, and we have seen how these can create global instability and cause the Basel 2 pillars to fail in a G7 economy.

Every asset across the globe has been revalued and large portfolio adjustments are taking place in household, corporate, and government balance sheets. Governments have become guarantors and investors of last resort, and acquired ownership interests outside their traditional investor habitat and risk tolerance. Fiscal, monetary, financial and debt management policies have become blurred, further exchange rate adjustment is needed to help correct global payment imbalances, public sector debt is on an explosive path in many countries, and governments worry about when to return to more orthodox policy settings.

We have seen several asset bubbles since the Asia crisis – in high tech, public and private equity, real estate, structured financial products, commodities and emerging market fixed income. Risk capital moves rapidly from one asset class to another as each cycle plays out. Currently, another bubble may be forming – this time in emerging market fixed income and equities – funded in part through highly leveraged carry trades out of dollars. In parts of East Asia, property prices are rising rapidly.

Outlook for foreign direct investment in developing countries

Over the past decade, 30% of global FDI went to the developing world. Annual net FDI inflows to developing countries peaked at $580 billion in 2008, and have been more resilient than other private capital inflows during the crisis. About half of the inflows went to the BRICs – 2/3rds of it in the services sector and mainly in financial services. Flows to low income countries tend to be commodity based.

Developing countries, in turn, are increasingly becoming a source of FDI flows. In 2008, they accounted for 13% of global FDI outflows. BRICs originated 70% of these - mainly through investments in their region.

MIGA's survey indicates that FDI flows are expected to increase over the next three years with many investors – particularly those from the U.S. and U.K. – redirecting investment to developing countries. This is likely to be a long term trend.

World Bank projections suggest that in two decades time, the G7 share of global GDP will decline from around 60% currently to a little over 40% by 2030. In three decades time, China and India could be the largest and third largest economies respectively – although the latter will depend upon India's success in transferring the dynamism of its services sector to manufacturing.

The opportunities and demand for FDI are enormous. Climate change is the defining issue of our time and offers huge scope for FDI. Developing countries are expecting large financial transfers since the concentration of greenhouse gases largely originated in the developed world, and developing countries are likely to experience 80% of the costs of the damage from climate change. By 2030, annual mitigation costs in developing countries could be $140 billion - $175 billion; annual adaptation costs an additional $10 billion - $90 billion. These investments are so large that they can only be mobilized through innovative approaches to public-private partnerships.

Substantial FDI will also be needed to enhance food security and water resource management. Staple food production needs to increase by 50% over the next 40 years. To put this challenge into perspective, the average yield increase in Africa in the past 45 years was under 30% and population more than trebled over the same period.

Currently, 2 ½ billion people live without access to sanitation - one billion people lack access to safe water. Annual global investment in water management is currently around $75 billion – the annual investment needed is 2 ½ times this.

Some researchers suggest that the world's middle income population could swell by up to 2 billion by 2030. This massive market growth will provide opportunities for partnering with frontier firms in developed countries to leap-frog on new biotech, wireless, mobile, and digital technologies.

Realizing these opportunities will require ongoing reform and careful risk management. The scale of FDI flows will depend on the progress made in delivering sound economic policies, good governance, social stability, and adequate infrastructure. The rule of law, enforceable property rights and measures to fight corruption and illicit payments will also be important. Some researchers estimate that annual illicit flows from developing countries are in the range of $800 billion to $1 trillion.

Regulatory frameworks also matter. Although the private sector creates around 90% of new jobs, in many developing countries there is so much regulation that many jobs occur in the informal sector where workers have little protection. In India, for example, the 30 million working in the formal sector, comprise less than 10% of total employment.

Fortunately, there has been good progress on the reform agenda. Macro policy settings improved following the contagion created by the Asian financial crisis in the late 90s, and over the past 6 years, 80% of the Doing Business reforms monitored by the World Bank focused on easing business start-up and transacting.

Regional economic integration will also be an important determinant of FDI flows. We saw this in Turkey. The opening of EU accession negotiations in 2005 led annual FDI flows to surge from $3 billion in 2004 to $22 billion three years later. Considerable opportunities for economic integration exist elsewhere. South Asia is the least integrated region in the world - countries that have opened up trade with the rest of the world remain closed to each other. In Latin America, the proposal almost two decades ago to join 34 countries into a free trade zone proved to be a step too far, but should remain a longer term objective.

Demographics will also affect the climate for FDI. By 2030, Western Europe's and Japan's working age population will be declining. In Japan, Italy, and Spain, more people will be in their 70s than in their 20s, and Russia and Eastern Europe's population is projected to decline rapidly. On the other hand, India's median age is currently 25 years; in China it is 35. Firms will need to access labor from labor surplus countries and shift their production capacity to those developing countries where labor is more plentiful and markets are expanding.

This suggests that the rising level and proportion of FDI to developing countries is likely to continue over the next two decades. But this judgment is predicated on no major global discontinuities or shocks. Several global shocks have occurred over the past two decades – the collapse of the Soviet Union in the late 1980s, the Asian Crisis of 1998, and the food, fuel, and financial crises of the past 2 years. None, however, have permanently reversed the transfer of skill enhancing technologies or the catalysts of trade, investment and capital flows that underpin the globalization process. What is the outlook for the future?

This takes us into the area of political risk

Projections about political risk are inherently difficult. They are usually stylized, based on recent trends, and assume that current global power relationships continue. For example, the world would be very different if the Soviet Union had not collapsed, or if post-crisis fiscal and unemployment challenges in the developed economies prove more deep-rooted than expected.

Looking ahead, the biggest challenges are likely to come from issues around nuclear proliferation, terrorism, and political tensions associated with climate change, food security, water management, demographic aging, the degree of poverty alleviation, and the distribution of income.

FDI is driven by the catalysts that support globalization. But, globalization will only be sustainable if its benefits are widely shared. There are troubling signs on this front. The number of people living in extreme poverty – already more than twice the population of Europe – is increasing. At the global level, none of the 7 millennium development goals are expected to be fully met, and the 1.4 billion extreme poor are increasingly politically, economically, and socially disconnected from global society.

Fragile states face the starkest situation. Poverty rates in the 37 fragile states average 54% compared to 22% in other low income countries. 22 of these fragile states are in Sub-Saharan Africa.

Demographics will dramatically increase the challenge. Almost all of the 3 billion increase in global population projected by 2050 will occur in developing countries – two thirds of it in regions currently experiencing low economic growth. Hardest hit will be Sub-Saharan Africa. 54% of its population is aged under 20 (compared to 24% in OECD countries), and this region is likely to have tens of millions of youth unemployed for decades to come.

Globalization that is sustainable will require all countries to share in its benefits, and a fair and equitable resolution to global collective challenges such as climate change and the management of the international trading system. If this cannot be achieved, we are likely to see an unraveling of global integration.

For the foreseeable future, the outlook for political risk insurance looks promising. Although over the past decade, only about 10% of FDI flows to emerging markets have carried political insurance, this is likely to change as emerging market countries expand their share of FDI outflows, and as investment in primary production shifts to more risky destinations.

How do the Multilateral Development Banks (MDBs) support FDI?

The MDBs promote sustainable development in developing countries by providing financial resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors.

In the last financial year, the World Bank Group provided $60 billion of grants, loans, and investments to low and middle income countries. Since its inception, the IFC, the Group's private sector arm, has invested in over 500 companies with foreign investors. The Bank provides data on FDI flows (including source and destination) to developing countries and analyzes the links between FDI and domestic investment and growth. Its Doing Business Report monitors investment climate reforms in over 180 countries. The Foreign Investment Advisory Service (FIAS), a joint effort of the IFC, MIGA, and the World Bank, has undertaken investment climate surveys in over 100 countries.

MIGA provides valuable political risk insurance to investors and lenders, and has written over $20 billion in guarantees for 600 projects in 100 developing countries. Outstanding guarantees currently exceed $7 billion.

MIGA also provides important knowledge services and technical assistance to governments wishing to promote FDI. One such example is its excellent report on World Investment and Political Risk, and today's global political risk summit in partnership with the Financial Times.

WB

Peru/WB: US$50 Million to Support Sustainable Environmental Management Policies
Tuesday, 08 December 2009

WASHINGTON: The World Bank's Board of Directors approved on Tuesday a new US$50 million loan destined to support environmentally sustainable growth and strengthen the Peruvian government's institutional capacity in key sectors such as mining, fishing and urban transportation. This is the second loan in a series of three operations aimed at supporting the government's constant efforts to improve the efficiency and effectiveness of environmental management in Peru.

The most relevant activities associated to this loan – resulting from the WB's process of analysis, consultations with diverse entities and the active participation of various government bodies – are the following:

- Approval of a Master Plan and Financial Plan for the National System of Protected Natural Areas (SINANPE, in Spanish).
- Approval of a guide for the formation of board of trustees in protected natural areas, and guidelines regulating tourist activities in protected natural areas.
- Implementation of a quota system for anchovy catches.
- Support for a technical debate between parties on strategic options to reduce sulfur content in Diesel 2 and the guideline establishing that after January 1st, 2010, Lima and Callao will only be able to sell Diesel 2 with a sulfur content of less than 50 ppm.
- Approval by the Ministry of Energy and Mines of a three-year work program to identify, prioritize and remedy environmental liabilities derived from mining.

The project reflects the World Bank's alignment with the Millennium Development Goals, and contributes to objective number seven, attainting environmental sustainability, and number nine, promoting the principles of sustainable development in policies and programs.

Conditions for the loan include a Libor + fixed margin rate, with a maturity of 20 years, and a 17-year grace period.

WB

Pacific Islands: Building financial literacy in the New Year
Wednesday, 09 December 2009

The Christmas holiday period is typically a time for Pacific Islanders living in Australia and New Zealand to send money back home to their families. Earlier this year, the Australian and New Zealand governments, supported by the World Bank, set up the sendmoneypacific.org website to assist Pacific communities avoid expensive fees by finding the cheapest way of transferring their money. This month, following ongoing regional efforts to lower the cost of remittances, the World Bank, in partnership with the New Zealand government, has released a MoneyPACIFIC 2010 calendar aimed at helping Pacific households better handle their budgets and provide information on the various financial services available to them.

A series of community focus groups found very low levels of financial literacy in New Zealand's and Australia's Pacific diaspora as well as back in the Islands. Tailored to the Pacific context, the calendars were developed to address the issue at a household level by offering monthly financial tips on remittances, loans and savings. More importantly, they are also interactive – incorporated into each calendar is a detachable sheet of stickers to be used as a reminder on days where household bills are due.

The calendars are expected to reach a massive proportion of the Tongan and Samoan populations both in New Zealand and in the Pacific, with 35,000 to be distributed in total. In Tonga alone, distribution is anticipated to cover up to 57 percent of households. The calendars have been provided free of charge to countless schools and churches across the three countries for circulation, and are being sold to individuals and families for $1 each to assist with local fundraising efforts.

The G20 and regional Finance Ministers have underscored the importance of building financial capability, especially during these challenging economic times. The 2009 Forum Economic Ministers Meeting (FEMM) action plan fully endorsed the MoneyPACIFIC concept - which among other goals, aims to halve the number of Pacific Island households without access to financial services by 2020.

WB

Haiti: WB Approves US$24.5 Million in Grants for Economic Governance, Road Rehabilitation

Tuesday, 08 December 2009

WASHINGTON: The World Bank Board of Directors today approved two grants for a total of US$24.5 million to support Haiti's economic governance reform agenda and rehabilitation of key roads and bridges.

The first US$12.5 million grant approved today, for the *Third Economic Governance Reform Operation (EGRO III)*, seeks to improve the effectiveness, transparency and accountability of public sector institutions by consolidating economic governance reforms and strengthening core institutions.

In particular, the operation aims to contribute to:

- Reducing inefficiencies in the electricity sector through improvements in the management of *Electricité d'Haïti* (EDH), the public electricity utility.
- Improving public financial management, to raise and use public resources in a more efficient and transparent way, prioritizing actions related to poverty reduction and growth.
- Strengthening the legal framework for public procurement, to contribute to more transparent and cost-effective public expenditure.

The grant will provide further support to Government reforms initiated under two previous operations, EGRO I (June 2006) and EGRO II (May 2008), as well as through the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative (completion point - June 2009). These supported reforms in governance, the civil service, public finance management, and public procurement.

The second grant approved today provides US$12 million of additional financing for the *Transport and Territorial Development Project.* This will replenish the project for road and bridge reconstruction undertaken following the hurricanes and tropical storms that struck Haiti in 2007 (Noel) and 2008 (Fay, Gustav, Hanna, Ike), as well as cover additional costs related to the road rehabilitation works included in the original project approved by the Board in April 2006.

Among the post-storm reconstruction works financed by the project are a number of spot interventions, road repairs and road protection against erosion on the Departmental Road No. 41 (RD41) between the towns of Jacmel and Marigot, as well as on the National Road No. 7 (RN7) near the city of Les Cayes and on the National Road No. 2 (RN2) between Saint-Louis du Sud and Aquin. Road maintenance and protection works have proved to significantly increase the resilience of road and bridge infrastructure to natural disasters such as the ones that struck Haiti in 2007 and 2008.

Another important project objective is to rehabilitate the National Road No. 3 (RN3) between Carrefour Barrière Battant and Carrefour la Mort (8.5 km). The other sections of RN3 (Barrière Battant – Saint Raphael – Hinche) will be rehabilitated with financing from the European Union and the French development agency (*Agence Française de Développement***,** *AFD*)**.** This will convert RN3 into a major transport corridor, an alternative to the country's main highway, RN1, which links Haiti's two largest cities, Port-au-Prince and Cap Haitian. The expected increase in traffic justifies an upgrade of standards, and subsequently more costly rehabilitation works than originally planned. Close coordination between the Haitian Government and the three donors will help ensure that these major road improvement works on RN3 bring the most benefits to the Haitian population.

The two grants approved today come from the International Development Association (IDA), the part of the World Bank that helps the world's poorest countries by providing interest-free credits and grants for programs that boost economic growth, reduce inequalities and improve people's living conditions. Since January 2005, IDA has provided a total of US$308 million in assistance for Haiti. In addition, trust funds administered by the World Bank have given more than US$55 million since 2003.

WB

Financial Crisis Hits Pension Systems in Europe and Central Asia

World Bank cautions countries against addressing short-run fiscal constraints with long-term policy changes

Tuesday, 08 December 2009

WASHINGTON: The financial crisis has significantly impacted pension systems in the countries of Europe and Central Asia (ECA)* and many of the governments have been tempted to make policy changes in response to the increased pension deficits, says *'Pensions in Crisis,'* a World Bank Regional report released today. But despite the severity of the crisis, it pales in comparison to the demographic crisis which the region will face, and World Bank experts urge countries in the region not to make any policy changes focused on addressing short-term fiscal concerns that make the long-term even worse.

The new report analyzes the impact of the financial crisis on pension systems of ECA countries, reviews the initial policy responses by individual governments, and provides recommendations on how to strengthen pension systems in the region both in the short- and long-term. World Bank experts concluded that though pension systems in ECA come in all shapes and sizes, no pension system, however well structured, proved immune to the crisis.

"The financial crisis affects each component of a pension system differently, and while magnitude and timing may be different, each component is adversely affected," said Anita Schwarz, main author of the Report and the World Bank Lead Economist in the Europe and Central Asia Region. "Sharp falls in output and reduction of the overall tax base reduced public funds available for pension systems, while at the same time growing unemployment, drops in wages, and depreciation of financial assets negatively affected systems financed by worker and employer contributions."

The new study finds that ECA countries, once hit with a sudden shock to the fiscal balances of their pension systems, started considering and implementing policy changes that increased resources and cut expenditures. The report warns policymakers that actions which generate short-term benefits may involve additional costs in the future. According to one simulation, even the most severe scenario of the financial crisis pales in comparison with the effects of the demographic crisis that is looming in the region.

"It is alarming to look at what the Europe and Central Asian countries are soon to face as the region continues to age," said Schwarz. "Future pension system deficits can be threefold than what is currently expected, and are expected to remain at that level for more than 20 years before slightly improving. Policymakers need to use the opportunity of the current crisis to address long-term issues, which could bankrupt pension systems precisely when the numbers of people who need them are growing."

Given the diversity of ECA countries, there is no one blueprint for reforms. Broadly, the report recommends – depending on the country – a combination of measures, including moving to inflation indexation of pensions after retirement, increasing the retirement age and equalizing the retirement age of men and women, and reducing early retirement. In addition, it suggests provision of better insurance against the volatility of financial markets, and calls for the acceleration of regulatory and supervisory reforms that will allow pension funds to earn better rates of return along with further development of capital markets. Finally, it urges governments to promote awareness among their citizens that public pensions will need to be less generous than in the past if they are to be sustainable.

- *The ECA countries include Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, FYR Macedonia, Georgia, Hungary, Kazakhstan, Kosovo, the Kyrgyz Republic, Latvia, Lithuania, Moldova, Montenegro, Poland, Romania, the Russian Federation, Serbia, the Slovak Republic, Slovenia, Tajikistan, Turkey, Turkmenistan, Ukraine, and Uzbekistan.*

WB

Improving Governance and Fighting Corruption for Development Effectiveness
Wednesday, 09 December 2009

- International Anticorruption Day—December 9—underscores the importance of fighting fraud and corruption in development programs worldwide, as a key to development effectiveness.
- The World Bank addresses corruption through prevention, detection and sanctions in its own projects, and through helping countries strengthen their institutions of governance.
- The Bank's anti-corruption efforts helped decrease costs on infrastructure projects in Indonesia; reduce teacher absenteeism in Brazil; and increase civil service recruitment in Macedonia.

December 9 marks Annual International Anticorruption Day, a day of particular significance for the World Bank Group as it seeks to enhance the effectiveness of its development work.

The Bank is enhancing its focus on strengthening anti-corruption efforts in Bank-supported projects, building capacity among partner countries, and protecting and enhancing the integrity of the Bank's own operations, World Bank President Robert B. Zoellick said last month at the Bank's second annual "Integrity Day."

"We can't just wait for corruption to happen. We need to take preventive measures, to stop fraud and corruption wherever possible, before it happens – or at least make it harder, or less likely," Zoellick said.

Poor Governance Jeopardizes Development

Development goals can be seriously jeopardized when countries are poorly governed, and especially, when they face corruption, fraud and mismanagement. "Our work begins and ends with the poor in mind," said World Bank Managing Director Juan Jose Daboub. "Creating opportunities for people to take destiny into their own hands requires obstacles to be removed. One such obstacle is corruption."

The Bank's *governance and anticorruption strategy* is helping countries improve their governance systems, including by checking corruption. It is an essential plank in the Bank's efforts to fight poverty and accelerate development. It is also a key way to ensure that the Bank's development funds are channeled for their intended purpose – such as improving services to the poorest and fighting poverty – rather than siphoned off through fraud and corruption. To that end, the Bank's strategy supports transparency, accountability, and participation across the Bank's portfolio in various sectors, including energy, water, transport, health, education, and natural resource management, according to the strategy's second year progress report. In addition, the Bank provides assistance for improving the countries' own systems in such areas as public financial management, civil service administration, and local governance.

Bank Forms Global Initiatives and Partnerships

The Bank has also formed global partnerships – with civil society and donor partners – to make a concerted impact on governance. Bilateral partners, including the UK's Department for International Development (DFID), Norway, and the Netherlands, have provided critical resources through the *Governance Partnership Facility* to move this work forward.

Other global partnerships, such as the *Extractive Industries Transparency Initiative* (EITI), are helping to create global coalitions to stem corruption in important areas such as the management of natural resource revenues.

Additionally, the *Stolen Assets Recovery Initiative* (StAR), a Bank partnership with the United Nations Office of Drugs and Crime, works with policymakers, regulators and law enforcement to facilitate and promote the recovery assets stolen through acts of corruption.

Evidence: Reform Brings Results

The impact of intensified support to good governance and anticorruption efforts is evident in many of the Bank's operations, for example:

- In Indonesia**,** when procurement for a project in Bali was made more transparent and competitive, infrastructure prices decreased by almost one-third.
- In Brazil**,** when Sao Paulo implemented reforms to increase accountability for improving student learning, teacher absenteeism dropped by almost 50 % in just one year.
- In Macedonia**,** when administrative reforms were introduced in civil service recruitment, merit-based appointments increased by more than two-thirds.

Strategy Fosters Transparency, Oversight, and Participation

The Bank's anti-corruption strategy has enabled it to incorporate new and innovative approaches in operations funded through the International Development Association (IDA), the Bank Group's fund for the poorest countries.

It has enhanced mechanisms for disclosure and transparency, monitoring of project activities by third parties, civil society oversight over project expenditures, and mechanisms for sanctions and complaints handling. Examples include:

- Kenya *Total War on AIDS Project* responded to fraud and corruption detected in projects by putting in place robust criteria for providing grants to civil society organizations, and increased external oversight and verification, building a more robust platform for sustained implementation to deal with the country's potentially devastating AIDS crisis.
- In Nepal, a Governance and Accountability Action Plan, emphasizing strong monitoring and evaluation efforts in the *Second Higher Education Project*, is addressing high governance risks – especially in procurement and financial management – to ensure that the project achieves its objectives of improving higher education and access by under-privileged groups in Nepal through reform grants and student financial assistance.

Data: Actionable Governance Indicators Help Design Reforms

One key piece of the Bank's strategy involves making greater use of *Actionable Governance Indicators* (AGIs) related to political accountability, checks and balances, public sector management, civil society and media, the private sector, and decentralization and local participation. Indicators help to design specific reforms and monitor their impacts, as well as foster greater learning from governance reform support programs. The Bank's AGI initiative also aims to develop new tools to cover gaps in priority areas such as human resource management/public sector management, sub-national governance and governance of service delivery in sectors.

Strengthening Integrity inside the Bank

Following former U.S. Federal Reserve Chairman Paul Volcker's 2007 review of the World Bank's Integrity Vice-Presidency, which is responsible for investigating allegations of corruption in Bank-financed projects, the Bank reorganized staff and now has investigative teams in every region directed at rooting out fraud and corruption.

The Integrity Vice-Presidency now has a unit devoted solely to preventing fraud and corruption in the Bank's operations and is training project staff in how to detect "red flag" indicators of wrongdoing. In addition, the number of Vice Presidency staff grew by 44% from fiscal year 2008 to fiscal year 2009, and its budget increased over the same period by more than $4 million.

"Identifying corruption risks in Bank-financed operations should not be left to coincidence. If carried out thoroughly and early enough, the integrity due diligence process will provide red flag warnings," said Leonard McCarthy, Vice President of the World Bank's Integrity Vice-Presidency.

Bank President Zoellick said the Bank's response on the issue will become increasingly important as the Bank Group tackles the challenges of globalization, whether through development, health or climate change initiatives.

"We're breaking new ground on some of these issues," he said. "We're setting an example with our catalytic and convening power. So we must maintain the highest standards of ethical behavior. The stakes of failure on that front are far too high."

WB

Siemens launches US$100-million initiative for anti-corruption
Non-profit organizations can immediately apply to Siemens for funding
Wednesday, 09 December 2009

MUNICH: Siemens AG will distribute funds totaling US$100 million, over 15 years, to nonprofit organizations worldwide that promote business integrity and fight corruption. Applications for support from the Siemens Integrity Initiative can be submitted as of today. "Siemens stands for clean and sustainable business," said Peter Y. Solmssen, Member of the Managing Board and General Counsel of Siemens AG. "This initiative will boost our efforts for more business integrity and fair market conditions globally. We are looking forward to making this a joint success with the World Bank and other partners."

The Siemens Integrity Initiative supports projects that prevent and fight fraud and corruption. These include training and education projects as well as collective action, in which companies and institutions build alliances to achieve clean markets and fair competition. The selection process will favor projects having a direct impact on the private sector and that aim, among others, to strengthen compliance standards and legal systems.

Those eligible for funds include non-government organizations (NGOs), international organizations, associations and universities. Applications for funding must be submitted to Siemens at latest by January 31, 2010. The World Bank Group will have audit rights over the use of these funds and veto rights over the selection by Siemens of anti-corruption groups or programs receiving funds.

Background

The comprehensive settlement with Siemens arose out of a World Bank investigation and the company's acknowledgment of past misconduct in its global business. As part of the settlement, Limited Liability Company Siemens (OOO Siemens), a Russian subsidiary of Siemens AG, has been debarred for four 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".

Siemens AG (Berlin and Munich) is a global powerhouse in electronics and electrical engineering, operating in the industry, energy and healthcare sectors. For over 160 years, Siemens has stood for technological excellence, innovation, quality, reliability and internationality. The company is the world's largest provider of environmental technologies, generating €23 billion – nearly one-third of its total revenue – from green products and solutions. In fiscal 2009, which ended on September 30, 2009, revenue totaled €76.7 billion and net income €2.5 billion. At the end of September 2009, Siemens had around 405,000 employees worldwide.

The World Bank Group is one of the world's largest sources of funding and knowledge for developing countries. It comprises five closely associated institutions: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), which together form the World Bank; the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the International Centre for Settlement of Investment Disputes (ICSID). Each institution plays a distinct role in the mission to fight poverty and improve living standards for people in the developing world.

WB

Over $5.5 billion in New Investment for Clean Energy Technology in the Middle East and North Africa Region

Wednesday, 09 December 2009

Washington, DC: The Clean Technology Fund (CTF) approved financing of $750 million on December 2, 2009, which will mobilize an additional $4.85 billion from other sources, to accelerate global deployment of Concentrated Solar Power (CSP). It will do so by investing in the CSP programs of five countries in the Middle East and North Africa: Algeria, Egypt, Jordan, Morocco, and Tunisia. The CTF is a multi-donor trust fund to facilitate deployment of low-carbon technologies at scale. Specifically, the CTF approved an investment plan which will:

- Enable MENA to contribute the benefit of its unique geography to global climate change mitigation - no other region has such a favorable combination of physical and market advantages for CSP;

- Support the deployment of about 1 Giga watt of CSP generation capacity, amounting to a tripling of worldwide CSP capacity;

- Support associated transmission infrastructure in the Maghreb and Mashreq for domestic supply and exports, as part of Mediterranean grid enhancement. This will enable the scale up of CSP through market integration in the region;

- Leverage public and private investments for CSP power plants, thereby almost tripling current global investments in CSP; and

- Support MENA countries to achieve their development goals of energy security, industrial growth and diversification, and regional integration

The proposed Giga watt-scale deployment through 11 commercial-scale power plants over a 3-5 year time-frame would provide the critical mass of investments necessary to attract significant private sector interest, benefit from economies of scale to reduce cost, result in learning in diverse operating conditions, and manage risk.

Potential for Green House Gas (GHG) reduction: The proposed projects will avoid about 1.7 million tons of carbon dioxide per year from the energy sectors of the countries. If the program is successful and replicated, the global benefits will be far larger. The transformational objective of this investment plan is served by accelerating cost reduction for a technology that could become least-cost globally, and then be replicated in other countries with high GHG emissions.

Expected Results from the Investment plan: The results indicators for the investment plan are:

- GHG reductions of at least 1.7 million tons of CO2-equivalent per year.
- Approximately 900 MW of installed CSP capacity by 2020.
- $4.85 billion of co-financing mobilized, including sufficient concessional financing to ensure viability of CSP plants.
- Cost of typical solar field in US$ per m2 is expected to decline over the life of the program.

The Climate Investment Funds (CIF), implemented jointly by the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, International Finance Corporation, and World Bank, is comprised of the CTF to provide scaled up financing for the demonstration, deployment and transfer of low carbon technologies that have a significant potential for long-term greenhouse gas emissions savings; and the SCF, a suite of three targeted programs to pilot new approaches to climate action, each with potential for scaled up, transformational action: the Pilot Program for Climate Resilience (PPCR), the Forest Investment Program (FIP) and the Program for Scaling Up Renewable Energy in Low Income Countries (SREP).

WB

Improving Indonesia's Basic Education Governance
Basic Education Capacity - Trust Fund (2007 - 2012)

Wednesday, 09 December 2009

Background
The Basic Education Capacity Trust Fund (BEC-TF) aims to help the Government of Indonesia (GOI) to achieve the Millennium Development and Education for All Goals by supporting good governance in education. BEC-TF assists local government partners to increase their skills in using information in the planning, management, and monitoring of educational governance and service delivery. It does this by working with national and local governments to improve the way finances and information are managed, so that both funds and information flow through the system more efficiently and allow better decisions to be made at all levels in this decentralized system, in line with national plans and policies. The BEC-TF also supports national level dialog on education policy and conducts analytical work to support it.

Challenge

Local government expenditures have doubled over the past five years and today the education sector represents almost one-third of Indonesia’s local government spending (in 2001: IDR 26 trillion and in 2006: IDR 52 trillion).

Under decentralization, local governments have new responsibilities for achieving national education goals. Additional funds and authority come with these responsibilities, and in order to make sure that the education sector is well governed and can achieve its goals, local government education officers, parliament members, education board members, representatives of school committees, and head teachers all need to acquire new skills.

Approach

The BEC-TF uses a combination of tools and approaches, such as Local Government Capacity Assessments (LGCA), Capacity Development Plans (CDPs), Local Basic Education (L-BEC) Grants, Education Public Expenditure Analysis (EPEA) to:

- identify, prioritize, and make local budget, physical, and personnel allocation decisions;
- improve local governance and efficient resource use through increased transparency, accountability, improved budget processes and performance-based financing, improved financial management and accounting; and
- strengthen capacity of existing information and performance assessment systems to improve stakeholders’ access to accurate and timely information.

Fifty local government partners will each receive a Local Basic Education Capacity (L-BEC) grant totaling Rupiah 2.5 billion over three years to help them implement their Capacity Development Plan (CDP) for the Education Sector. The first 25 local governments will receive grants starting in 2009, and the second 25 local governments will start to receive grant funding in early 2010. CDPs enable local governments to better allocate human and financial resources to improve capacity in governing the education sector. CDPs also provide valuable information to external partners (i.e. donors, Central and Provincial Governments) to improve the quality of budget support provided to local governments.

Based on the Local Government Capacity Assessment (LGCA) results, local governments were categorized into three groups, indicating differing performance capacity across education sector performance across five strategic areas:

1. Transparency and accountability
2. Education Minimum Service Standards
3. Management Control Systems
4. Information Management Systems
5. Efficient use of Resource

Local governments scoring more than 60% will receive annual grant funds in larger sums and over a shorter period of time relative to those scoring between 40 – 60% and those scoring below 20%. All 50 local governments will initially receive an L-BEC grant to conduct a participatory education public expenditure analysis, which will serve as an entry point to increase transparency, participation, and accountability in education budgeting.

Results

The BEC-TF focuses on three main areas, supporting capacity development through a combination of technical assistance, training, and grants to local governments.

- Supporting the Government-led Thematic Education Dialogue forum to conduct policy analysis, engage in policy dialogue with stakeholders and development partners, and maintain an overview of the education sector as a whole.
- Improving governance and efficient resource use through increased transparency, accountability, improved budget processes and performance-based financing, improved financial management and accounting, especially in local governments;
- Strengthening capacity of the existing information and performance assessment system so that better, timelier information can be used by stakeholders at all levels.

BEC works with local governments, their education offices, parliaments, education boards, and representatives of school committees and head teachers who will all have improved access to the information they need to be able to perform their duties better.

World Bank Contribution

Funded by the Netherlands Government (EUR 22 million) and the European Commission (EUR 17 million), BEC-TF is administered by the World Bank and implemented by the Ministry of National Education. BEC-TF runs from 2008 – 2012 and will serve 50 local government partners in nine provinces.

WB

Education in Indonesia

Quick Facts

Children out of school, primary)	2005686,292
School enrollment, primary (% net))	200695.4
Primary completion rate, total (% of relevant age group))	200698.8
School enrollment, secondary (% net))	200660.4
School enrollment, tertiary (% gross))	200617.0
Literacy rate, adult total (% of people ages 15 and above))	200692.0
Public spending on education, total (% of government expenditure))	200617.2

Overview

The Indonesian school system is immense and diverse. With over 50 million students and 2.6 million teachers in more than 250,000 schools, it is the third largest education system in the Asia region and the fourth largest in the world (behind only China, India and the United States). Two ministries are responsible for managing the education system, with 84 percent of schools under the Ministry of National Education (MoNE) and the remaining 16 percent under the Ministry of Religious Affairs (MoRA). Private schools play an important role. While only 7 percent of primary schools are private, the shares increase to 56 percent in junior secondary and 67 percent in senior secondary.

Primary school net enrollment rates are below 60% in poor districts compared to more well-off districts that have universal enrollment. Net enrollment rates for secondary education have experienced a steady climb (currently 66% in Junior Secondary and 45% in Senior Secondary) but are still low compared to other countries in the region. Indonesia is also trailing behind its neighbors in Early Childhood Education and Higher Education, with gross enrollment rates of 21% and 11.5% respectively.

Education is central to the Indonesian Government's development agenda. Education spending has increased significantly in the years since the economic crisis. In real terms, education spending doubled between 2000 and 2006. In 2007, spending on education was more than for any other sector, reaching an equivalent US$14 billion equivalent, or more than 16 percent of total government expenditure. As a share of GDP (3.4 percent) this is comparable to other similar countries.

The Law on National Education (No.20/2003) and the Constitution Amendment III emphasize that all Indonesian citizens have the right to education; that the Government has an obligation to finance basic education without charging fees; and that the Government is mandated to allocate 20% of its expenditure on education. The Teacher Law (No. 14/2005) introduced important changes to the employment conditions and requirements for the certification of teachers, aiming at improving education quality. The Ministry of Education's strategic plan for 2005-2009 has three main pillars:

1. Increased access to education;
2. Improved education quality; and
3. Better governance of the education sector.

In 2005 the Government launched a massive program called BOS (Biaya Operasional Sekolah, or School Operations Fund), as a way of injecting funds directly into schools in order to keep children in school and give schools some flexibility in managing their own funds. Supporting this and the decentralization effort in general, the Government has moved to anchor the principles of School-Based Management (SBM) in the national education system and also to provide a framework of National Standards for Education.

The education team at the World Bank focuses on supporting the Ministry of National Education Strategic Plan (RENSTRA): Starting with the 2005-2009 RENSTRA, the Bank has developed a broad portfolio of support to the key programs identified by the Ministry as needing additional support. The Thematic Education Dialogue led by Bappenas (a forum for Government and development partners to discuss sector issues at a policy level) provides a steer to the Bank and development partners on areas of focus for future support. It is currently leading an Education Sector Assessment which will provide the analytical base for strategic decisions on directions for the 2010-2014 RENSTRA, which development partners will use as a frame for future support.

The World Bank's program will effectively bridge the 2005-9 and 2010 RENSTRA programs with its ongoing and pipeline portfolio of investment loans, Trust Funds, and analytical work on behalf of the Ministry, providing comprehensive support to the work of the Directorates General in the areas of teacher quality, basic education, higher education, and early childhood development.

The Education Cluster project portfolio comprises projects in Early Childhood, Basic, Higher, and Non-Formal Education. In addition, a youth training project and a sector wide initiative is currently in the pipeline. More than US$ 830 million is committed to the Government of Indonesia for Education by the IDA and IBRD. Total project costs of active and pipeline projects exceed US$ 1.5 billion. Furthermore, there are large Trust Funds that bolster the lending program.

Key Issues

Although Indonesia has recovered well from the economic crisis of the late 90's, the country continues to under-perform neighboring countries in terms of access to quality education services. The focus of efforts now is on the quality of institutions and public expenditures**.** Key challenges include:

- Junior secondary enrollment: Indonesia has almost universal primary enrollment but at the junior secondary level improvements are slower. Only 55 percent of children from low-income families are enrolled in junior secondary schools.
- Student learning achievement: Indonesia continues to rank low in international standardized tests of student performance, even after taking socio-economic

conditions into account. In 2003, Indonesia ranked 33 out of 45 countries in the Third International Mathematics Science Study (TIMSS). In the 2006 Program for International Student Assessment (PISA), which looks at how well 15-year-old students are prepared for life, Indonesia ranked around 50 out of 57 countries in science, reading and math.

- Allocation of spending: Despite recent increases in overall spending education, Indonesia is still under-investing in secondary education, particularly junior secondary education. At the same time, operational budgets have been squeezed due to substantial increases in salary expenditures.

World Bank Programs

BOS - Knowledge Improvement through Transparency and Accountability (BOS-KITA)

The BOS (Bantuan Operasional Sekolah or School Operational Assistance) program has been disbursing block grants to schools across the country on a per student basis since 2005. BOS is part of the Government's effort to provide quality education to students of all income levels. The World Bank is supporting the BOS program through BOS KITA (School Operational Assistance – Knowledge Improvement for Transparency and Accountability), a project which aims to improve access to quality education for all children aged 7 to 15 by working to strengthen school committees, increase community participation, improve fiduciary arrangements for greater transparency and accountability of the BOS program to consequently better utilize current BOS' fund.

The Embassy of the Kingdom of the Netherlands is providing an additional US$ 20 million (approximately 200 billion Rupiah) support that aims to help the Ministry of National Education to maximize the effectiveness of the BOS Program. It will be used to strengthen a number of activities: monitoring, evaluations and complaint handling; social marketing and information campaign; as well as strengthening existing BOS teams at school level, and the work of parents and school committees.

BOS-KITA Project (2008 - 2010)

Indonesian Government	US$ 2,021.507 million
Royal Netherlands Embassy	US$ 52 million
Royal Netherlands Embassy	US$ 20 million
IBRD loan	US$ 600 million
Total	US$ 2,641.50 million

Better Education through Reformed Management and Universal Teacher Upgrading (BERMUTU)

The BERMUTU project seeks to improve teaching quality and performance**.** BERMUTU means “quality” in Bahasa Indonesia. This project will prepare the framework for ensuring that teachers will have the opportunity to upgrade their knowledge of the subjects they are teaching, and at the same time improve their teaching skills. It will also work to improve the accreditation system for teacher training courses.

The project will work in several ways, through university based teacher education, through local level teacher development programs, and through finding ways to increase teacher accountability and incentives systems. BERMUTU will work directly with selected universities which have teacher training programs, providing grants on a competitive basis to encourage them to improve their accreditation status and to improve their outreach programs for training teachers in remote and rural areas, mainly through IT based methods. It will work with groups of teachers, school principals and supervisors in 16 provinces and 75 districts/cities, providing opportunities for teachers in rural and remote areas to upgrade their skills through distance learning.

BERMUTU Project (2008 - 2013)

Indonesian Government	US$ 57.1 million
Royal Netherlands Embassy	US$ 52 million
IDA credit	US$ 61.5 million
IBRD loan	US$ 24.5 million
Total	US$ 195.1 million

Early Childhood Education and Development (ECED)

The ECED project is working with the Ministry of Education to ensure that more children from poor families have access to early education, thus improving their overall development and readiness for further education, while also developing a sustainable quality ECED system. To achieve this objective, the project works to:

1. Increase the capacity of poor communities to engage in participatory planning that will result in new or improved ECED services for their children and families, which will include support on their health and nutrition status.
2. Prepare the foundation for a sustainable ECED system through budgetary commitments from participating districts, district capacity building, and the

establishment of a national quality assurance and professional development system.
3. Ensure continuous improvement of service delivery and system building through establishing effective project management, and monitoring and evaluation.

The project targets an estimated 738,000 children ages 0-6 living in approximately 6,000 poor communities located in 3,000 villages within 50 poor districts in Indonesia. Once it is clear that this approach is working, the Government will start to expand the program for more poor children across the country.

ECED Project (2006 - 2013)

Indonesian Government	US$ million	35.1
Royal Netherlands Embassy (grant)	US$ million	25.3
IDA credit	US$ million	67.5
Total	US$ million	127.9

Managing Higher Education for Relevance and Efficiency (IMHERE)

IMHERE starts with the Government's Higher Education Long Term Plan, supporting the management and administration of the Directorate General for Higher Education in the Ministry of National Education, and assisting with the development of the legal framework for higher education. It aims to help create an enabling environment for public universities to become more autonomous and more accountable, while also increasing the quality, relevance, efficiency and equity of education for students. IMHERE funds the development of an institutional accreditation program, BAN-PT, a strategy to revitalize the Open University, and strengthens the management and administration of universities.

Project components have been designed to:

1. Facilitate Higher Education system reform and oversight.
2. Provide grants to improve academic quality and institutional performance.
3. Revitalize the national and open universities in the areas of governance, finance, outreach, content, and delivery.

IMHERE Project (2005 - 2012)

Indonesian Government	US$34.54 million
IDA credit	US$30 million
IBRD loan	US$50 million
Total	US$114.54 million

WB

Country Partnership Strategy (2009 - 2012): Investing in Indonesia's Institutions

Why Investing in Institutions Matters to Indonesians

Indonesia has come a long way but still has much work to do, particularly across the areas of poverty reduction, service delivery and governance.

In 2007, nearly half of all Indonesians were either poor or living just above the national poverty line. Job opportunities continue to grow at a slower rate than the population. The quality of public services still does not fully represent those of a middle income country. Parts of eastern Indonesia remain underdeveloped, while Indonesia as a whole is still scoring low marks in several health and infrastructure indicators.

In overcoming these challenges, Indonesia is not constrained by a lack of financial resources but by a lack of effective procedures and accountability in its institutions. Effective institutions know how to take available resources and turn them into better development outcomes. Effective institutions know how to spend budgets more wisely and build better schools, better health clinics, and better livelihoods.

How will the World Bank Group Support Indonesia Efforts in strengthening its Institutions?

This year, the World Bank Group has just approved the new Country Partnership Strategy (CPS) for Indonesia. This strategy, developed in consultation with various stakeholders, will govern the World Bank Group's program from fiscal years 2009 to 2012. In the next four years, the World Bank Group will continue to support Indonesia's homegrown program and solutions for addressing its development challenges

In meeting these challenges, the World Bank Group's new CPS for Indonesia will focus on investing in institutions. This approach aims to improve existing government programs, strengthen the institutions involved (both state and non-state), and encourage others to replicate them. All work under this approach would be viewed through an "institutional lens" – meaning all investments, advisory services, and analytical services, will focus on the institutions, sectors, systems and programs that help promote institutional effectiveness.

This approach will see the World Bank Group supporting institutions and systems at both the central and sub-national level, over five core areas of engagement:

- Private sector development
- Infrastructure
- Community development and social protection,
- Education, and
- Environmental sustainability and disaster mitigation.

The focus on institutions comes with the recognition that World Bank Group financing now only represents a small share of Indonesia's national budget. This small share can only make an impact if it could leverage a much larger share of Indonesia's own public spending or private investment. The strategy overall can only make a difference if the World Bank Group is flexible – especially in light of the 2009 general elections and 2010 medium-term development plan (RPJM) – and capable of building and maintaining relationships.

The World Bank as "Mitra Indonesia"

Over the next 4 years the World Bank will play the role of "Mitra Indonesia", which in English means "Partner of Indonesia". The term comes from the idea that Indonesia is now more in need of a development partner than financial assistance. The CPS governs the World Bank Group's programs as a partner of Indonesia.

A Partnership to Support Development Priorities

By leveraging Indonesia's own institutions, the CPS aims to help the country to move to the next phase of its ongoing and incomplete transformation - a phase that once complete will allow Indonesia to take its place among Southeast Asia's most successful economies. The World Bank Group will engage as Mitra Indonesia in these areas:

Mitra Indonesia in Strengthening Institutions

The World Bank Group aims to help Indonesia complete its institutional transition. Thus far, this process has produced a number of noteworthy achievements. Decentralization has largely put local governments in charge of service delivery. The Government has beefed up a number of anti-corruption institutions and continues to intensify its crackdown on corruption. In line with this, the Government is also seeking ways to become better, cleaner managers of public finances. The drive to run the country in more efficient, effective ways is very much in place. Now the World Bank Group seeks to match this drive with greater capacity. In doing this, the World Bank Group will engage with institutions that are committed to change, identify committed reformers, and provide them with the support needed to realize their vision of change.

Mitra Indonesia in Private Sector Development

The World Bank Group aims to help make Indonesia's private sector a driver in broad-based growth, and in turn increase Indonesia's competitiveness regionally and globally.

The key to achieving this goal is to make the public sector a smooth facilitator – not an obstacle – in the business environment. To this end, the Government has overhauled its policies on taxes, customs, investment frameworks, and other issues of concern to investors. However, implementation of these policies remains uneven. Poor infrastructure and “institutional capture” (whereby some institutions succumb to the business interests of powerful people) are also impeding growth in the private sector. To help Indonesia overcome these remaining challenges, the International Finance Corporation – the World Bank Group’s private sector arm – and the World Bank will build on its strong relationships with the Ministry of Trade, the Coordinating Ministry for the Economy, Bank Indonesia, and other key partners that shape the investment climate. These partnerships will be based on analytical, advisory and monitoring work, as well as institutional capacity-building.

Mitra Indonesia in Community Development and Social Protection

The World Bank Group will continue to support the Government in the design and expansion of programs that promote more inclusive growth and social protection, while also ensuring greater accountability of elected officials and service providers. Like many developing countries, Indonesia still has much work to do in order to meet its MDG targets, especially in terms of improving public service delivery at the district level. However, in terms of fostering inclusive growth with low risks of corruption, Indonesia is virtually unrivalled thanks to the National Community Empowerment Program (PNPM Mandiri) – a consolidation of over 50 community-driven development programs and scaled up to cover all 70,000 villages and urban poor communities by 2010, on a government budget of US$ 2 billion a year. The World Bank Group will support the expansion of PNPM Mandiri and other social protection programs, like conditional cash transfers, by offering a mix of co-financing and analytical and advisory work. The CPS support for improved institutional effectiveness will be mainly focused on the Coordinating Ministry for People’s Welfare.

Mitra Indonesia in Building Infrastructure

The World Bank Group aims to help the Government build a bigger and better Indonesia by mobilizing the financial and human resources needed to support Indonesia’s infrastructure plans. The development of large-scale infrastructure is crucial to Indonesia’s progress on almost every front and the Government recognizes that in moving forward, the private sector is the most logical business partner. Focusing on roads, energy and water (including irrigation, as well as water and sanitation services), the World Bank Group will mediate between public and private institutions to help bridge the financing gap for infrastructure in these sub-sectors. At the same time, the World Bank Group will help strengthen the accountability and capacity of government agencies to deliver better infrastructure outcomes. The four agencies with which particularly strong partnerships are currently envisaged are the Directorate General of Highways (DGH), the Directorate General of Water Resources (DWR) and the Directorate General of Human Settlement (DHS) - all at the Ministry of Public Works - as well as the state-owned electricity utility (Perusahaan Listrik Negara, or PLN). The World Bank Group will provide financial and advisory support for the Government’s own infrastructure financing plan as set out in the current Rencana Pembangunan Jangka Menengah (RPJM).

Mitra Indonesia in Improving the Quality of education

The World Bank Group aims to help the Government complete its transformation of the education sector by zoning in on key areas of the Government's education reform agenda, like building mechanisms for social accountability, promoting external transparency and access to information, and enhancing monitoring and evaluation systems. One example of this support is the System Improvement through Sector Wide Approaches (SISWA) program, which builds on government initiatives to manage education funds in a more effective and transparent manner.

In the first phase of SISWA, the World Bank Group will co-finance the Government's School Operational Assistance (BOS) program, which empowers school administrators to make important expenditures and thus giving them a greater sense of ownership. At the central level, the new BOS KITA program also aims to manage education funds in a more effective and transparent manner, by raising the awareness of parents and the local community, and opening the system to independent monitors, information flows and democratic decision-making. The World Bank's support for the education sector will continue to be based on its close partnership with the Ministry of National Education (MoNE) and the Ministry of Religious Affairs.

Mitra Indonesia in Environmental Sustainability and Disaster Mitigation

The World Bank Group aims to help Indonesia become a model for developing countries in adapting to climate change. This includes benefiting from new international investment instruments designed to help countries address climate change, such as climate investment funds, the Adaptation Fund, and global carbon markets. The World Bank Group will also support coordination and facilitate partnerships with the private sector and civil society for the implementation of the National Action Plan for Climate Change, as well as support the Government in developing a pilot framework and program to Reduce Emissions from Deforestation and Degradation (REDD).

The World Bank Group will also continue with its major role in rebuilding and rehabilitating Aceh, Nias and Yogyakarta , while helping to reduce Indonesia's vulnerability to natural disasters. A key upcoming disaster risk reduction initiative is the Jakarta municipality's (DKI Jakarta) three-year river-dredging program, the *Jakarta Emergency Dredging Initiative (JEDI),* in which the World Bank Group will assist DKI Jakarta locate grant financing for the effective operation and management of the flood-management system. The World Bank Group's engagement around environmental sustainability and disaster mitigation involves partnerships with the Ministries of Environment, Forestry, Finance, Trade and Bappenas on climate change issues, and Bappenas and the National Disaster Management Agency (Badan Nasional Penanggulangan Bencana, or BNPB) on disaster mitigation and recovery. The World

Bank Group will draw from an active network of civil society organizations to continue fostering social accountability and participatory mechanisms.

WB

Florian Fichtl's statement at the opening of the South Eastern Europe regional conference on the implementation of the United Nations Convention against Corruption

As the acting UN Resident Coordinator, it is my pleasure to read the address of United Nations Secretary-General Ban Ki-moon on the occasion of the International Anti-Corruption Day, 9 December 2009:

Quote:
"Don't Let Corruption Kill Development" Message on International Anti-Corruption Day, 9 December 2009

"The theme of this year's observance of the International Anti-Corruption Day – "don't let corruption kill development" – highlights one of the biggest impediments to the world's efforts to reach the Millennium Development Goals.

When public money is stolen for private gain, it means fewer resources to build schools, hospitals, roads and water treatment facilities. When foreign aid is diverted into private bank accounts, major infrastructure projects come to a halt. Corruption enables fake or substandard medicines to be dumped on the market, and hazardous waste to be dumped in landfill sites and in oceans. The vulnerable suffer first and worst. But corruption is not some vast impersonal force. It is the result of personal decisions, most often motivated by greed.

Development is not the only casualty. Corruption steals elections. It undermines the rule of law. And it can jeopardize security. As we have seen over the last year, it can also have a serious impact on the international financial system.

Fortunately, there is a way to fight back. The United Nations Convention against Corruption is the world's strongest legal instrument to build integrity and fight corruption. A new mechanism decided on at the recent Conference of States Parties in Doha means that, from now on, states will be judged by the actions they take to fight corruption, not just the promises they make.

The private sector should not lag behind governments. Businesses must also prevent corruption within their ranks, and keep bribery out of tendering and procurement processes. I urge the private sector to adopt anti-corruption measures in line with the UN Convention. Companies – particularly those that subscribe to the 10th principle of the Global Compact, to work against corruption – should pledge not to cheat and should open themselves up to peer review to ensure that everyone is playing by the same rules.

We all have a part to play. On International Corruption Day 2009, I urge all people to join the UN anti-corruption campaign at www.yournocounts.org. And I encourage everyone to make a pledge: never to offer or accept a bribe. Live by that motto, and the world will be a more honest place – and we will increase the chances of reaching the Millennium Development Goals." Much has been accomplished in the battle against corruption since the first Global Forum on Anti-corruption held in 1999. Some 140 nations and the European Union have now become party to the UN Convention against Corruption.

Recent political initiatives by the G-20 and others have lent additional impetus to efforts to move the fight against corruption up on the global agenda, such as recognition of the Stolen Asset Recovery Initiative (StAR) - a joint project of the United Nations Office on Drugs and Crime (UNODC) and the World Bank, the need to tie asset recovery to anti-money laundering work and efforts to address issues related to tax havens. It is important that the momentum and pressure be sustained - in bad times and in good times. There can be no excuse for shifting our attention elsewhere.

Indeed, much remains to be done. As the global financial crisis subsides, there is now a call for even greater emphasis on ethics, accountability and stewardship of resources – one in which each of us – international institutions, developed and developing countries, civil society organizations, the private sector and even as individuals - must rise to the challenges of moving the fight for anti-corruption forward.

In this sense I would like to congratulate the Government of Bulgaria and, in particular Deputy Prime Minister Tsvetanov and the MoI, for hosting the regional conference, and the organizers for their timely and important initiative, and wish all participants a productive and successful meeting.

WB

World Bank Provides US$405 million to Support Urban Development in India
Thursday, 10 December 2009

WASHINGTON, DC: The World Bank today approved two projects worth US$405 million to India, designed to promote environmentally friendly modes of urban transport, and to improve management and delivery of services in urban areas in the state of Andhra Pradesh (AP).

India's continuing urbanization and surging economic growth over the last decade has led to an inevitable rise in ownership and use of motorized vehicles across cities and towns, placing heavy pressures on the available transport infrastructure and on the institutions in charge of road construction and maintenance, traffic management, road safety, and public transport services. The most visible consequences include greater traffic congestion, increased air pollution, and more traffic accidents. Greenhouse gas emissions from urban transport are also rapidly increasing.

The US$105 million loan for the *Sustainable Urban Transport Project (SUTP)* will finance capacity building and demonstration projects in select cities that will create models of sustainable transport solutions for Indian cities to replicate. These projects include public transport development such as development of new bus systems, and non-motorized transport development including cycle track investments. The project is also supported by a US$20.5 million grant from the Global Environment Facility (GEF).

Urban growth in Andhra Pradesh, India's fifth most populous state has accelerated alongside its rapid economic growth. While urban poverty in the state has declined impressively, provision of urban services such as roads, water and sanitation has been falling behind the growing demand. For example, the state's municipal sewerage systems serve less than 20 percent of its residents.

The US$300 million loan for the *Andhra Pradesh Municipal Development Project* (APMDP) will finance sustainable, high-priority urban infrastructure projects, which will be selected and implemented by urban local bodies (ULBs).

The project will also support improvements in the state level framework that defines ULBs' autonomy, accountability, and incentives for performance, as well as the State Government's capacity to monitor ULBs' performances and to provide policy and technical support for their development.

The loan for SUTP from the International Bank for Reconstruction and Development (IBRD) has a 30 year maturity including a 5-year grace period. The IBRD loan for APMDP has a 28.5 year maturity including a 6.5-year grace period.

WB

World Bank Approves Crisis Response Window for Poorest Countries
New mechanism will support countries hit by the global economic crisis
Thursday, 10 December 2009

WASHINGTON: The World Bank's Board of Executive Directors today approved a $1.3 billion crisis response window for the International Development Association (IDA), the Bank's fund for the world's poorest countries. The establishment of the pilot Crisis Response Window for the remainder of the IDA15 period (January 2010-June 2011) responds to recent requests by the G-20 and the Development Committee for the Bank to explore the benefits of a new crisis response mechanism to protect low-income countries from crises. At the recent IDA15 mid-term review, donor and partner country representatives strongly supported the proposal.

"With the new financial support mechanism approved today, IDA will be able to provide additional financial support to mitigate the impact of this crisis on poor countries," said World Bank Group President Robert B. Zoellick. "We must assist low-income countries in regaining lost ground to overcome poverty and achieve the Millennium Development Goals."

Low-income countries have been hit by the crisis through declining external trade, remittances, and foreign direct investment flows, and many are already experiencing fiscal stress. "Governments are confronted with increased spending needs for social safety nets as falling revenues place constraints on expenditures for education, health, agriculture, and infrastructure," said Axel van Trotsenburg, World Bank Vice President, Concessional Finance and Global Partnerships. "The new window responds to strong demand from IDA countries to protect core spending in these critical areas."

The initial funding level of the pilot Crisis Response Window will amount to about US$1.3 billion from the redeployment of IDA internal resources, including set asides for arrears clearance and extraordinary investment income from IDA resources during fiscal year 2009 (July 2008-June 2009).

The duration for the pilot Crisis Response Window will be 18 months, ending in June 2011, with many of the programs expected to be implemented during the first half of 2010. The bulk of the resources will support the scale up of operations already in place or currently under preparation.

WB

Uganda: World Bank Approves US$190 Million for Roads
Funds to support road safety management

Thursday, 10 December 2009

WASHINGTON, D.C.: The World Bank Board of Executive Directors has approved a US$190 million International Development Association (IDA) credit to improve the connectivity and efficiency of the transport sector in Uganda.

The Transport Sector Development Project (TSDP) is also supported with a US$8 million grant from the United Kingdom's Department for International Development (DFID). These funds will support the Government's Transport Sector Master Plan over a four-year period (2010/11 - 2013/14).

The TSDP will specifically assist the Government of Uganda in improving the condition of the national road network, and increasing capacity for road safety and transport sector management. The project will see the upgrading of the Gulu-Atiak and Vurra-Arua-Oraba roads (approximately 160 km) from gravel to paved standard and the improvement of road safety through the creation and operationalization of a National Road Safety Authority (NRSA).

The TSDP is expected to strengthen the capacity of the Ministry of Works and Transport and the Uganda National Roads Authority to provide sector oversight, monitoring, policy formulation and planning, through the provision of technical assistance, the carrying out of studies, and the provision of training and equipment.

"The Government of Uganda has, through their National Transport Policy and Strategy, undertaken to promote less costly, efficient and reliable transport services as the means of providing effective support to increased agricultural and industrial production, trade, tourism, social and administrative services. This project supports that strategy and is expected to have broader economic development impact," said Kundhavi Kadiresan, World Bank Uganda Country Manager.

Uganda's road infrastructure provides for over 90 percent of passenger and freight traffic, and comprises 10,800 kilometers of national trunk roads, 27,500 kilometers of district roads; 4,800 kilometers of urban roads and approximately 35,000 kilometers of community access roads. About 3,000 kilometers of the national roads are paved.

WB

Timor-Leste: Strengthening Governance through Open Conversation
Thursday, 10 December 2009

As decentralization takes place in Timor-Leste, more and more it becomes a hot discussion topic within society. An Open Conversation with members of civil society, the government, and development partners was held today at the World Bank Office in Lecidere where *Justice for the Poor* team delivered a presentation on "Articulations of Local Governance in Timor-Leste: Implications for Decentralization."

Justice for the Poor is a World Bank program that focuses on mainstreaming justice considerations and conflict management into development processes. In particular, the program aims to support the poor and marginalized groups to understand and enforce their socio-economic rights. The Justice for the Poor team was represented by Pamela Dale, David Butterworth, and Geraldo Moniz da Silva; while the Team Leader Matthew Stephens - currently visiting Dili - moderated the discussion.

How government, donors and civil society can strengthen relevant and effective democratic practices at the local level became the central question that Justice for the Poor's team offered to the participants. The team also presented the findings from their research that was conducted in Aileu and Lautem between June and September 2009.

During the Open Conversation, capacity building became a key issue as most of the participants agreed that it is essential to improve capacity in both the national and local levels in order to ensure that decentralization accurately responds to the people's needs, especially in addressing poverty.

The Open Conversation is part of the World Bank's outreach program that aims to raise awareness in the community about the work that the Bank conducts in Timor-Leste.

WB

Sectoral Governance Assessments
Thursday, 10 December 2009

Sectoral governance assessments can be broadly defined as assessing the ways in which public resources are managed and public regulatory powers are exercised within a given sector. This type of assessment is a tool that is gaining increasing prominence in the World Bank.

The first generation of governance and corruption assessments began about a decade ago. The initial ones sought to measure governance at the national level, such as the World Bank's *Worldwide Governance Indicators*, Transparency International's *Corruption Perception Index (CPI)*, and Global Integrity's *Global Integrity Index*. Early assessments also mapped corruption risk at the *project level*.

Recently, however, a number of groups-donors, non-governmental organizations, and governments-have begun assessing governance at the sectoral level. While country-level assessments identify broader 'macro' governance trends, and project-level assessments identify 'micro' risks within each project, sectoral assessments can bridge the two by analyzing how institutional and governance factors can affect overall organizational incentives, performance, and developmental risk. Sectoral assessments may be useful in identifying cross-cutting governance problems which can affect projects (for example, public sector capacity). Thus, sectoral assessments can enable donor agencies, clients and other stakeholders to:

- Gain a better understanding of the operating environment to better shape sectoral strategies and the overall project portfolio
- Examine the consequences on governance of projects and programs
- Use assessments as a means to initiate a dialogue with government on sectoral governance concerns

From the literature, three types of assessments have emerged:

1. Organizational Effectiveness Assessments: this type of assessment evaluates the performance of government entities within a sector and often uses indicators to track progress over time. The most successful example of this type of analysis is the *PFM (public financial management) Performance Measurement Framework* created by the Public Expenditure and Financial Accountability Program (PEFA). Using a set of 31 high-level indicators, PEFA has measured performance in over 60 countries. These measurements have successfully identified weaknesses in public financial systems and, by monitoring changes in performance, have improved accountability. A set of *Actionable Governance Indicators* have recently been developed by PREM that extend the PEFA approach to other areas of public administration. The World Bank Human

Development sector is also using the PEFA model as a prototype for *developing similar assessments* in education and health.

2. Risk Analysis Assessments: this approach identifies areas that are vulnerable to corruption or other risks. In *The Many Faces of Corruption* (2007) Campos and Pradhan suggest mapping out the key steps in the production chain for the production of goods or services, and then identifying vulnerabilities at each point. For example, in the chapter, *"Corruption and Pharmaceuticals: Strengthening Good Governance to Improve Access,"* Cohen, Mrazek, and Hawkins identify six key decisions in the pharmaceutical sector that are vulnerable to corruption: manufacturing, registration, selection, procurement, distribution, and drug prescribing.

   World Bank India is taking a different approach to assessing sectoral vulnerabilities. Each sector's risk is rated as high, middle or low risk, using a number of indicators related to the probability of corruption, procurement practices, competition, and the regulatory framework. The sector's risks are then taken into account when calculating the overall risk for each project. World Bank Philippines is in the process of developing a similar approach to analyzing risk across all sectors building upon the government's own processes.

3. Assessments of Drivers of Change: this approach assesses the weaknesses and governance challenges in a sector, why these exist, and then seeks to identify what would drive change in the sector. One method is a *political economy analysis of the sector*, which identifies stakeholders, analyzes their influence and interests, and then assesses the political feasibility of reforms. These include how reforms are perceived and which stakeholders will support or oppose them. Two recent examples are World Bank studies from *the transport sector in Bangladesh* and on *electric cooperatives in the Philippines*. The European Commission also uses this approach in their publication, Analyzing and Addressing Governance in Sector Operations.

Another method is to assess the implementation capacity of the sector and identify challenges constraining delivery capacity. This assessment can then be used to find solutions to address these challenges in order to boost capacity. A recent example is the *Pakistan Infrastructure Implementation Capacity Assessment (PIICA)* which conducted extensive analytical work in four key areas-business environment, human resources, materials, and equipment and machinery-to assess the infrastructure sector in Pakistan.

Many government agencies and NGOs have also conducted sectoral assessments. These include:

- The UK National Audit Office's *evaluations* that measure performance and 'value for money' in government agencies in numerous sectors.
- The *Anti-Corruption & Civil Rights Commission (ACRC)* of Korea's innovative tool that measures integrity of public sector organizations.

- The *Electricity Governance Initiative's* assessments that uses indicators to identify areas of strength and weaknesses within a country's electricity sector.
- Transparency International *assessments of sector-level corruption*, such as its study of *India's trucking operations* and the *Forest Governance Integrity Program* in Asia-Pacific.
- The UNDP assessments of integrity and assessment, such as its assessment of *Integrity in the Health Sector of Mongolia*.
- WHO's assessments of different components of the healthcare system, such as *its measurement of transparency in the public pharmaceutical sector* of four Southeast Asian countries

While the World Bank has so far conducted only a few sectoral governance assessments in East Asia and Pacific, this is an area of growing interest. The Philippines country office is in the process of conducting three sectoral assessments (public finance, electricity, and education) and the World Bank office in Vietnam is planning to assess the country's transport sector. In addition, many governments in the region are interested in learning how to improve the development impact of projects. Sectoral assessments, which connect project-level obstacles to countrywide governance constraints, can provide an opening to engage both governments on governance issues. The prominence of sectoral governance assessments in certain to grow in the near future as the on-going reforms in investment lending emphasize rigorous assessments of risk as country, sector, and project levels.

At the same time, the rise of sectoral governance assessments and the many different approaches raises a number of methodological issues:

- Which methodology should be used and when? What are the pluses and minuses with each approach?
- How broadly should the sector be defined and how does this affect the assessment?
- What are the consequences of sectoral assessments with regard to engagement strategies, improvement of project design, and development outcomes?

These issues were discussed in a *recent VC* hosted by the Regional Governance Hub and several examples are showcased in the newsletter.

WB

More Effective Use of Resources, Key to Development in Central African Republic Says World Bank Vice President for Africa

Thursday, 10 December 2009

BANGUI: Not only more investments, but a more strategic and effective use of resources, including revenue from the rich mining and forestry sectors, as well as from agriculture, are required to accelerate the development of the Central African Republic (CAR).

This was one of the answers from Obiageli Ezekwesili, World Bank Vice President for the Africa Region, in response to a wave of requests from CAR government officials that the World Bank provides the country with additional support.

Ms. Ezekwesili arrived in CAR at dawn Thursday to a warm welcome at the Bangui M'Poko International Airport. She is on an official visit to the country; the first by a World Bank Vice President.

During her visit, CAR State Minister for Planning, Economy and International Cooperation as well as its Minister Delegate for Finance and Budget expressed satisfaction with the rapid expansion of the Bank's portfolio in the country, pointing out that more resources would be needed if its enormous development challenges are to be met in a context of limited state resources.

The Bank provided US$82 million in developing policy financing upon re-engaging with the country in 2006. Today the Bank's portfolio here is worth a total US$196.7 million.

Representatives of civil society organizations based mostly in the capital, Bangui, who met Ms. Ezekwesili as night fell Thursday, complained that citizens' groups such as theirs had either very limited or no involvement in the management of the country's natural resources sector. They hinted that resources provided without stronger demands for transparency and accountability was likely to be invested in ways that have limited impact on ordinary people's lives.

During his meeting with Ms. Ezekwesili, CAR's Minister of Planning, Mr. Sylvain Maliko, praised the Bank for mobilizing and providing funding on an emergency basis to help the country resolve the energy and flash flooding crises into which it was plunged earlier this year, pointing out that Bank financing had made it possible to significantly expand access to safe drinking water and sanitation for victims of natural disasters.

The night before Ezekwesili's arrival, state television - the country's lone TV network which broadcasts only a few hours a day - aired feature reports in its newscast, highlighting some of the achievements of Bank-funded projects in Bangui. It argued that all segments of the Central African population were able to participate in and benefit from such programs.

The Vice President, who visited an urban infrastructure project rehabilitated thanks to World Bank funding, praised Bangui for taking advantage of the fiscal space created by debt cancellation under HIPC (the Heavily-Indebted Poor Countries Initiative) to invest in such pro-poor programs and encouraged the government to stay the course.

She also acknowledged the government's efforts to improve public finance management and to foster institutional reforms that go beyond the tabling, adoption or passing of bills and/or signing of bills into law.

Reforms are important, she said. It is, however, one thing to have laws and codes on the books, and quite another to enforce them.

Civil society representatives echoes Ms. Ezekwesili's remarks and urged her to help pave the way for capacity-building targeting citizens' groups to help them monitor activities in sectors as complex and opaque as mining and forestry, but also to ensure that they can effectively monitor the enforcement of mining and forestry codes.

A working session over lunch with the Special Representative of the Secretary General of the United Nations, Mrs. Sahle-Work Zewde, and the Belgian Ambassador to the United Nations, Mr. Jan Grauls, offered an opportunity for Ms. Ezekwesili to discuss peace consolidation and the establishment of a politically inclusive dialogue in a country emerging from years of simmering conflict.

Meeting participants also discussed state-building and security sector reform in light of the pending demobilization, disarmament and reintegration of rebel militias, which most observers hope would intervene ahead of presidential elections scheduled for next June.

WB

China and International Partners Discuss China's New Strategy for Improving Health in Africa

Thursday, 10 December 2009

Beijing: A group of senior officials from China, Africa, and from international organizations involved in health assistance in Africa met in Beijing on December 4-5, 2009 to review China's health assistance to Africa and to discuss opportunities for international cooperation in achieving the health-related Millennium Development Goals in Africa.

The *International Roundtable on China-Africa Health Collaboration* was part of an ongoing effort by Government of China to develop a new strategy for health assistance to Africa as part of its overall South-South collaboration. To help inform this process, the Chinese authorities requested assistance from the World Bank and other international organizations in gaining a deeper understanding of Africa's health system needs, dynamics, and performance, as well as lessons from international experience in delivery of health assistance to Africa.

As a contribution to the Roundtable, the World Bank prepared background papers on *Reaching the Health MDGs in Sub-Saharan Africa: Challenges and Opportunities,* to illustrate the health challenges in Africa and what it may take to solve their problems, and on "*Learning through Collaboration - Lessons from China Health Projects Supported by the World Bank*" to identify achievements in China which may offer lessons for improving health in Africa.

The Bank's participation and support for the Roundtable involved drew on the expertise of a Bank-wide team comprised of staff from World Bank Institute and from the East Asia & Pacific and Africa Regions. In preparing the background papers and recommendations, the core team also consulted with a group of external experts and with the Bank's Global Expert Team on Health Systems.

Akihiko Nishio, Director of Operations of the World Bank Institute noted in his opening remarks, "The World Bank is honored to have been invited by the Government of China to share our experience with health sector assistance in both China and Africa. I believe that it is precisely through exchanges such as this one, involving relevant Chinese government stakeholders, academic experts, African health officials, and representatives of international partners, that we can begin to work together effectively to achieve our shared objectives of meeting the health-related Millennium Development Goals in African countries".

Eva Jarawan, World Bank Health Sector Manager for Africa delivered a presentation on "Meeting Africa's Health Care Needs - Lessons from World Bank Project Experience and Implications for China's Role". She noted that China's success in improving health care provides a positive example for other developing countries. "China's experience shows that improved health outcomes are not merely a by-product of economic growth, but rather, that policies really do matter. China has shown that where there is broad and lasting political commitment and consistent emphasis on preventative measures, affordable drugs, and attention to delivering service to even the remotest parts of the country, large improvements can be achieved."

Several speakers noted with appreciation China's history, of more than four decades, in provision of health assistance to Africa. Ministry of Health officials noted that since 1963, more than 17,000 Chinese medical teams had served in Africa, covering 47 countries.

A key message, emphasized by representatives of international organizations, African officials, and Chinese officials alike, is the importance of strong country ownership, on the one hand, and benefits of working through partnership, on the other. Dr. Tedros Adhanom Ghebreyesus, Ethiopian Minister of Health and Chair of the Global Fund to Fight AID Tuberculosis and Malaria, described his country's experience in working under the framework of the International Health Partnership, with its reliance on supporting Ethiopia's national health development plan. He noted that "*it is through ownership that you can generate commitment, and with commitment begin to see results*". He also noted an African proverb, which was quoted by Chinese Premier Wen Jiaobao in his speech at the recent Forum on China Africa Cooperation, and which says "If you want to go quickly, go alone. If you want to go far, go together".

Dr. Ren Minghui, Director General of the Department of International Cooperation, Chinese Ministry of Health noted that "we do need coordination, we do need harmonization, and we do need collaboration to support health in Africa, but always remembering that it must be the African countries that are in the drivers' seat".

The second day of the Roundtable featured a lively discussion on opportunities and next steps for collaboration between China and other partners in delivery of health assistance to Africa. The Ministry of Health and the participating international partners agreed to explore various types of collaboration aimed to strengthening China's existing capacity in health assistance initially including staff secondments, joint missions, and pilot projects under a multi-partite framework.

The Roundtable was organized by the Institute for Global Health, Peking University, and was co-sponsored by the World Bank, China's Ministry of Health, the World Health Organization (WHO), and the Bill and Melinda Gates Foundation. It brought together senior officials with responsibility for China-Africa cooperation from the Ministries of Health, Foreign Affairs, and Commerce, as well as researchers and academic experts on China-Africa relations. They were joined by senior health officials from Africa and experts from the World Bank, WHO, the UK Department for International Development, the United States Agency for International Development and the Bill and Melinda Gates Foundation.

WB

Energy Intensive Sectors of the Indian Economy: Options for Low Carbon Development

Friday, 11 December 2009

At the Government of India's request, the World Bank today presented some draft findings from its forthcoming study, Energy Intensive Sectors of the Indian Economy - Options for Low Carbon Development, at Copenhagen.

World Bank Presentation at Copenhagen

The study, commissioned by the Government of India in 2007, is likely to be completed in early 2010. The study looks at five sectors of the Indian economy that accounted for three-quarters of India's CO2 emissions from energy use in 2007 – power generation, energy-intensive industries (including iron and steel, aluminum, cement, fertilizer, refining, and pulp and paper), road transportation, commercial buildings and residential housing.

It presents three carbon emission scenarios, outlining the different growth paths that India could follow from 2007 to 2031 -- the end of the Fifteenth Five Year Plan.

Draft findings that were presented at Copenhagen

The study says that India's carbon intensity – a measure of carbon emissions per unit of GDP - is likely to decline until at least 2031, but the rate of decline will be determined by the country's efforts to maximize domestic sources of renewable energy and implement energy efficiency measures. Based on the current Five Year Plan and Integrated Energy Policy, the carbon intensity of the five sectors studied is set to improve by 19% by 2020 (33% between 2005 and 2031) but could improve by as much as 30% by 2020 (45% by 2031) with an all-out effort on the technical, financial and institutional fronts to reduce carbon emissions, at existing technologies.

- The rate of decline of carbon intensity will depend on the timing and effectiveness of investments in hydropower and other clean energy resources; reduction of transmission and distribution losses in the power sector; modernization of energy-intensive industry; and greater use of sustainable transport and energy-efficient household appliances. These green measures come with large up-front costs, the study says, but can be recovered in the long-term by lowering operating costs.

- In order to achieve the largest possible improvement in carbon intensity, India will have to make an all-out effort to invest in nuclear and emerging technologies such as concentrating solar power, and consider regional energy trade. However, solar power has yet to be deployed on a large scale anywhere in the world, and it still costs more than four times conventional coal-fired generation.

- Though India is ranked among the top 10 emitters, the study says the Indian economy currently has a relatively low carbon footprint. In 2007, its carbon emissions from fossil fuels were 1.2 metric tons per capita -- small compared to the global average of 4.4 metric tons -- and its carbon intensity was on par with the global average.

- Under all scenarios sketched out in the study, consumption in India is projected to remain relatively frugal. Even the richest third of urban Indian households in 2031 will be consuming only one-third of the average electricity consumed in the European Union today and the number of Indians owning cars in 2031 (86 per 1000) will be significantly fewer than the number of car owners in high-income countries today (300-765 per 1000).

WB

ORGANIZATION FOR ECONOMIC CO-OPERATION & DEVELOPMENT

International investment collapses in 2009, says OECD

Tuesday, 08 December 2009

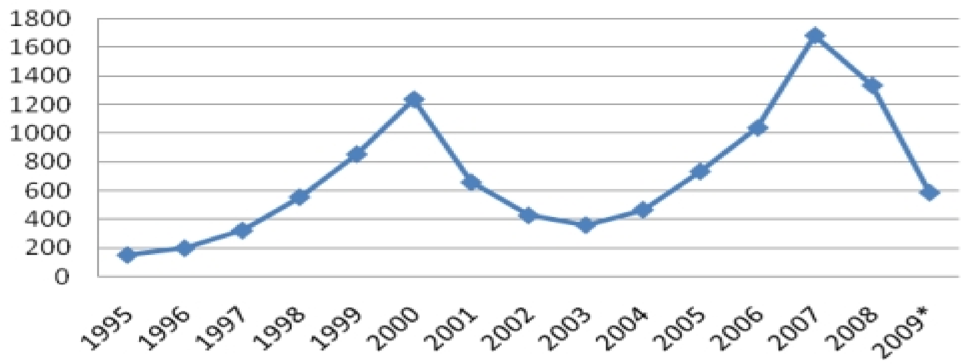
International mergers and acquisitions are forecast to decline by 56% in 2009 compared with 2008, the largest year-on-year decline since 1995 (see figure 1). This estimate is based on OECD analysis of data for international M&A activity up to 26 November 2009. This fall is largely due to the 60% decline in value of cross-border merger and acquisitions (M&A) by firms based in the OECD area, from over USD 1 trillion in 2008 to USD 454 billion in 2009. However, it was also due to the first sharp declines in M&A activity into and from major emerging economies: international M&A activity by firms based in Brazil, China, India, Indonesia, Russia, and South Africa fell by 62% to USD 46 billion in 2009 from USD 121 billion in 2008. M&A activity into these countries is forecast to decline by almost 40% this year to just over USD 80 billion from just under USD 140 billion in 2008.

Speaking at the opening of the *OECD Global Forum on Investment* in Paris, OECD Secretary-General Angel Gurría said that governments needed to do more to promote business investment. “Against the backdrop of a fragile global economy and sharp declines in international investment activity that have now spread to the emerging economies, the international investment policy community cannot afford to relax,” Mr

Gurría said. “Investment protectionism poses a grave risk to recovery by further reducing international investment flows just at a time when these are most needed. Global challenges also require investment on a scale that far exceeds available public resources. Business investment is an essential part of the solution,” he added.

These latest international investment estimates suggest that total foreign direct investment into the 30 OECD countries will fall to USD 600 billion in 2009 from a 2008 total of USD 1.02 trillion.

Figure 1 - International mergers and acquisitions, world (in US $ billions)



OECD

Governments agree to step up fight against bribery

Wednesday, 09 December 2009

OECD countries and the eight others who have signed the *OECD Anti-Bribery Convention* have committed to stepping up their fight against bribery and corruption. The 38 countries have agreed to put in place new measures that will reinforce their efforts to prevent, detect and investigate foreign bribery. These include new provisions for combating small facilitation payments, protecting whistleblowers and improving communication between public officials and law enforcement authorities.

“Foreign bribery remains a major obstacle to the creation of a stronger, cleaner and fairer world economy,” said OECD Secretary-General Angel Gurría at a Transparency International - USA event to mark International Anti-Corruption Day and the 10th anniversary of the entry into force of the OECD Anti-Bribery Convention.

“This new Recommendation strengthens the legal framework for fighting bribery and corruption and ensures Parties to the Convention do more than enact laws to implement the Convention. They must put words into action,” Mr Gurría added. “The message we are sending on foreign bribery is clear. The only ones who should pay the price for this crime are its perpetrators.”

“It is not a victimless crime,” said US Commerce Secretary Gary Locke at the event. “It’s not just greasing the wheels of business. It is cheating the people of these countries.”

“The United States fully supports the OECD’s anti-corruption agenda,” said US Secretary of State Hillary Rodham Clinton in a video message to an OECD event in Paris. “We also are encouraging our major trading partners that have not yet acceded to the convention to join our efforts.”

This *Recommendation for Further Combating Bribery of Foreign Public Officials* calls on the 38 State Parties to the OECD Anti-Bribery Convention to, inter alia:

• Ensure companies cannot avoid sanctions by using agents and intermediaries to bribe for them;

• Periodically review policies and approach on small facilitation payments. These are legal in some countries if the payment is made to a government employee to speed up an administrative process;

• Improve co-operation between countries on foreign bribery investigations and the seizure, confiscation and recovery of the proceeds of transnational bribery;

• Provide effective channels for reporting foreign bribery to law enforcement authorities and for protecting whistleblowers from retaliation; and

• Working more closely with the private sector to adopt more stringent internal controls, ethics and compliance programs and measures to prevent and detect bribery.

The OECD Working Group on Bribery will monitor countries’ progress in putting these measures in place from the beginning of 2010 as part of their quarterly peer-review meetings.

The Recommendation makes up the third branch of OECD’s three-part anti-bribery framework, which also includes the Anti-Bribery Convention, the framework’s principal instrument, and the *2009 Recommendation on the Non-Tax Deductibility of Bribes.*

OECD

OECD supporting efforts towards Copenhagen climate deal

Friday, 11 December 2009

A deal at the UN Summit on Climate Change taking place in Copenhagen from 7-18 December 2009 is crucial if we are to protect the planet from the risks of global warming. The Secretary-General Angel Gurría and a team of OECD experts will be in Copenhagen to share analysis and policy advice.

How can we reduce greenhouse gas emissions?

The OECD argues for a range of policies with an emphasis on putting a price on carbon emissions, e.g. through carbon taxes and a “cap and trade” system in which companies can buy and sell the right to emit a certain amount of greenhouse gases. If a global carbon market is developed over the next decade, it would only cost one-tenth of a percent of average world GDP growth between 2012 and 2050 to keep greenhouse gas concentrations at safe levels. Carbon pricing would need to be complemented by energy efficiency regulations and standards and increased investment in research and development.

Removing environmentally-harmful subsidies to energy consumption and production is an important first step in establishing a price for carbon emissions. Joint OECD-International Energy Agency analysis shows that removing fossil fuel subsidies in emerging economies and developing countries could reduce global greenhouse gas emissions by 10% by 2050.

Fears over carbon leakage and loss of competitiveness

Some countries fear that by imposing lower emission limits, their domestic industries will lose competitiveness while greenhouse gases rise in other countries ("carbon leakage"). Some want to impose border carbon taxes on imports from countries that do not adopt stringent greenhouse gas targets. OECD analysis, however, suggests that border taxes do little to address competitiveness impacts, are expensive for both the country implementing them and their trading partners, and could lead to trade friction.

Instead, we need to level the playing field by broadening participation in a climate agreement to include as many countries and industries as possible. OECD work on harmonizing the tax treatment of tradable permits will create a fairer system among countries using "cap and trade" schemes.

Making economic growth greener will be central to this engagement. OECD work on the economics of climate change and green growth is showing how innovation and investment in renewable energy and improved efficiency can be a new source of economic dynamism.

Paying for greenhouse gas cuts

The carbon market should be an essential source of financing climate change mitigation. The OECD estimates that if all industrialised countries were to use taxes or auctioned permits to cut CO_2 emissions by 50% in 2050, the revenues could reach 2.5% of their GDP by 2020. The tax revenue could help boost economic growth or support climate change mitigation in developing countries.

OECD work has found that the costs of applying carbon taxes vary widely across developed countries. For Australia, Canada and the US, for instance, one tonne of CO_2 would have to be priced at 50 US dollars at least if emissions are to return to 1990 levels by 2020.

Engaging all countries: acting locally and globally

Poor countries will be hit the hardest by climate change through the effect of droughts, severe weather and rising sea-level. The OECD is providing guidelines for integrating mitigation and adaptation to climate change into development policy.

Cities can take the lead in planning for climate change. OECD work on “green cities” shows that they are often centres of innovation and can advance clean energy systems, sustainable transport and waste management to reduce greenhouse gases.

OECD

OECD composite leading indicators continue to signal a recovery

Friday, 11 December 2009

OECD composite leading indicators (CLIs) for October 2009 continue to point to a recovery in OECD economies; with the CLIs for Canada, France, Italy, Germany and the United Kingdom pointing more strongly to recovery than in last month’s assessment. Financial components (the spread of interest rates, EONIA, EURIBOR, M1) and business confidence are the main drivers to the CLI performance in these countries. All major non member economies are in a recovery phase (the change in the outlook for China compared to last month’s release is mainly due to a downward revision in the “Imports from Asia” component). To avoid confusion, it is important to note that the reference to ‘more strongly’ is in the context of the likelihood of recovery rather than the strength of the recovery per se.

The CLI for the OECD area increased by 1.0 point in October 2009 and was 5.7 points higher than in October 2008. The CLI for the United States increased by 1.0 point in October, 3.9 points higher than a year ago. The Euro area CLI increased by 1.3 point in October, 8.8 points higher than a year ago. The CLI for Japan increased by 1.2 point in October, 2.2 points higher than a year ago.

The CLI for the United Kingdom increased by 1.3 point in October 2009 and was 8.8 points higher than a year ago. The CLI for Canada increased by 0.8 point in October, 6.4 points higher than a year ago. The CLI for France increased by 1.2 point in October, 10.2 points higher than a year ago. The CLI for Germany increased by 1.6 point in October, 9.2 points higher than a year ago. The CLI for Italy increased by 1.1 point in October, 12.5 points higher than a year ago.

The CLI for China increased 0.2 point in October 2009, 5.7 points higher than a year ago. The CLI for India increased by 0.2 point in October, 4.0 points higher than a year ago. The CLI for Russia increased by 1.6 point in October, 1.1 points lower than a year ago. The CLI for Brazil increased by 0.7 point in October, 4.2 points lower than a year ago.

OECD