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OFID Quarterly

THE OPEC FUND FOR INTERNATIONAL DEVELOPMENT

Boosting infrastructure in Latin America and the Caribbean
OFID supports economic development in Armenia
Saudi Arabia celebrates inauguration of leading research university
Venezuela hosts South-South Summit

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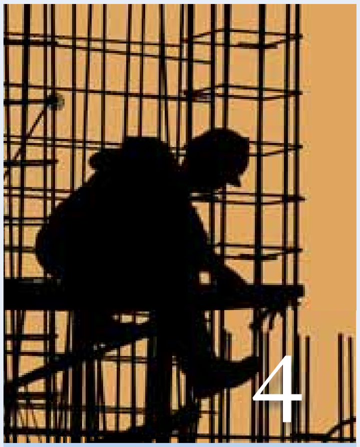

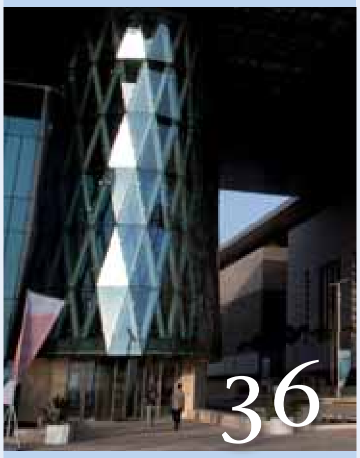

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SPOTLIGHT

Emerging out of the crisis: OFID part of the solution

The world has endured its most taxing crisis in modern times. It is now well established that the crisis started with strong financial characteristics and soon developed into an all-encompassing predicament involving all the facets of the real economy. From OFID's perspective, another result of the crisis was arguably the damaging loss of trust in institutions that had traditionally assumed a determining role in the management of the world economy.

A year has passed since international financial markets ran the risk of a complete meltdown and one major bank that was considered "too big to fail" did exactly that; this was the apparent beginning of a traumatic debacle which is still lingering despite hesitant signs of recovery. The trauma led to a credit crunch which started somewhat undetected in the advanced economies in 2007 and has rapidly engulfed developing countries through various channels. To complete the picture of the developing countries, to the credit crunch one must add a sharp reversal of private capital flows, marked declines in commodity prices, export revenues, tourism income and workers remittances.

With such an onslaught of financial setbacks, real economies could not go unscathed. The slowdown led to a steep rise in unemployment – particularly among women. In the poor countries without social safety nets, up to 90 million people were marginalized and pushed into extreme poverty, and the number of chronically undernourished is now close to one billion. All of these do not augur well for the UN Millennium Development Goals.

The credit crunch and the fall in countries' and governments' revenues led inevitably to an erosion of financial reserves and a deterioration of fiscal balances. As a result, the financial crisis created an extraordinarily large and urgent demand for external financing. The need for concessional development financing remains particularly urgent in low-income countries (LICs) – the traditional focus of OFID's assistance – which have little room for financial manoeuvre. For these countries, two dramatic shocks in rapid succession – the 2008 world food crisis and the global financial crisis – put insurmountable pressure on fragile balances of payments and government finances.

These are the times when International Finance Institutions (IFIs) must live up to their particular mandates; hence the call of the G20 for an enhancement of the resources of IFIs so as to enable them to support appropriately economies grappling with financial problems, particularly those of developing countries.

Driven by a strong sense of solidarity with the South, OFID responded swiftly to the demand of its Partner Countries as well as to the calls of the international community which realized that the magnitude and depth of the crisis called for joint forces and harmonized approaches.

Responding to the resolve of its Partner Countries to maintain their investments and ensure future growth, OFID front-loaded its programmed operations in support of public economic and social infrastructure, thus projecting to raise its commitments in 2009 by some 30 percent above their average level of the previous two years and continuing the trend in 2010.

One lesson is already looming above all others: the need for a fair global economic governance in which the poor have a voice.

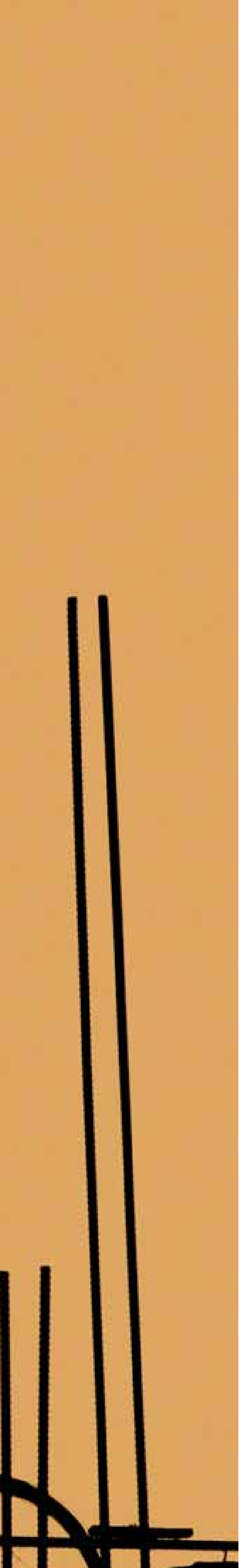
Noting the newly developed aversion by the commercial banks for supporting the Private Sector in low-income countries, OFID has accelerated the deployment of its Private Sector Facility with commitments in 2009 planned to be some 45 percent higher than the average of the previous two years. In so doing, OFID has re-emphasized support for microcredit, whose role in poverty alleviation is well acknowledged.

The credit crunch also affected trade financing and OFID found there another area for supporting the economies of its Partner Countries. The newly created Trade Finance Facility came into its own through lines of credit, direct financing of pre- and post-shipments of goods as well as providing working capital for such sectors as agriculture and agri-business. Equally relevant are OFID's growing programs of risk-sharing which encourage globally active commercial banks to maintain their activities despite a perceived deterioration in the balance sheets of their local counterparts.

Meanwhile, the alleviation of energy poverty remains a chief concern of OFID, in line with the commitment made by Heads of State and Government of OPEC Member Countries in the November 2007 *Riyadh Declaration*. Issued at the conclusion of the Third OPEC Summit, the Declaration identified the eradication of energy poverty as the first and overriding global priority. Further weight was lent to this goal by the pronouncement in June 2008 by King Abdullah Bin Abdulaziz Al Saud of Saudi Arabia of an *Energy for the Poor* Initiative. This Initiative, in which OFID was urged to play a leading role, aims at enhancing access to affordable modern energy services, particularly in the world's poorest countries, in collaboration with all relevant stakeholders in development. Both the Group of Eight (G8) and the Group of Twenty (G20) have lauded and pledged their support to the Initiative.

OFID realises that dealing with the effects of the financial crisis should also involve preparing the *after-crisis*. For OFID's Partner countries lessons are yet to be fully drawn, but the crisis – borne elsewhere – has demonstrated, once more, their vulnerability to external shocks. OFID is also to draw lessons from the experience, but one lesson is already looming above all the others: the need for a fair economic system and a global economic governance in which the poor have a voice. ■

PHOTO: SHUTTERSTOCK



Foundations for development

Building infrastructure in Latin America and the Caribbean

BY AUDREY HAYLINS

In countries of Latin America and the Caribbean (LAC), dwindling investment in strategic infrastructure has created in recent years a yawning gap between that region and the more dynamic Asian economies. Today, as governments wake up to the urgency of becoming more competitive, the private sector is emerging as an important ally. Leading the way in this process is one of OFID's newest partners, the *Corporacion Interamericana para el Financiamiento de Infraestructura* (CIFI), a specialist financial institution with a unique focus on the small- and medium-sized infrastructure sector.

As an important revenue earner in many countries of the LAC region, the tourism sector is a key focus for infrastructure development.

PHOTO: IVAN CHOLAKOV GOSTOCK-DOT-NET/SHUTTERSTOCK:

Adequate economic infrastructure is essential for productivity, growth and competitiveness. By definition, it is also one of the pillars of poverty reduction. According to a World Bank report*, however, spending on infrastructure in the LAC region dipped to less than 2 percent of Gross Domestic Product (GDP) in 2005, compared with the 3.7 percent allocated on average in the 1980s.

While the coverage and quality of infrastructure has undoubtedly improved, says the report, progress has been too modest, especially with regard to transportation and energy. Even the water supply and sanitation sector, which has fared better in relative terms, is hardly a success story, with 58 million Latin Americans still lacking access to potable water and a massive 137 million people without adequate sanitation.

Greater investment crucial

The dismal performance of the LAC region is largely the result of traumatic macro-economic crises over the past decade or so that forced drastic cuts in public spending. It is a performance that stands in stark contrast to the achievements of the so-called East Asian Tiger countries and China, which have all

* *Infrastructure in Latin America and the Caribbean: Recent Developments and Key Challenges,* August 2005 - the most current and definitive study on the topic.

forged ahead in productive infrastructure to lead LAC by a factor of three to two. The result, according to the report, is an upper middle-income region whose infrastructure coverage has fallen below the middle-income average.

The report concludes that the LAC region must increase investment in infrastructure development to 4 – 6 percent of GDP annually over the next 20 years in order to match the level of coverage of countries like Korea and China and increase LAC's competitiveness in world markets. Significantly, the report stresses the equal importance of the private sector as well as governments in moving forward.

An enabling environment

While desirable, however, the involvement of the private sector is not something that can be taken for granted, warns Juan Jose Juste, Chairman and Chief Executive Officer of CIFI:

"Potential investors need to be convinced that LAC countries offer an environment they can rely on," he says. "One of the biggest challenges facing the region, therefore, is the development of more stable economies, together with stronger legal, regulatory and institutional frameworks."

PHOTO: CIFI

Juan Jose Juste, Chairman and CEO, CIFI

Up until just a few years ago, investors could not get enough of the LAC region. Between 1990 and 2003, it was the beneficiary of half of the US$786 billion in infrastructure projects with private participation in the developing countries. Despite some spectacular results, however, there was also a down side. On the one hand, the private flows were never enough to offset the massive collapse in public investment and, on the other hand, private interest was focused on just a handful of countries. In addition, there were issues of immature governance and controls, together with a growing public disenchantment with privatization. By 2003, the level of private participation had plunged to just US$16 billion from a peak of US$71 billion in 1998.

CIFI: clear-cut goals

For CIFI, which was established in 2001, the objectives have always been obvious: "As an institution with local expertise and an intimate knowledge of the regional macroeconomic, political and regulatory environment, we see our main task as providing a friendly hand to investors both from within the region and from elsewhere like Europe," says Juste. With a shareholder group that includes Caja Madrid, the fourth largest financial institution in Spain, together with a clutch of other top-tier commercial banks and investment funds from Europe and Latin America, as well as four important multilateral institutions, CIFI is ideally positioned to broker deals between the two regions.

CIFI has chosen to focus exclusively on the modest end of the infrastructure spectrum. This, according to CIFI General Manager, Roldan Trujillo, is no coincidence: "With most international banks lending only for large-scale projects, we identified a niche in the region for a specialist financial institution that could arrange funding for smaller and medium-scale infrastructure projects," he explains. "As well as direct lending, CIFI sees itself as playing the role of 'arranger' - evaluating the bankability of potential transactions and making them viable for foreign investors."

PHOTO: CIFI

Roldan Trujillo, General Manager, CIFI

Diversification, perfect track record

Since starting business eight years ago, CIFI has spread its operations to 17 different countries. It has also built up a widely diversified portfolio covering a large range of infrastructure sub-sectors, from energy and transportation to telecommunications, mining, real estate, water and sanitation, to name just a few.

According to Trujillo, this spread is primarily determined by market demand, rather than by CIFI prioritizing certain types of projects. "A lot depends on the needs of any given country at ▶

Case study Peru

Ferrovias Central Andina S.A.
Ferrocarril Central Andino S.A.

In 1999, Ferrovias was awarded the concession to rehabilitate, maintain and manage the Peruvian Central Railway, the second highest railway in the world. It connects the port of Callao, near the capital city of Lima, with Huancayo in the Central Highlands and Cerro de Pasco, an important mining center. The railway, which climbs to a height of over 4,781 meters, is predominantly a freight transporter but also offers limited passenger services. The main business of the Central Railway is the transport of mineral concentrates, metals and other mine products from the highlands to the port of Callao, as well as the transport of supplies and equipment to the mining companies. In 2004, CIFI was hired as financial advisor and arranger by Ferrovias to structure a US$14 million long-term debt financing to expand its rolling stock investment and refinance short-term and medium-term debt. CIFI successfully structured and syndicated the financing package with the participation of DEG (Deutsche Investitions- und Entwicklungs-gesellschaft). The project was one of the first public-private initiatives by the Peruvian Government and has proven to be a successful demonstration of the concession process in Peru.

Source: CIFI

◀ any given time," he says. "For somewhere like the Dominican Republic where tourism is important, for example, the focus might be on hotels or the construction of toll roads. In Guatemala and Honduras, on the other hand, we have seen a lot of demand for power supply schemes."

It is this diversified base that has led, at least in part, Trujillo believes, to CIFI's quite remarkable record of zero defaults, something rarely seen in the world of finance. "We have stringent guidelines in place to give us a good risk balance in our portfolio," he says. "This means we are never over-exposed, either in a particular country or a particular sector."

In addition, the company has put in place a meticulous and highly effective credit approval process, which Trujillo is convinced minimizes the possibility of failure. "We have the benefit of working in a small team," he says. "So the peer review process is very open and critical and brings together the minds of the whole team. Our internal mechanisms for launching the transactions, signing the transactions and then controlling the transactions are therefore completely thorough."

Clients and partners

CIFI's clients are characteristically corporations that have either won a government concession as part of an industry privatization process, or secured a government contract for a joint public/private undertaking. This, according to Trujillo, is typical for the region, where virtually all infrastructure transactions are built on some degree of public/private participation.

Deals come to CIFI in a number of ways: directly from investors that the company has a standing relationship with, through multilateral organizations, or through CIFI's marketing program. Whatever the source of the deal, however, CIFI likes to be involved right from the beginning. "Ideally, we like to see the transaction through from start to finish," says Juste. "This means taking a lead role in the structuring and the financing as well as in the distribution of the transaction to other banks."

In arranging deals, CIFI is highly conscious of the need to partner with, and tap into the expertise of, other organizations. Explains Juste: "Latin America is much more than just a continent. Each country has its own peculiarities, and just because we are there and know how to do the deals, does not mean that we are an institution that can do things on its own. Collaboration and partnership are the keys to our success."

Alongside Caja Madrid, which is the majority partner, multilateral financial institutions feature strongly in CIFI's shareholder group. Among them are the Central American Bank for Economic Integration (CABEI), the Inter-American Investment Corporation, the Caribbean

Development Bank, and the group's most recent member, the International Finance Corporation (IFC).

"We were delighted when IFC came on board last year as our number two shareholder," says Juste. "The Corporation has brought a lot of ideas and expertise to the table and, being a part of the World Bank Group, carries a lot of weight in terms of prestige. Our shareholders now include four of the five multilaterals most active in the LAC region. This is something we are very proud of."

Looking to the future, one of CIFI's main objectives is to expand the structuring and advisory side of its operations so that it is not purely a lender. Juste reveals that CIFI has set a number of strategic objectives to be reached by the end of 2012, the most important being greater diversification, both in terms of assets and liabilities. "We want to expand the type of products we offer customers and, at the same time, widen the nature and source of our own funding," he says. "Our ultimate goal is to have a balance sheet that matches our enormous strategic value and to achieve an official credit rating."

CIFI's collaboration with OFID has commenced with a US$15 million line of credit for on-lending to the private sector in a group of prioritized, lower-income LAC countries. Both Trujillo and Juste are hopeful that this initial investment is the beginning of a more strategic partnership. Says Trujillo: "We would like OFID to consider CIFI as more than simply a borrower. We see both organizations as being quite complementary in the LAC environment and believe that the possibilities for cooperation are very good." ■

Case study Belize

Belcogen

Belcogen (Belize Co-generation Energy Limited) is a greenfield project that involves the development, construction and operation of a 32.5 MW capacity, co-generation power plant located adjacent to the Belize Sugar Industries Limited (BSI) sugar factory in Tower Hill, Belize. The 27.5 MW biomass facility will burn sugar cane fibre (bagasse) as its primary fuel during the in-crop period (December – July), and will be supplemented with two diesel engines (5 MW) during the out-of-crop period (August – November). Belcogen will generate baseload electricity of 13.5 MW to supply the national grid (Belize Electricity Limited, the privately owned electrical utility in Belize) under a signed Power Purchase Agreement (PPA), and also to supply BSI with its electrical power (9MW) and steam requirements. Belcogen's total investment cost is US$46.5 million, of which US$30.25 million is being financed with debt. CIFI acted as financial advisor and lead arranger for the long-term financing of the project, raising the required US$30.25 million from FMO of the Netherlands, the Inter-American Investment Corporation, the Caribbean Development Bank and CIFI. *Source: CIFI*

Nigeria's First Lady visits Austria

Attends General Conference of IAEA and calls on OFID DG

BY SAM IFEAGWU

Nigeria was, in September, represented at the *53rd General Conference of the International Atomic Energy Agency (IAEA)* by HE the First Lady, Hajiya Turai Umaru Yar'Adua, wife of Nigerian President Alhaji Umaru Musa Yar'Adua.
The Conference adopted resolutions on several items including the Agency's Program and Budget for 2010-2011; measures to strengthen international cooperation in nuclear, radiation, transportation and waste safety; nuclear security measures to protect against nuclear terrorism; and strengthening of the Agency's technical cooperation activities.

It was the Nigerian First Lady's first official visit to Austria where she also met with high-level Austrian Government officials and the heads of various international institutions based in Austria, including OFID.

At OFID, she held talks with Director-General Mr. Suleiman J. Al-Herbish and met, at her own request, with Nigerians working at OFID. The First Lady was accompanied by a large high-level delegation which also included Nigeria's Ambassador to Austria and the United Nations agencies in Austria.

Exchanging views with Mr. Al-Herbish, Hajiya Turai, as she is affectionately known among Nigerians, explained her engagement with humanitarian causes, especially in the areas of [the battles against] cancer and HIV/AIDS. Mr. Al-Herbish informed the First Lady about OFID's continuing contributions to the global campaign against HIV/AIDS, touching on the institution's *Special Grant Account for HIV/AIDS operations.* Mr. Al-Herbish took the opportunity to explain to the Nigerian First Lady and her entourage the aims, record and continuing operations of OFID. He specifically mentioned OFID grants toward poverty alleviation and to poorer countries that are not OPEC Member States.

PHOTO: AGNES NEBEHAY

Nigeria's First Lady, HE Hajiya Turai Umaru Yar'Adua, with OFID Director-General, Suleiman J. Al-Herbish

Hajiya Turai told Mr. Al-Herbish that cancer kills more Nigerians than HIV/AIDS and malaria. She blamed the situation on a lack of necessary equipment and facilities for diagnosis, physiotherapy and palliative treatment of the disease in the country. She told the Director-General that, as a result of the growing number of cancer patients in Nigeria and other African countries, her non-governmental organization, *Women and Youth Empowerment Foundation (WAYEF),* decided to establish an *International Cancer Centre in Abuja (ICCA),* in collaboration with the MD Anderson Cancer Center of Houston, Texas, USA. The First Lady disclosed that the Abuja centre, when fully operational, would provide cancer treatment and services to Nigeria and 13 other West African countries, before expanding its services to the entire African continent. The center would be the first of its kind and, indeed, the best in West Africa and would serve as the flagship of healthcare delivery in Nigeria and other countries.

The cancer center project would cost 10 billion Naira (about US$100 million), with 50 percent of the funds already raised. The project would require a matching 50 percent funding to fully take off.

At the meeting with OFID's Nigerian staff, the First Lady spoke about the need to do the very best one could to uphold the mandate of the institution and ensure that the image of the country (Nigeria) was held in high esteem by colleagues. She was welcomed by Mallam Farouk U. Muhammed, on behalf of the Nigerian staff at OFID.

Hajiya Turai is a philanthropist and humanitarian; which partly explains her interest in OFID and the work of OFID to lift people out of poverty. The First Lady has worked tirelessly to be of genuine assistance to people in great need across Africa and elsewhere, often devoting her own personal resources to paying health and education bills for people in need in the whole of Africa. She is committed to issues of peace, good governance and exemplary leadership as well as advancement in the cause of the less privileged.

Hajiya Turai has received numerous honors and decorations for her humanitarian work. She has tried to ease the pain of various children born with some forms of deformity. The same applies to the clinical bills of many underprivileged patients. Similarly, she has provided scholarships to students and given hundreds of tricycles and other working materials to the disabled.

Born in Katsina, Nigeria, July, 1957, Hajiya Turai was a gifted child. She graduated from Nigeria's Government Girls Secondary School, Kankiya, and subsequently attended the Katsina College of Arts, Science and Technology. She taught for a while and then went on to Nigeria's prestigious Ahmadu Bello University, where she obtained a Bachelor of Arts degree (Education and Languages) in 1983.

In her primary engagement at the IAEA, Hajiya Turai spoke of Nigeria's ability to deliver electricity to its citizens by exploring the country's atomic energy potential. She met with incumbent IAEA Director General, Dr. Muhammed el-Baradei; IAEA Director General-designate, Mr. Yukiya Amano; the Director General of the UN Office in Vienna (UNOV), Mr. Antonio da Costa; and the Director General of the United Nations Industrial Development Organisation (UNIDO), HE Dr. Kandeh Yumkella. With senior IAEA staff, she discussed the Agency's Program of Action Against Cancer Therapy (PACT) on behalf of her Cancer Center in Abuja. She also inaugurated a new website of the Nigerian Embassy in Vienna, before meeting with the Austrian Chapter of the Nigerians in Diaspora Organization (NIDO). Hajiya Turai equally held private meetings with the First Ladies of Austria and Slovakia to promote mutual relations between Nigeria and the two countries.

Marcel Khalife thrills Vienna audience at *Concert for Peace and Humanity*

In late June, Marcel Khalife, the world-renowned Lebanese musician and composer, accompanied by the Al-Mayadine Ensemble, gave a thrilling three-hour concert at the Arcade Court of Vienna's City Hall. The Concert, of which OFID was the major sponsor, was part of several events around the world to commemorate the 60th anniversary of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).

BY AGNES NEBEHAY

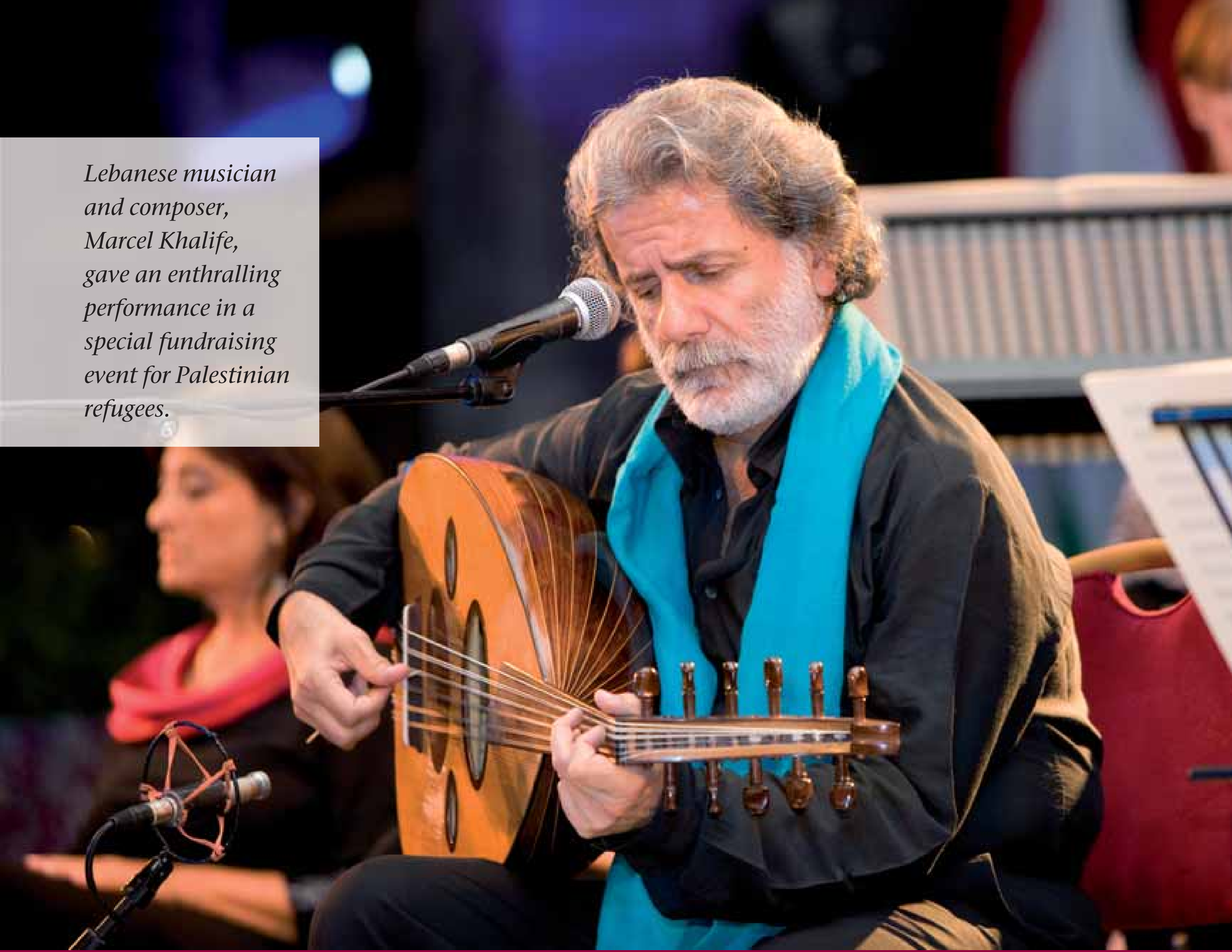
The *Concert for Peace and Humanity* was a fundraising event organized by the Society for Austro-Arab Relations (SAAR). The venue was filled with over 900 people of all ages and cultures, who were treated to a spectacular performance of traditional Arabic music spiced with jazz and classical influences. At several points, many members of the audience joyfully chorused some well-known Marcel Khalife songs.

The concert was held under the joint patronage of Austrian Federal President, Dr. Heinz Fischer and UN Secretary-General, HE Ban Ki-moon, who addressed the audience through a video link, in which he spoke of the plight of the Palestinian refugees and UNRWA's role in assisting them. Mr. Ban Ki-moon also paid tribute to Marcel Khalife for using his musical gifts to cross the boundaries of faith, race and social class. "They remind us of our shared humanity as well as our shared responsibility to build a better world," the UN Secretary-General said. The Concert was also supported by a high-level honorary committee consisting of Austrian Federal Chancellor HE Werner Faymann; Foreign Minister, HE Dr. Michael Spindelegger; and Mayor of Vienna, HE Dr. Michael Häupl. Others were EU Commissioner, HE Dr. Benita Ferrero-Waldner; UNRWA Commissioner-General HE Karen Koning AbuZayd; and OFID Director-General Mr. Suleiman J. Al-Herbish.

Another highlight of the memorable occasion was the announcement by Mr. Al-Herbish that OFID had approved a US$1.2 million grant in support of a new Scholarship Fund for Talented Palestinians. The funds will provide higher education opportunities to Palestinian students from the West Bank and Gaza Strip as well as refugee camps in neighboring countries. In her response, Ms. AbuZayd thanked OFID for its "generous and unwavering support" to the Palestinian people. She noted that education is UNRWA's main area of focus and emphasized that it is the most important factor in the development of a stable future for virtually any society.

Meanwhile, at a separate signature ceremony July 1, 2009, Mr. Al-Herbish announced an additional US$3 million pledge to the *OFID Micro Enterprises for Palestine* (PalFund), which is administered by UNWRA on OFID's behalf. Cooperation between OFID and UNRWA extends back over many years and is set to be strengthened well into the future.

OFID's longstanding support to the Palestinian people has intensified since November 2002, when a dedicated window was set up specifically to channel funds to the Occupied Territories as well as to Palestinian refugees in neighboring countries. Initially endowed with US$10 million, the *Special Grant Account for Palestine* has been replenished several times and now stands at US$90 million. ■



Lebanese musician and composer, Marcel Khalife, gave an enthralling performance in a special fundraising event for Palestinian refugees.

Mr. Fritz Edlinger, Secretary-General of the Society for Austro-Arab Relations (center) and HE Karen Koning AbuZayd, UNRWA Commissioner-General *(right)* applaud the announcement by OFID Director-General Mr. Al-Herbish *(left)* of a US$1.2 million contribution to the Scholarship Fund for Talented Palestinians.

OFID supports Armenia's economic development

PHOTO: PRESS OFFICE OF THE PRESIDENT OF ARMENIA

In recognition of the cooperation between OFID and Armenia, President Serzh Sargsyan presented Director-General Al-Herbish with the prestigious *Anania Shirakatsi* medal.

BY FAROUK U. MUHAMMED AND TURKI AL-MUAIKIL

In pursuing its mandate, OFID believes strongly in the importance of visiting and engaging in direct dialogue with its partner countries. Such missions are an opportunity to review sponsored projects on the ground and glean a better understanding of an individual country's needs and priorities. In mid-July, OFID Director-General, Mr. Suleiman J. Al-Herbish, led a top-level delegation to Armenia, where successful discussions with the country's leadership focused on ongoing OFID projects, future cooperation and the strengthening of existing ties between the country and the institution.

One of the highlights of the visit was an audience with Armenian President, Mr. Serzh Sargsyan, who expressed profound appreciation to the Director-General for OFID's cooperation, flexible procedures and strong practical support. He was particularly grateful for OFID's co-financing of the Natural Gas Connectivity Networks Project that will supply 32 rural communities with natural gas.

In recognition of OFID's cooperation, President Sargstyan presented Mr. Al-Herbish with the prestigious *Anania Shirakatsi* medal, which is awarded in recognition of notable activities in the fields of economics, engineering, science and technology as well as significant inventions and discoveries. The President reiterated his country's "satisfaction with the projects that have been implemented by OFID in Armenia" over the years. Such projects, he added, had "contributed immensely to rural development and poverty reduction."

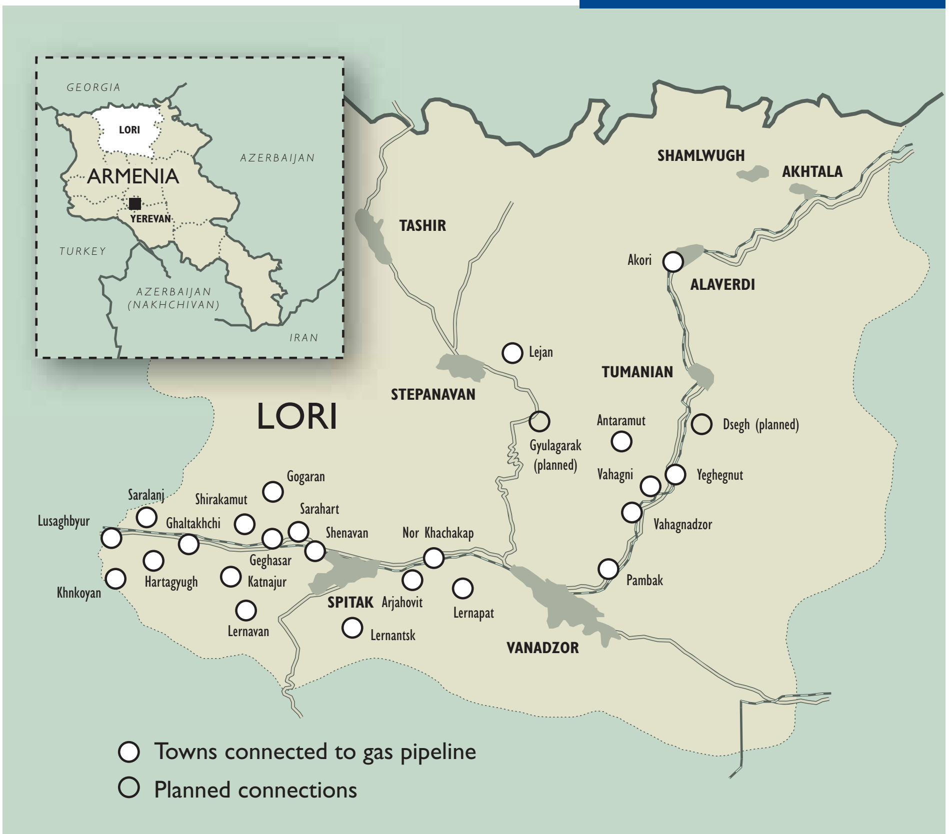
In his response, Mr. Al-Herbish said that he was deeply honored to receive the "splendid decoration" on behalf of the entire OFID family, noting that it symbolized "the strong and fruitful cooperation between OFID and Armenia." Mr. Al-Herbish stressed that OFID's support to financial and other institutions in Armenia is in tune with the institution's mandate and overall development strategy. In particular, he mentioned OFID's support to Small and Medium Enterprises (SMEs) in the country, "which is channelled through Byblos Bank Armenia and Inecobank."

The OFID delegation was also received by Armenia's Prime Minister Mr. Tigran Sargsyan; the Vice Prime Minister/Minister of Territorial Administration, HE Mr. Armen Gevorgyan; as well as the Minister of Agriculture, HE Mr. Gerasim Alaverdyan; among other ranking officials. In attendance at discussions that followed was the Coordinator of IFAD's Armenia Program, Mr. Henning Pedersen.

The Prime Minster expressed his pleasure at the OFID delegation's visit and called for closer cooperation in terms of the need to increase investment by way of additional lending to SMEs for infrastructure-related projects, including the building of roads and power systems, irrigation modernization, and the installation of gas facilities, particularly in the rural areas of the country. He referred to the economic downturn triggered by the global financial crisis, and stressed that in spite of such difficulties, Armenia was looking to "speed-up the process of reforms which could enhance the effectiveness of joint action with international partners" such as OFID.

Responding, the Director-General highlighted OFID's ethos of always accommodating the expressed needs of the countries it works with. OFID, he stressed, never dictates areas of focus to ▶

Armenia fact file



Armenia is a landlocked country, bordered on the north by Georgia, on the east by Azerbaijan, on the South by Iran and on the west by Turkey. Occupying an area of 29,743 km^2, the country has a population of three million (UN 2008). The capital is Yerevan and the spoken languages are Armenian and Russian. The country has a GNI per capita of US$2,640 (World Bank, 2007); and its main exports are: processed and unprocessed diamonds, machinery, metal products and foodstuffs. In the northern Lori region, the OFID-sponsored gas distribution scheme has connected 23 towns to the natural gas network. Two more towns will be added shortly. *Source: FMAP*

◀ its partners. Accordingly, Mr. Al-Herbish thanked the Prime Minister for the warm reception and said he had noted the government's commendable plans for its people. He assured that OFID would continue to "provide support to Armenia in areas accorded high priority by the government." Mr. Al-Herbish referred to OFID's earlier loans that had helped promote rural development in the country. These, he said, reflected OFID's cardinal mandate to offer as much financial support – as possible within it means – to the poorest segments of society within a partner country (see case study, page 52).

Also during the mission, the OFID delegation attended the inauguration of one of the gas distribution schemes that forms part of the Gas Connectivity Networks Project. Located in the rural Lori region, the scheme involves 80 km of medium pressure pipeline and a 160 km-long gas distribution network.

Addressing the local community and officials, Mr. Al-Herbish expressed pleasure that he could help inaugurate "one of the most important programs for the people of Armenia." He noted that the project would convey piped natural gas to individual households thus alleviating difficulties encountered by the population in accessing continuous and affordable energy for cooking and heating. He said the project would eliminate the use of less efficient and more costly types of domestic fuels, thereby contributing to the protection of forests in particular and the environment in general. The Director-General stressed that "the focus on energy is in line with the guidance given by the Heads of State of OPEC Member Countries as stipulated in the 2007 Riyadh Declaration, which prioritized the eradication of energy poverty in developing countries." In conclusion, Mr. Al-Herbish commended the President, Prime Minister, Vice Prime Minister, Minister of Energy and others "for having the foresight to enable the project to be realized," and assured of "OFID's continuous support for the full development of essential socio-economic services to Armenia, particularly its rural communities."

At the end of the three-day mission, Mr. Al-Herbish and his delegation left Armenia with pleasant memories of a country that remains focused on developing it economy as quickly as possible, with particular emphasis on empowering the rural population.

Other members of the OFID delegation were: Mr. Said Aissi, Assistant Director-General, Operations; Mr. Imhemed Bukader, Director, Asia and Middle East Region; Mr. Turki Al-Muaikil, Senior Operations Officer; and Ms. Monique Kouyoumdjian, Office of the Director-General. ■

PHOTO: MINISTRY OF AGRICULTURE

In the Lori region, townspeople turned out in force to welcome the OFID delegation and celebrate the inauguration of the new gas pipeline. Pictured center are Imhemed Bukader, Director, Asia and Middle East Region and Monique Kouyoumdjian, Office of the Director-General.

OFID in Armenia

To date, OFID has provided Armenia with millions of dollars in soft loans mostly for public sector projects in the areas of agriculture, agro-industry, transportation and energy, as well as projects of a multi-sectoral nature. OFID's main co-financing partner in Armenia is IFAD (the International Fund for Agricultural Development). Following signature of an Agreement for the Encouragement and Protection of Investment (AEPI) in February 2005, OFID has also been channelling support to Armenia's private sector to help make more funding available to small and medium-size enterprises (SMEs).

Reading, ’Riting and ’Rithmetic

Having fun with the three R’s in Côte d’Ivoire

Twelve-year-old Atsin Ado Romain loves his new school almost as much as he loves playing football. He has his own desk and chair. The classroom is bright and airy. His teacher is fun. And, best of all, there is plenty of space outside for a kick-about with his friends during break.

PHOTOS: MONA ALESSA

Atsin is one of thousands of children in West Africa’s Côte d’Ivoire, who are today learning the three R’s in an OFID-sponsored elementary school. Over the past few years, OFID has helped build dozens of these schools across the country, most of them in underserved, rural areas. The new facilities are modern and spacious, and for the pupils and teachers alike, a world away from the cramped, dilapidated classrooms they’ve been used to.

For a country that still bears the scars of a bitter civil war, Côte d’Ivoire has much to be proud of when it comes to the education of its children. Since launching a national plan for development of the education system 12 years ago, the country has steadily increased enrolments and reduced absenteeism and drop-out rates, all of which has been achieved in spite of political and fiscal difficulties.

At the heart of government policy is the need to build enough schools – especially at elementary level – for the country’s predominantly younger population, and locate them so that all children have access to a “local” school within a reasonable distance of home. Other priorities include toilet facilities, on-site canteens and smaller class sizes, together with more and better-qualified teachers. Efforts are also ongoing to encourage more girls to enter and remain in the education system.

Atsin’s school in the village of Ebimpe meets most, if not all, of these requirements. Located some 35 km north of the capital Abidjan, the village is home to around 1,500 people, most of whom earn a living from agriculture, growing mainly cassava, yams and coffee. Although they are not desperately poor, it is nevertheless a hard life for the overwhelming majority of families.

Until the new premises opened, all of Ebimpe’s children were crammed into a very old, rundown building that lacked even the most basic furniture and facilities. For the lucky 240 or so that have secured a place in the OFID school, life couldn’t be more different. Although still quite basic, the six roomy classrooms – for grades one through six – are designed to hold no more than 40 students at a time, instead of the usual 70. There are colorful posters on the walls, desks and chairs for each child, and even a blackboard in each classroom!

“The children are clearly delighted with their new school,” reports Mona Alessa, OFID Country Officer for Côte d’Ivoire, who recently returned from a brief visit to Ebimpe. Despite it being the summer break, the young students and their teachers turned out in large numbers, together with the village elders, to ▶

Atsin and his classmates are enjoying lessons in their new school, which is just one of many built with OFID support.

◀ say thank you to OFID for its help. Mona came away with some lasting impressions of the community and its children: "Like almost all Ivorian youngsters, the children of Ebimpe are thirsty for knowledge. They understand that education is a way out of poverty to a better future, and they are very motivated to attend school," she says. "This is true, even for those students who haven't been able to get into the new school. You can see that they are dedicated to learning at all costs, regardless of the hardships they have to endure to do so."

For the children attending the OFID school, it is not just the novelty and comfort of the modern building that appeals to them. With smaller class numbers, there is less noise, fewer distractions, and each student can enjoy more personal attention from the teacher.

And the impact is already being felt. Teachers report that attendance and performance levels are up and that the children are better behaved and more attentive. Word travels fast in a small village, so places at the school have become highly coveted and there is a long waiting list to get in.

Atsin Ado Romain is one of the lucky ones. More than that, he is a shining example of the school's success, having recently passed with flying colors his primary school completion exam, the Certificate of Elementary Studies. Atsin scored 102 points, which is well above the pass mark of 85 set by the state. He is now keeping his fingers crossed that a place can be found for him in the oversubscribed grade 7 class of the nearby secondary school.

Atsin's favourite subject is history and he would dearly love to continue through high school and maybe even go on to college. His first love, however, will always be football, and it is his greatest wish when he grows up to become an international star like his idol and national hero, the Ivorian footballer Didier Drogba. The 12-year-old can but dream. At least – and if fate favors him with a place in secondary school – he'll always have his education to fall back on. ■

Al-Herbish accepts distinguished Ivorian honor on behalf of OFID

In August, during a high-level visit to Côte d'Ivoire at the invitation of President Laurent Gbagbo, OFID Director-General, Mr. Suleiman J. Al-Herbish, was decorated with the prestigious Commandeur de l'Ordre National Ivoirien. The honor was conferred by the President in recognition of the significant contribution made by OFID, under the leadership of Al-Herbish, to Côte d'Ivoire's development. The ceremony took place at the Presidential Palace during the 49th anniversary celebration of the country's independence. Mr. Al-Herbish, the only foreign recipient of the distinction, was decorated alongside the country's former Minister of Agriculture, HE Abdoulaye Sawadogo.

In a later, private meeting with President Gbagbo at the Presidential Residence, Mr. Al-Herbish expressed his appreciation for the warm welcome the OFID delegation had received in Côte d'Ivoire, as well as for the decoration which he accepted on behalf of the OFID family. The President thanked the Director-General for his visit and for OFID's ongoing support to the country, "especially during the hard times we have recently endured."

Mr. Al-Herbish with Ivorian President Laurent Gbagbo.

OFID assists flood-damaged African countries

Although OFID's core activities focus on providing concessional financing in support of sustainable projects across the developing world, the institution recognizes that emergency assistance is still instrumental in helping mitigate the suffering of those affected by natural disasters. Therefore, when the International Federation of Red Cross and Red Crescent Societies (IFRC) launched an appeal to the donor community in September to mobilize funds to help victims of ongoing flooding in West and Central Africa, OFID swiftly responded by approving a grant of US$1 million. The IFRC subsequently divided proceeds equally among the National Red Cross Societies in five of the hardest-hit countries; namely, Burkina Faso, Chad, Mauritania, Niger and Senegal.

Since the onset of the rainy season in June, 16 countries in West and Central Africa[1] have been inundated by torrential rains that have caused massive flooding. While the total number of fatalities is relatively low, at least 600,000 people have been affected since the spate of floods began, and the long-term impact on already-vulnerable populations has yet to be seen. To date, a vast amount of infrastructure and homes have been damaged or destroyed and crops and livestock swept away, jeopardizing food security and livelihoods for thousands of agricultural communities.

The incidence of flooding is not a new phenomenon in the West and Central African region, which is inhabited by some 275 million people. With much of the territory situated in low-lying areas that are, at most, 300 m above sea level, and the majority of rainfall occurring from May/June until the end of

September, the natural attributes of the region render it susceptible to severe flooding.

Unfortunately, pervasive poverty, especially in rural areas, contributes to the severity of the problem. During periods of heavy rainfall, outdated and dilapidated water supply and sanitation infrastructure becomes easily blocked. Poorly-maintained and unpaved rural roads become rapidly submerged. Environmental degradation, owing to intensive farming practices, and deforestation deplete agricultural land of its natural protective mechanisms. Low-income cities also face a number of challenges in coping with inadequate infrastructure, a situation that has worsened with urban migration.

Natural disasters are a challenge for any country, but it is clear that their socio-economic impact on fragile populations in the developing world has far-reaching consequences, particularly in countries trying to recover from earlier catastrophes. Such is the case in West and Central Africa, where nearly three-quarters of the population live on less than US$2 day. Just two years ago torrential rains pelted the region, affecting some 800,000 people and taking the lives of 300. This year's rainy season brought about unprecedented levels of rain in many areas. For example, in just one day the Burkinabe capital Ouagadougou received 263 mm of rain – equating to one-quarter of the annual rainfall for the entire country – levels not seen in almost a century. In the Bongor region in Chad, some 240 km south of the capital N'djamena, violent rains caused the Logone River to rise to dangerous levels that caused considerable damage to a nearby dam. Other countries report similar hardship.

Over and above the massive damage to infrastructure that the flooding has brought, the potential for disease outbreaks is high. Diarrheal and waterborne illnesses pose an ongoing threat, as seepage from blocked sewage systems has contaminated drinking water, causing health risks, especially for young children and the elderly. Stagnant water provides ample breeding grounds for mosquitoes and increases the potential for malarial outbreaks in countries that are already malaria-prone. Authorities are remaining vigilant in monitoring any reports of disease, and massive efforts have been underway to distribute water purification tablets, fresh drinking water, mosquito netting and anti-malarial drugs. Meanwhile, health workers are gearing up to handle any possible epidemics.

PHOTOS: IFRC

Mothers and children are among the tens of thousands of people who have lost their homes as a result of the severe flooding in Senegal.

The IFRC has been working in close cooperation with government entities, partnering national societies and a number of humanitarian organizations, including NGOs and UN agencies UNICEF, the World Food Program and the UN Office for the Coordination of Humanitarian Affairs. Widespread efforts of all actors have enabled the rapid deployment of staff and volunteers to dispense food rations, bedding, hygiene articles, tents and other urgently-needed items. High priority is also being accorded to promoting safe hygiene and sanitation practices. Relief workers are poised to assist communities after the floodwaters have receded to carry out works such as rehabilitating water supply sources and other damaged infrastructure, maintaining emergency food supplies and providing seeds and agricultural tools.

In addition to the latest grant, OFID has, since its inception, released US$60 million in emergency assistance. As well as providing funding to victims of natural catastrophes, such grants have also been extended to help address the plight of populations displaced as a result of civil conflict, and to close funding gaps in food distribution programs. In 2002, OFID established a US$20 million Food Aid Special Grant Account to distribute some 43,000 metric tons of food rations to nine famine-struck African countries.

1 Benin, Central African Republic, Chad, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo.

Second OFID scholarship recipient graduates

In line with OFID's continuous support to education which is one of the Millennium Development Goals, the Governing Board approved in 2007 the establishment of an Annual Scholarship Award. Each year, the OFID Scholarship supports a qualified student from a developing country to pursue higher education in a relevant field of development. The second recipient of this Award, Ms. Ismat Lotia, from Pakistan, recently graduated from John Hopkins Bloomberg School of Public Health with a Master's Degree in Public Health Administration.

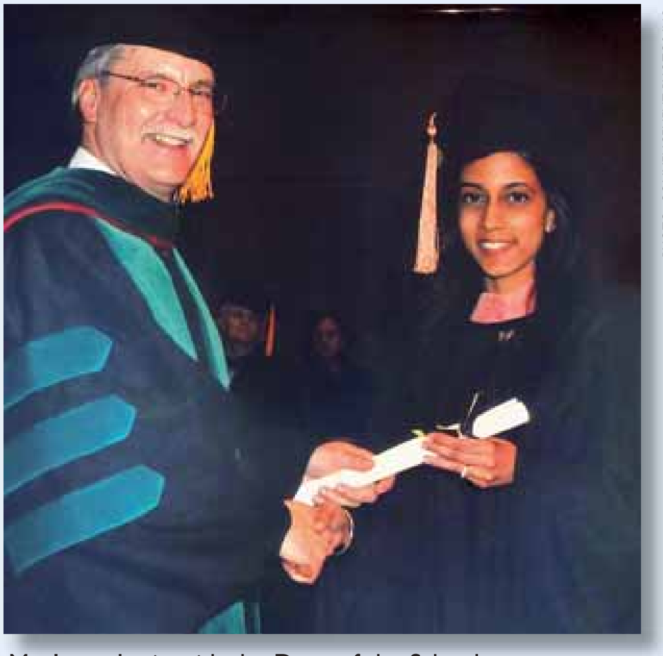


PHOTO: COMMENCEMENT PHOTOS INC.

Ms. Ismat Lotia with the Dean of the School of Public Health, Dr. Michael Klag.

The Scholarship Award aims at supporting a highly motivated and academically driven individual from a developing country to overcome one of the biggest challenges: the cost of advanced academic graduate training. The winner of the OFID Award receives a full scholarship of up to US$100,000 toward the completion of a Master's Degree in a development-related field.

The first winner (2007) was Ms. Leah Manuzon from the Philippines. She has since returned to her country after successfully completing her Masters Degree in the School of Policy, Planning and Development at the University of Southern California, USA.

The second winner of the OFID Scholarship – for 2008/2009 – was Ms. Ismat Lotia from Pakistan. She was offered admission into the Johns Hopkins University Bloomberg School of Public Health to pursue a Masters Degree in Public Health (MPH). The MPH program is designed for individuals who have some experience within the field of development and who wish to build on the experience, academically and professionally, in an intensive capacity. Ms. Lotia aspired to attend this program due to its blend of academic and professional training which she said "truly fulfilled more than I had desired from my graduate education." Her capstone project involved a data analysis of health-seeking behaviour among a low- to middle-income urban community in Karachi. "I examined the various socio-economic factors related to the decisions taken by household members to medicate their children at home instead of taking them to a health care provider. This question has implications for health care utilization and service delivery for similar communities in the region," she explained.`

Ms. Lotia, graduated from the program in May 2009, and has returned to work as an epidemiologist and program manager at the NGO "Interactive Research and Development" (IRD) in Karachi. IRD is a non-profit institute that seeks to bring together scientists and entrepreneurs with a view to maximizing the impact of health interventions in poor communities. Ms. Lotia is currently working on a Hepatitis B vaccination delivery project to 50,000 children and newborns in low-income families living within the catchment population of Karachi's Indus Hospital. She said "I hope to focus on further research and development in the prevention of communicable diseases among women and children in South Asia."

OFID strives to support human capacity building in developing countries in various forms. The Scholarship initiative seeks to guide young men and women from developing countries to make a difference within their communities through the acquisition of higher education. The OFID Scholarship is in its third year.

OFID diary

July - September 2009

JULY 1

Grant agreement signed

As a further demonstration of OFID's commitment to the welfare of the Palestinian people, a US$3 million grant agreement was signed with the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).

JULY 2

Loan agreement signed

Madagascar. US$10 million. Bekoratsaka–Boriziny (RN6) Road Rehabilitation project.

JULY 10

Loan agreements signed

Colombia. US$20 million. Buga-Buenaventura Highway.

Dominican Republic. US$30 million. Electricity Distribution Rehabilitation.

JULY 16

Al-Herbish concludes high-level mission to Armenia

Mr. Suleiman J. Al-Herbish, OFID Director-General, visited Armenia at the invitation of the Prime Minister HE Mr. Tigran Sargsyan. See story page 14.

JULY 24

OFID sponsors Save the World Awards

The Save the World Awards are the first major global honors presented to exceptional personalities and organizations working toward a sustainable future for our planet and its people, with the goal of fostering greater awareness of environmental and development issues. The 2009 awards were held in Zwentendorf, Austria, as part of the Sustainable World Congress.

AUGUST 10

OFID Director-General heads top-level mission to Cote D'Ivoire

See story page 19.

AUGUST 17

Research grants approved

Arab Forum for Environment and Development (AFED). US$100,000. This grant will sponsor the 2nd Annual Conference of AFED, to be held under the theme, *The Impact of Climate Change on Arab Countries*. The event will take place in Beirut, Lebanon on November 19-20, 2009, and is expected to bring together over 500 top Arab and international delegates, including 30 ministers of energy and environment. It will focus on climate change and will help develop a common Arab position for the December 2009 International Conference on Climate Change (COP 15).

Nyama e.V. US$100,000. The grant will help finance a project of the *Nyma e.V.*, a non-profit NGO that aims at helping improve the welfare of the Tibetan people. The scheme intends to strengthen Tibetan traditional medicine (TTM), which uses local plants. Activities include bolstering the use of TTM in healthcare settings, as well as the education and training of stakeholders in using these treatments. Furthermore, income-generation activities will be promoted through the construction of greenhouses for cultivating medicinal plants and herbs.

Oxfam. US$100,000. The main beneficiary of this grant is a scheme that aims at enhancing living conditions and boosting food security among women in Senegal who are engaged in food processing/production. Envisaged activities under the scheme include expansion and diversification of packaging equipment/materials; marketing and testing of selected products; implementation of improved quality control measures; and capacity building among beneficiaries. Some 2,500 rural women are expected to benefit from the project.

AUGUST 18

Research grants approved

Arab Thought Foundation (ATF). US$100,000. The grant will co-sponsor the 8th ATF General Conference entitled *FIKR 8 Kuwait 2009*, which will hold December 9–10, 2009, in the State of Kuwait. The Conference bears the theme *Integrating the Arab Economy Partners for Prosperity*, and will bring together over 500 Arab and foreign leaders, business people, scientists and researchers. The main objectives of the event include the discussion of development challenges faced by the Arab region and strategies to overcome them; as well as strengthening inter-Arab cooperation and collaboration between the Arab region and the rest of the world.

AUGUST 25

Private sector loan agreement signed

Latin America and the Caribbean. US$15 million. Loan to *Corporación Interamericana para el Financiamiento de Infraestructura* (CIFI). See story page 5.

SEPTEMBER 9

Emergency assistance grant approved

Central and West Africa. US$1 million. This grant was divided equally among the National Red Cross Societies in five African countries worst hit by a recent spate of severe flooding. See story page 20.

SEPTEMBER 10

Loan agreement signed

Bolivia. US$15 million. Caranavi - Trinidad Electricity Transmission Project.

SEPTEMBER 15

Loan agreement signed

Mali. US$8 million. Taoussa Dam.

Meetings attended by OFID

July 23-24

VIENNA, AUSTRIA
Save the World Awards and the Sustainable World Congress

August 2-3

OXFORD, UK
31st Oxford Energy Seminar

September 7-10

VIENNA, AUSTRIA
European International Association for Energy Economics Conference 2009

September 15-16

VIENNA, AUSTRIA
Scientific Forum at the IAEA General Conference, during which OFID presented the joint OFID/IIASA study "Biofuels and Food Security."

September 24

BEIRUT, LEBANON
Arab Energy Club Meeting

September 28

VIENNA, AUSTRIA
First meeting of the Vienna-based International Energy Organizations

LOAN SIGNATURE photo gallery

July 2

HE Benja Joas Razafimahaleo, Minister of Finance and Budget of Madagascar, secured a US$10 million loan to help renovate a 95-km stretch of a major route that links northern Madagascar with the rest of the country.

July 10

HE Rosso Jose Serrano-Cadena, Ambassador of Colombia to Austria, with OFID Director-General Al-Herbish. The Ambassador signed a US$20 million loan agreement in support of a project to upgrade a section of a strategic transport corridor between Bogotá and Buenaventura.

September10

Mr. Ricardo Javier Martinez Covarrubias, Chargé d'affaires at the Bolivian Embassy in Vienna, signing the loan agreement. The US$15 million credit will help finance an electricity transmission project.

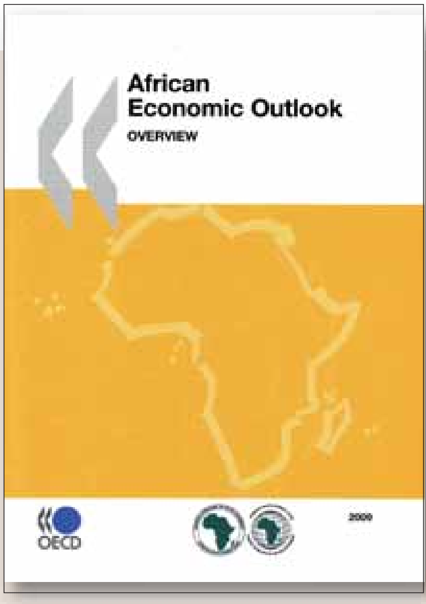
September 16

HE Sidiki Lamine Sow, Ambassador and Permanent Representative of Mali to the United Nations in Geneva, secured a US$8 million loan for a dam construction project that will improve the availability of irrigation water.

PHOTO: AGNES NEBEHAY

The full list of loan signatures can be found on page 23.

African Economic Outlook 2009 highlights regional integration



African countries should redouble their efforts towards regional integration in order to consolidate and accelerate their economic and social development and reduce poverty on the continent. These are the views contained in the *African Economic Outlook* (AEO) 2009, a joint publication of the African Development Bank, the United Nations Economic Commission for Africa (UN-ECA), and the Organization for Economic Cooperation and Development (OECD).

The AEO aims at keying into the *New Partnership for Africa's Development (NEPAD[1])* by serving as a tool for policy analysis and dialogue for the African Peer Review Mechanism. Other objectives include the raising of awareness about conditions in the region, and helping to monitor progress towards the Millennium Development Goals (MDGs). To this effect, the AEO 2009 provides an assessment of socio-political conditions, key structural developments, and the short-term macro-economic outlook in selected African countries, placing the evolution of African economies in a world economic context.

In view of the tough challenges that Africa faces, the AEO 2009 notes that the outlook for the continent has been adversely affected by the global economic crisis. The global downturn is expected to slash Africa's growth rate to 1.8 percent in 2009, less than half the 5.2 percent achieved in 2008. To compound the problem, rising world prices for food products combined with the global economic slowdown are undermining the conditions for sustainable socio-economic development and poverty reduction in the region. Also, none of the sub-Saharan African countries is currently on track to attain the eight MDGs by 2015.

Therefore, the global economic downturn is an opportunity for a re-examination of current approaches to international development. In particular, ▶

1 *The New Partnership for Africa's Development (NEPAD)* was launched in October 2001 as an African-inspired initiative aimed at helping African countries overcome poverty and underdevelopment by accelerating equitable and sustainable growth and development in the region.

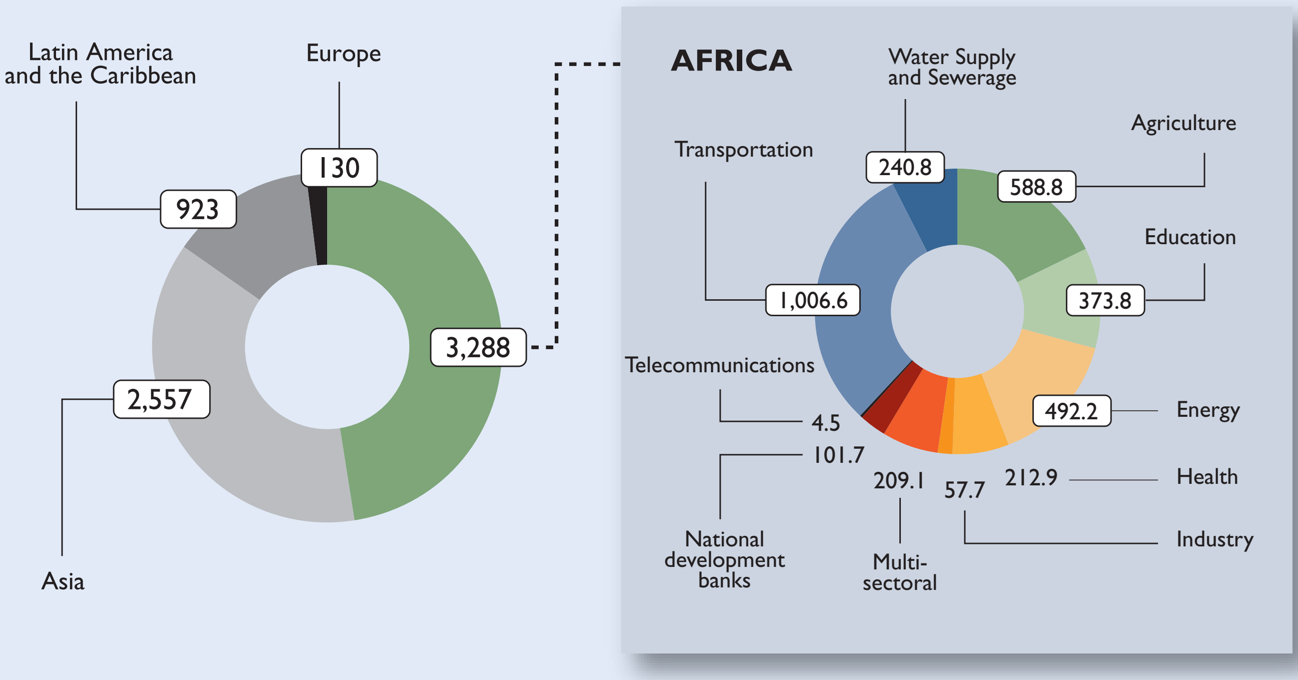
Much of Africa's socio-economic integration hinges on the continent's road network, which is sparse given the sheer size of the land area. Many countries are landlocked and lack any major transport corridor, a constraint that makes the cross-border trade of goods difficult and expensive. Even within countries, inadequate road infrastructure leaves remote provinces marginalized and the population with only limited access to markets and social services.

OFID in Africa

OFID stands ready to continue to assist African countries in strengthening regional integration and achieving the broader goals of NEPAD, which are consistent with the principles of South-South collaboration and solidarity that lie at the heart of OFID's mandate. In keeping with its mission to focus its attentions on the poorest nations, OFID has dedicated half of its cumulative public sector lending to assist Africa climb the development ladder. This support has been provided in the form of concessional and untied public sector loans to help address the deficiencies that prevail in several important areas. These include transport, communications, energy, agriculture and agro-industry. Others are education, water supply and sewerage, as well as health. The Africa region has also been assisted by OFID through balance of payments support and debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative.

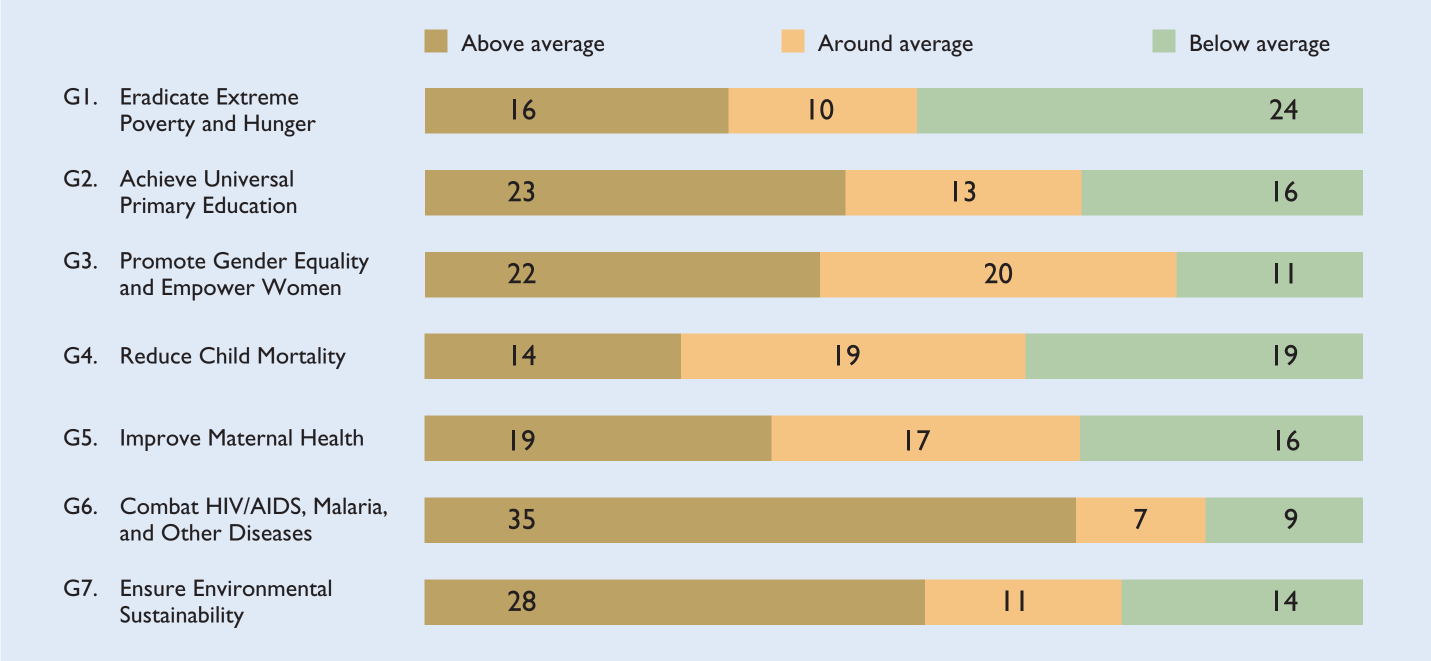
In addition, OFID has actively encouraged the development of the private sector in Africa by providing lines of credit to regional development banks for on-lending to small-, medium- and micro-enterprises (SMEs). The institution has also provided loans and equity investment directly to private initiatives under its separate Private Sector Facility. Furthermore, OFID has given substantial grant aid to finance capacity building and the transfer of adequate technologies and know-how; to help African countries face food crises and to provide care and support to individuals and families affected by HIV/AIDS. This direct support to African nations has been supplemented by indirect assistance via financial resource transfers to organizations such as the International Fund for Agricultural Development (IFAD), and the Common Fund for Commodities (CFC). It is noteworthy that OFID played a significant role in the establishment of IFAD and the CFC.

OFID public sector project lending - geographical distribution of cumulative approvals as of September 30, 2009 (in millions of dollars)



Distribution of African Countries Status by MDGs

Source: African Development Bank



The global recession and its attendant forces have severely impeded Africa's attainment of the Millennium Development Goals. As many as 24 countries have made below-average progress towards the main goal of eradicating extreme poverty and hunger, and 19 countries have fallen behind with efforts to reduce child mortality.

◀ the crisis underscores the need for African countries to develop their internal markets by strengthening regional integration and South-South cooperation. Regional integration – together with economic diversification – could help develop internal markets, enhance productive capacities, generate income, and strengthen the long-term growth performance of most countries on the African continent. It could also help realize economies of scale, improve national and regional competitiveness, and serve as a launching pad for African economies to integrate smoothly and participate more effectively in the global economy.

African countries have increasingly realised the advantages of regional cooperation and integration as a strategy to collectively accelerate economic growth and enhance their role in the world economy. To this end, African countries are pursuing a strategy of regional trade integration through eight regional economic communities (RECs). These include the *Community of Sahel-Saharan States (CEN-SAD);* the *Common Market for Eastern and Southern Africa (COMESA*); the *East African Community (EAC*); the *Economic Community of Central African States (ECCAS/CEEAC);* the *Economic Community of West African States (ECOWAS*); the *Intergovernmental Authority on Development (IGAD*); the *Southern African Development Community (SADC),* and the *Arab Maghreb Union (AMU).* Full market integration, however, remains to be achieved in African sub-regions, as intra-community trade continues to be impeded by inadequate production of goods and deficient capacities in transport, communications and energy.

As these issues are seriously addressed by the respective governments and the problems successfully tackled, African countries would be better able to integrate more smoothly with positive spinoffs for their economies and people. ■

Did you know?

- Between 2005 and 2007, more than three-quarters of Africa's exports went to Asia.
- In more than half of African countries, tax revenue represents less than 20 per cent of GDP as compared to 36 per cent in OECD countries.
- The rate of return on foreign direct investment is higher in Africa than anywhere else in the developing world.
- Africa was the first region in the world to offer free, mobile roaming services across several countries. Today, four out of 10 Africans have a mobile phone line.

World food markets fail the hungry poor

For the one billion people in developing countries who subsist on less than US$1 a day, life is a constant struggle for survival. Among the greatest challenges they face is that of getting adequate nourishment, a task made all the harder by, among other things, fluctuating – and in recent years – spiraling food prices. With no end in sight to the current crisis, the burning question is – how can world food markets be better managed so that they facilitate – rather than hinder – access to food and, at the same time, give fair compensation to producers?

Global food prices have increased dramatically in recent years, and most forecasts expect them to remain high and volatile in the near future. Some 50 developing countries – mostly in Africa – remain at risk as a result of the food price hikes, which are particularly devastating for the poorest of the poor, who spend two-thirds or more of their income on food. Additional millions have been forced to reduce both the quality and quantity of the food they consume – endangering their health, education, and productivity – and the number of hungry is expected to pass the one billion mark before the end of this year.

The food crisis can be ascribed to several factors. These include rising global demand, slow productivity growth and changing weather patterns, as well as market failure. According to the WFP's latest *World Hunger Series,* markets play an important role in both reinforcing and mitigating the risk of hunger and malnutrition. Food markets perform two inherently opposing functions. On the one hand, they must help keep food affordable, particularly for the hungry poor, who depend on food markets for adequate access to food. On the other hand, markets must promote efficiency in resource allocation, especially for food producers, who favor high prices.

Whether markets limit or facilitate access to affordable and nutritious food is a function of market institutions, infrastructure and policies. Ironically, many of the hungry poor are farmers – particularly women – with few assets, such as land. Their agricultural production is low and partly serves as household subsistence. They buy food, sell their crops or livestock and also sell their labor to earn income. Unfortunately, poor farmers often sell low and buy high because of market failures. They cannot get credit and generally have to sell low to cover their cash needs at harvest time, when supply is abundant, and buy high during the lean period.

To break the hunger-poverty trap, governments, international groups and private actors are encouraged to work together to devise strategies that build on the strengths of food market dynamics as potential instruments in the fight against hunger. The risk of market failure or inefficiency can be reduced through several measures. These include better monitoring of food prices and trade flows, promoting market resilience, and improving disaster risk management. Trade and food security policies should be made more consistent, and the hungry poor should get better access to agricultural inputs and

PHOTO: CHARLES TAYLOR/SHUTTERSTOCK

The pricing of food is a delicate balancing act that needs to be fair to both producers and consumers.

value chain innovations. Furthermore, price incentives should be provided to create rural purchasing power, which in turn can stimulate rural and broader economic growth. These measures should be complemented by cost-effective investments in nutrition, such as the development of affordable and nutritious food products. In addition, food markets should be supported by enhanced research and access to education, financial services and well functioning labour markets. Investment should also be boosted in social protection, infrastructure and institutions, including the strengthening of legal and regulatory frameworks, and establishment of a robust system for setting and enforcing quality standards. Another strategy is the implementation of policies that support fair competition among new market entrants.

The WFP report stresses the importance of Official Development Assistance (ODA) in supporting market innovations, post-crisis recovery and emergency food aid. The historic neglect of investment in agriculture and rural development, and the decline in ODA to the sector to less than 4 percent of total aid in 2007, has been an additional factor contributing to stagnating food production and hunger. To reverse this trend, the Group of Eight (G-8) most industrialized nations meeting in L'Aquila, Italy, July 8-10, 2009, committed to disbursing US$20 billion for tackling the food crisis over the coming three years. The G-8 expressed concern about the longstanding under-investment in agriculture and the impact of high food prices on developing countries. According to the *L'Aquila Joint Statement on Food Security*: "Sustained and predictable funding and increased targeted investments are urgently required to enhance world food production capacity. Commitments to increase ODA must be fulfilled."

Undoubtedly, the challenges are daunting and the poor continue to reel under the crushing weight of rising food prices. However, OFID and other development institutions are doing their best to increase their funding to the vital agriculture sector in which the majority of the poor in most developing countries are involved. The overall goal is to help these countries to develop their economies, and as much as possible, within the shortest period of time, significantly enhance the standard of living of their people. ■

PHOTO: PICT

Second Global Review of Aid for Trade concludes in Geneva

Trade can be an important engine for socio-economic growth, sustainable development, and global peace and stability. However, many developing nations – particularly the Least Developed Countries (LDCs) – lack the infrastructure and human and institutional capacities required for trade to make a tangible contribution to growth and poverty reduction. In such countries, improved market access needs to be matched by *Aid for Trade.*

It was in light of the above tenets that representatives of the 153 member countries of the World Trade Organization (WTO) and heads of international organizations gathered at WTO headquarters in Geneva, Switzerland, July 6–7 2009. The occasion was the *Second Global Review of Aid for Trade*.

Some four years earlier, trade ministers attending the WTO Ministerial Conference in Hong Kong, China, in December 2005 had endorsed the need for Official Development Assistance (ODA) Accordingly, ministers directed the WTO Secretariat and member governments to develop an *Aid for Trade* package. Under the package, donors would provide loans and grants to help, the low-income countries (LICs) in particular, to negotiate better in multilateral trade talks and implement the results more effectively. Such financing would also help the LICs to benefit from export opportunities and build the necessary infrastructure- production- and trade-related capacities to integrate into the world trading system.

Following a First Global Review of Aid for Trade, which was held in November 2007, the aim of the Second Review was to evaluate progress towards implementation of the Aid for Trade Initiative and to assess how trade could be better integrated into national and regional development strategies. The Review also studied the impact of the global economic downturn on aid for trade flows, and the expanding role of emerging South-South donors (i.e., Argentina, Brazil, Chile and China) in regional integration initiatives.

Participants noted that important progress has been made toward implementation of the Aid for Trade initiative to date. Since 2005, aid for trade has grown by more than 10 percent annually, with new commitments reaching US$25.4 billion in 2007. However, the global economic downturn has affected the trade outlook, with the volume of global trade declining by 10 percent in 2009 – its largest drop in 80 years – and some developed nations cutting their budgets for development cooperation. As a result, the implementation of several aid for trade projects in the South has been delayed.

To reverse these worrisome trends, development financing institutions (DFIs) and donors gathering in Geneva in July formally committed more than US$6 billion to the Global Trade Liquidity Program (GTLP). The GTLP was established as a temporary initiative in response to mounting concerns expressed by the Group of 24 (G-24) Finance Ministers about protectionist threats during the ongoing economic and financial crisis, especially the increased recourse to subsidies in trade, investment, finance and labor services. Working through a network of more than 500 banks in over 70 developing countries, the GTLP aims at pooling up to US$50 billion in developing country trade finance over three years, US$15 billion of which will be earmarked for Africa.

Meanwhile, the need remains for a balanced and comprehensive conclusion of the *Doha Development Agenda (DDA)* or Doha Round of multilateral trade negotiations, which started in Doha, Qatar, in November 2001. After almost seven years of negotiations, the Doha Round reached yet another deadlock on July 29, 2008, reflecting deep rifts between North and South, particularly about the need to reduce agricultural subsidies in the North. Successful conclusion of the Doha Round on the basis of its development mandate could provide a major stimulus to the restoration of world growth and confidence in world markets, and reduce looming protectionist threats. ■

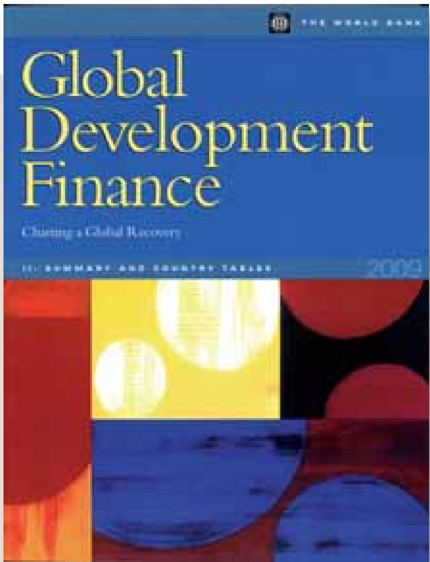
PHOTOS: PICT

OFID support to trade

Working in tandem with its partners in development, OFID plays its part in assisting local banks and micro- small- and medium-sized enterprises (SMEs) in the South to build their own trade finance portfolio through a dedicated Trade Finance Facility (TFF). Launched in 2006, the TFF aims at enhancing developing countries' share in international trade and promoting inter-regional trade by helping meet their growing demand for trade finance credits. By the end of September 2009, US$339 million in lines of credit and US$589 million in risk-sharing guarantees had been approved under the TFF.

The TFF is part of OFID's broader response to the current crisis. In 2008, the institution also redoubled efforts to encourage growth and employment creation in the private sector with the provision of US$216 million in support of SMEs under OFID's Private Sector Facility (PSF) – a 66 percent increase over 2007. This support has been provided in conjunction with public sector lending to trade-related infrastructure development, including energy, transportation, industry and telecommunications.

Private capital inflows to the South dwindle



BY FATIMAH ZWANIKKEN

The global economic and financial crisis has drastically reduced the supply of private credit to developing countries, thereby reversing the strong upward trend that began in 2003. According to *Global Development Finance 2009*, a publication by the World Bank, net private capital inflows to the South dropped sharply to US$707 billion in 2008, from about US$1.2 trillion recorded in 2007. Highlights from the report are examined below.

It is a known fact that whenever there is financial crunch, especially of global proportions, recession sets in and the flow of private capital tends to dry up. Thus, with relatively less capital to spare, investors – particularly the commercial ones – prioritize where to put their money. However, it would seem that those countries that ordinarily need investments most are shunted to the bottom of the list.

Indeed, many developing countries and emerging markets are facing deteriorating financing conditions as a result of the exodus of private capital, which has left a large gap in financing for development. The sharpest contraction in the supply of private capital has been from commercial banks, with net portfolio equity inflows to the South falling by almost 90 percent to just US$15.7 billion in 2008, from US$138.6 billion in 2007. The dramatic drawback of private capital was a reflection of the virtual disappearance and changing role of many institutions. These institutions had provided financial intermediation to developing countries, a worldwide reduction in financial leverage, and increased risk-aversion as part of a broader financial and confidence crisis.

Net private debt flows to the developing countries also dropped noticeably to US$108 billion in 2008, from US$499 billion in 2007. The reduction was driven mainly by the sharp fall in short-term debt inflows, which shifted from a positive US$202 billion in 2007 into a negative US$16.3 billion in 2008, and in bond financing, which fell to just US$11 billion in 2008, from US$85 billion in the previous year. Furthermore, net medium- and long-term bank flows declined by 40 percent from US$214.5 billion in 2007 to US$123 billion in 2008.

With the exception of the Middle East and North Africa, where private capital inflows rose by 11 percent in 2008, the downturn has affected countries and regions worldwide to various degrees. Emerging Europe and Central Asia were the hardest hit, accounting for almost half (47 percent) of the decline in private capital inflows in 2008, followed by Latin America and the Caribbean and South Asia (41 percent each), sub-Saharan Africa (35.5 percent), and East Asia and the Pacific (28 percent).

Across regions, the decline was concentrated in short-term debt flows (48 percent), portfolio equity (26 percent), and bonds (20 percent). Notably, almost all regions experienced significant setbacks in short-term debt flows, which accounted for a major share of the decline in East Asia and the Pacific (67 percent), South Asia (56 percent), and Europe and Central Asia (45 percent). In sub-Saharan Africa, on the other hand, two-thirds of the US$15 billion decline came in portfolio equity, with the remainder in bond financing.

In contrast, net foreign direct investment (FDI) inflows to developing countries – the largest component of international capital flows to the South – rose from US$520 billion in 2007 to US$583 billion in 2008, driven by the strong momentum of the first half of the year. Unlike portfolio equity and bond investments, FDI reflects a long-term engagement to invest in the host country, which makes such investments less likely to be reversed and liquidated in times of crisis.

Because the unfolding crisis had an even more profound effect on FDI inflows to the North, the South increased its relative share in global FDI to a record 40 percent in 2008, from 25 percent in 2007. The East Asia and Pacific and South Asia regions received most of the US$63 billion increase in FDI inflows. Inflows to India doubled in 2008, reflecting significant progress towards economic reforms and opening up additional sectors to FDI in recent years. The high commodity prices that persisted throughout most of 2008 also continued to support investment in resource-rich developing nations such as Angola, Brazil, Chile, Kazakhstan, and the Russian Federation.

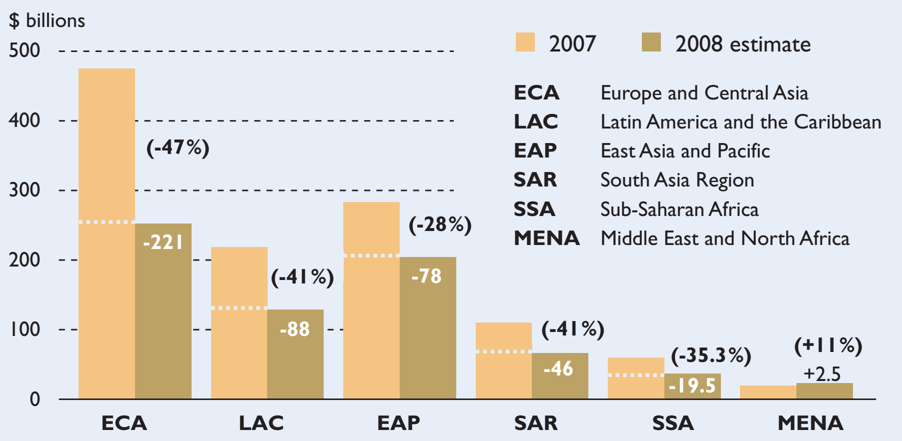
However, one area that showed positive signs was worker's remittances which remained resilient in 2008. This was mainly because many migrants did not leave their adopted countries and continued to send money home. Also, remittance flows increased slightly to US$305 billion during the year, from US$265 in 2007. The world's top five recipients were India, China, Mexico, the Philippines and Poland.

Net private capital inflows to developing countries are foreseen to decline further in 2009, shrinking to US$363 billion before staging a weak rebound in 2010, in tandem with a projected gradual recovery of world economic growth. However, FDI inflows to the South are likely to drop by 30 percent to US$385 billion in 2009, reflecting weaker growth and corporate earnings, and significantly lower mergers and acquisitions (M&A) transactions. Similarly, worker's remittances are expected to retreat to US$290 billion in 2009. This would be a reflection of both the impact of the economic recession in high-income countries, from which remittances originate, and lower growth in the developing countries. Although the overall decline in worldwide worker's remittance flows as a result of the crisis is more modest, the situation may prove more serious for some small poor countries where remittances are relatively important.

With a more pronounced global downturn, a fall in import demand, and scarcer private capital inflows, economic growth in developing nations is forecast to drastically cool off to 1.2 percent in 2009, from 5.9 percent in 2008. This will push additional millions of people below the poverty line, reversing hard-won gains towards the poverty reduction and related United Nations Millennium Development Goals (MDGs).

These negative results and projections should serve as a clarion call for Development Finance Institutions like OFID to work more closely with the poorest countries in particular, so as to further assist them along their respective paths of economic growth. However, while the DFIs try and fill the gaps created by the drastic scarcity of private capital inflows, the needy developing countries must work harder to create more conducive economic environments that would encourage international investments when the global financial crises is over in the next couple of years. ■

Net private capital inflows to developing regions, 2007-08



Source: World Bank Debtor Reporting System and staff estimates.

PHOTO: SCOTT NELSON/KAUST

King Abdullah University of Science and Technology (KAUST) opens its doors with inauguration celebration

BY REEM ALJARBOU

Saudi Arabia's King Abdullah University of Science and Technology (KAUST) opened its doors at a ceremony attended by several world leaders and other dignitaries on September 23, 2009. At the heart of the university's mission is an unwavering commitment to sustainable development. Located on the Red Sea near Jeddah, KAUST aims to nurture innovation in science and technology, giving strong support to world-class research in the key areas of energy and the environment. The inauguration of KAUST coincided with Saudi Arabia's 79th National Day.

The King Abdullah University of Science and Technology was initiated with a US$10 billion endowment. The main objective is to make KAUST an international, graduate-level research university dedicated to inspiring a new age of scientific achievement. It endeavours to create an international community of scholars and academic leaders, committed to the advancement of science and technology. Moreover, KAUST plans on becoming the hub for strategic research with emphasis on four strategic areas of science and technology that are crucial to the future of Saudi Arabia, the Gulf region and the world. The university's thrusts are: Resources, Energy and Environment; Biosciences and Bioengineering; Materials Science and Engineering; Applied Mathematics and Computational Science.

At the inauguration, The Custodian of the Two Holy Mosques, King Abdullah bin Abdulaziz Al Saud, stated: "It is my desire that this new university becomes one of the world's great institutions of research; that it educates and trains future generations of scientists, engineers and technologists; and that it fosters, on the basis of merit and excellence, collaboration and cooperation with other great research universities and the private sector."

Sustainable development is not just a strong influence on KAUST's agenda. It has also inspired campus planning, practices, research and operations. In an attempt to demonstrate and promote responsibility towards resources, KAUST has integrated several sustainable measures into various elements in its design. The desert climate of Saudi Arabia created specific challenges, and innovative methods in construction were implemented. The development of alternative energy sources is an example of the ethics of sustainable development upon which the university is founded. The campus operates efficient use of water, electricity and other resources, as well as efficient material and waste management and preservation of the environment. A unique signature of the KAUST campus is the coral reef situated off its shores, which drives the university's ambition to become the steward of a marine sanctuary for ongoing research on the coral reef ecosystem. The KAUST campus covers an area of 36 million square meters.

KAUST aims at becoming the hub for strategic research in strategic areas of science and technology that are crucial to the future of Saudi Arabia, the Gulf region and the world.

In addition to the various facilities, KAUST is home to an Advanced Visualization Laboratory called "CORNEA," a fully immersive, six-sided virtual reality facility that allows students and researchers to turn data into 3D, interactive structures. CORNEA was built with the University of California at San Diego. It is a mechdyne-built VL6 with the world's highest resolution (100 million pixels) and the brightest (10,000 lumens) visualization environments. It has 24 Quad HD projectors, the highest native resolution projectors available and has the only advanced spatial/surround sound system of this type.

Another example of the University's desire to become one of the leading R&D centers in the world is "Shaheen," one of the world's most powerful, high-performance computing (HPC) systems. Named after the Arabian Peregrine falcon known for its speed, Shaheen is the product of a joint research project between KAUST and IBM (International Business Machines). Until its transfer to Saudi Arabia to coincide with the university's inauguration, Shaheen was operating out of IBM's T.J. Watson Research Laboratory in Yorktown Heights, New York.

Shaheen is a 16-rack IBM Blue Gene/P system that has 65,600 independent processing cores. The supercomputer is capable of performing at a processing power of 220 TFLOPS (trillion floating points per second), equivalent to about 24,000 MacBook Pros. The system's storage peaks at a massive 1.9 Petabytes. According to the global ranking of the most powerful supercomputers, TOP500, Shaheen occupies the 14^{th} position. This ranking makes Shaheen the fastest supercomputer in Asia, and the second fastest outside Europe. As such, Shaheen is one of the most powerful supercomputers in an academic environment and positions KAUST as a key player in the field of computational science.

The Academic partners that KAUST has drawn on for groundbreaking research and collaboration include, among others: California Institute of Technology; Cornell University; Georgia Institute of Technology; Imperial College London; King Abdulaziz City for Science and Technology; King Fahd University of Petroleum and Minerals; MIT; National Taiwan University; National University of Singapore; University of Rome – La Sapienza; Stanford University; *Technische Universität München*; The Hong Kong University of Science and Technology; University of California, Berkeley; University of Cambridge; University of Oxford; University of Tokyo; University of Toronto; and Utrecht University.

The University opened with 72 faculty members from different regions of the world. At maturity, the faculty is expected to number approximately 225. The top countries of origin are the United States (14), Germany (7), Canada (6), and China (6). KAUST's inaugural faculty includes prolific researchers, innovators and authors who claim at least 108 patents, 100 software products/invention disclosures, and 64 books or chapters. Including students, faculty, staff and their families, the campus community is expected to number approximately 20,000. ■

PHOTO: SHUTTERSTOCK:

Gulf countries expect recovery from global financial crisis

Saudi Arabia speaks of minor impact on its economy

Several regions of the world are reporting slow and measured recovery from the global financial crisis which has laid economies dormant and resulted in negative economic growth, company closures and job losses. Among the regions and sub-regions reporting cautious improvement are the Gulf States and a few other OPEC Members.

The Paris, France-based Organisation for Economic Cooperation and Development (OECD) declared in early July that the global recession was "easing," and the pace of decline of the world's major economies "slowing." According to the OECD, the composite leading indicators index for its 30 member countries rose 0.5 points in April 2009, but was still 8.3 points lower than in April 2008.

It was still too early to assess whether this was a temporary or more durable turning point, the OECD says. The data point to a "reduced pace of deterioration in most of the OECD economies." World stock markets, however, have recovered from their lows of March, 2009, giving some hope that the perceived global improvement would hold. The expectation is based mainly on survey data of consumer and business confidence.

Elsewhere in Europe, there was also optimism suggesting that the worst of the rapid decline in world economic output may be over. The President of the European Central Bank, Jean-Claude Trichet, said there was a "slowing down in the decrease in Gross Domestic Product (GDP)," while certain countries were already reporting a pick-up. Said Trichet: "We are, as far as growth is concerned, around the inflection point in the cycle."

Among the European countries showing signs of a tentative recovery is the United Kingdom (UK) with retail sales up and manufacturing output down by a smaller margin. The National Institute for Economic and Social Research in the UK said the rate of decline of GDP had slowed in April. There were also indications that housing market activity in the UK is picking up slightly. "The patient has been stabilised and a recovery is imminent," said Hetal Mehta, of Ernst & Young.

Germany is equally showing signs of optimism, with the country's business confidence moving above its low point thus far. Germany's economy was hit by a dramatic fall in exports. In the United States, consumer confidence recovered from its absolute-low in the last few months.

Officials in the developed economies are, thus, declaring that the scale of intervention by governments, both in implementing economic stimulus packages and in supporting the banking sector, is only now beginning to affect the economy, and is certainly having a moderating effect. What is less certain, however, is whether contraction will continue into 2010, or whether additional government intervention will be required to trigger real recovery. ▶

◀ In the Gulf, Saudi Arabia, for its part, had made it known that the financial crisis had had only a minor impact on the Saudi economy. But the Kingdom's Minister of Finance, HE Dr. Ibrahim Al Assaf told the international media in the Red Sea port city of Jeddah, that it was still too soon for countries to scale back stimulus packages aimed at supporting recovery. Saudi Arabia, like some other key nations, had boosted spending on infrastructure, education and healthcare this year, seeking to support growth. Dr. Al Assaf opined that the world "has seen the worst of the crisis," but added that "we are still not out of the woods." The minister cautioned about celebrating too soon and urged developed and developing countries to continue with their measures and stimulus packages.

With Saudi Arabia *per se,* the minister explained that the impact of the global crisis was mainly on those sectors that depended on outside demand, particularly oil and petrochemicals. When true recovery starts in the rest of the world, "which we are seeing signs of," demand as well as the price of oil will recover. Dr. Al Assaf said "we have seen those signs reflected on the current price of oil."

In the United Arab Emirates, much of the attention, apart from oil exports, had been on the construction industry, which was described as worst hit in all of the Gulf Cooperation Council (GCC) countries. According to the Khaleej Times, the UAE's once-booming construction industry, had, as a result of the global economic crisis, slowed more dramatically than any other construction market in the GCC region. Even so, the Emirates is still seeing "an extraordinary level" of activity, with 1,372 projects either being built or in the bidding process. Since the construction business began to feel the impact of the crisis in late 2008, developers have put on hold or cancelled a total of 566 projects. The figure represented 29 percent of all those planned in the UAE to build offices, hotels, residence and retail homes. With total projects worth US$900 billion, including those put on hold or cancelled, the UAE accounts for 60 percent of the US$1.5 trillion of total projects in all member countries of the GCC.

The impact of the economic downturn elsewhere in the Arabian Gulf has been less severe. This conclusion was based on a survey of thousands of projects across the region each worth at least US$10 million. Of projects worth more than US$387 billion in Saudi Arabia, 19 percent of the total number has been cancelled or suspended. Kuwait has total projects worth more than US$114 billion, with 17 percent cancelled or on hold. Oman's total projects are worth more than US$38 billion, of which 8 percent cent are on hold and none cancelled; while Bahrain has US$36 billion worth of projects, with 27 percent cancelled or on hold.

Indeed, several of the Gulf countries, particularly the UAE, were pronounced active economic reformers this financial year by the World Bank Group. In a global survey of the ease of doing business, the UAE, for the first time, ranked among the world's 10 most active economic reformers. The Bank said the Emirates rose from 47th to 33rd among 183 economies worldwide in terms of the overall ease of doing business. This is the result of having scrapped the minimum capital requirement for business start-ups and simplified registration procedures. The Bank report was issued jointly with its investment arm, the International Financial Corporation, and reviewed the period between June 2008 and May 2009.

Also, the report noted that the Middle East and North Africa picked up the pace of business regulatory reform faster than any other region, in a year of global financial uncertainty. Seventeen of 19 economies in the region passed regulations to create opportunities for domestic entrepreneurs.

With no major reform recorded during the period, Qatar was ranked 39th. Kuwait, at 61st, established a law enabling the restructuring of companies facing financial difficulty or insolvency; while Bahrain, ranking 20th, consolidated preliminary approvals for building permits in a one-step mechanism and reduced the time needed to obtain building permits.

In Vienna, Austria, OPEC, the Organization of the Petroleum Exporting Countries added its voice to the discussion regarding recovery of members' economies. OPEC said in early September that the evidence of an impending upturn in the global economy appears to be gathering, but true recovery "will be slow and gradual." However, OPEC left its world oil demand forecast for fiscal 2010 unchanged. The Organization said in its monthly report for September, that world oil demand was expected to fall by 1.56 million barrels per day (b/d) in 2009 before rising by 500,000 b/d in 2010.

Regarding non-OPEC countries, OPEC projected supplies to rise by 420,000 b/d in 2010, supported by higher output from the United States, Russia, Norway and Azerbaijan and revisions to historical data. This is 100,000 b/d less than previously forecast. Demand for OPEC crude will average 28.06 million b/d in 2010, down by 460,000 b/d from 2009, the September report said. This is a smaller decline than its 480,000 b/d previous assessment. ■

UAE to host new Energy Agency

"Renewables" to play increasing role in global energy mix

Member States of the newly established *International Renewable Energy Agency (IRENA)* have decided to locate its headquarters in Abu Dhabi, the United Arab Emirates. It was also agreed to divide IRENA competence and component parts among three interested cities: the new headquarters in Abu Dhabi; a centre of technology and innovation in Bonn; and an inter-organizational liaison office in Vienna. IRENA officials said this would reflect the spirit of cooperation that the agency needed to grow into a strong and effective organization.

The announcement came following agreement to appoint French diplomat and Minister of State, Hélène Pelosse as the agency's first Director-General. Pelosse has a long record of involvement in renewable energy research and development. She also has what the new agency calls strong communication and representation skills. Pelosse led last year's European Union negotiations to form binding targets of 20 percent renewables in Europe's energy mix by 2020. Also, she helped draft French renewable energy policy as well as the Mediterranean Solar Plan. This involves efforts to develop 20 gigawatt capacity of renewable energy resources in the Mediterranean region by 2020.

At a summit at Sharm el-Sheikh, Egypt, representatives from 136 countries took the decision on the agency's headquarters and leadership. Competing cities against Abu Dhabi were Bonn, Germany, and Vienna, Austria. Copenhagen, Denmark, was a fourth city nominated to host the agency, but the Danish government withdrew from the competition (prior to Sharm el-Sheikh) in favour of Bonn. Also, Bonn and Vienna withdrew their candidature at the Sharm el-Sheikh summit.

The interim headquarters will be sited in Abu Dhabi's *Masdar City,* a planned new city that seeks to produce zero net carbon emissions and zero net waste. The government of the UAE is committing US$22 million of annual support to IRENA through financial year 2015. Furthermore, the *Abu Dhabi Fund for Development,* a sister institution of OFID, is offering US$50 million in annual loans to finance renewable energy projects in developing countries. UAE Foreign Minister HH Sheikh Abdullah bin Zayed Al Nahyan was quoted as saying that the UAE, in view of the location of the agency in Abu Dhabi, was extending its hands to all countries of the world, and that the agency was not exclusively for the Emirates. "It is an international asset," he said. "All countries of the world," he told the Emirates News Agency, "have a right to the agency."

Several Arab and African states lauded the location of the agency in the UAE, arguing that the selection was a ▶

PHOTO: MANFREDXY/SHUTTERSTOCK

Solar energy offers an efficient alternative to electricity, especially in isolated areas of developing countries that are difficult to connect to the national grid.

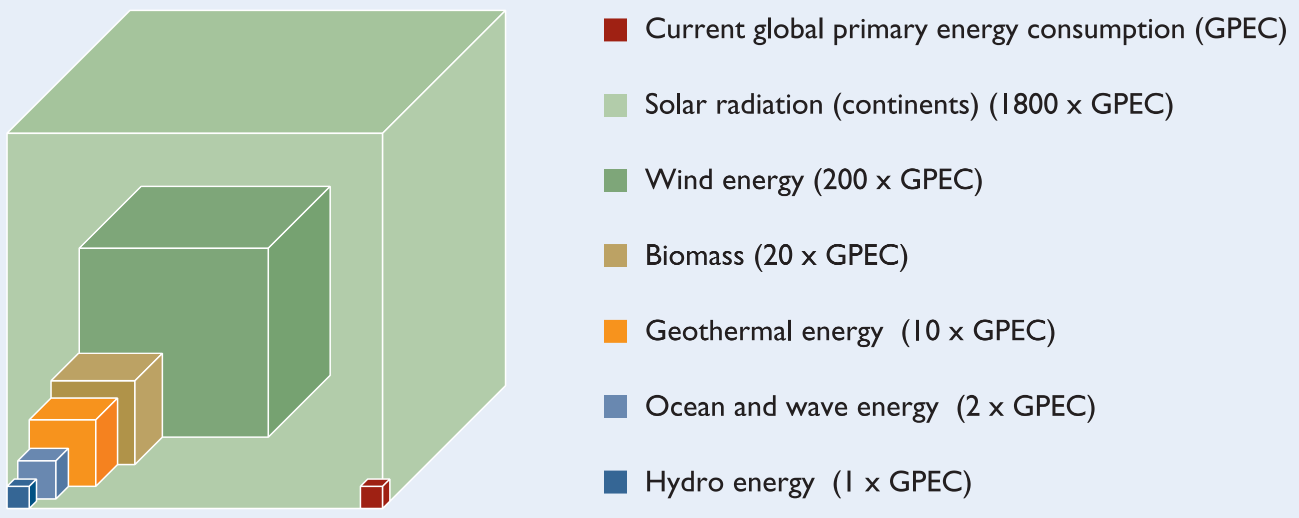
◄ success for the developing world. Energy experts said the UAE had the appropriate climate and topography for the production and use of renewable energy, particularly wind and solar. The UAE also has, for a while, argued in defence of non-polluting alternative energy sources. Already, extensive research is going on in the country against a backdrop of a worldwide race for renewable energy resources and technologies. Dr Mohammad Yaqoub, an expert at the UAE University told the *Worldwatch Institute* that global growth in solar and wind energy is on the rise and that the UAE has immense opportunities for these two sources. Abu Dhabi's western region and the mountainous areas such as *Jebel Hafeet* and the *Fujaira* mountains are a backdrop for much wind and solar energy.

There had been initial reluctance among some developed countries to approve of the new agency because of the existence of other international organizations charged with renewable energy development. Among them are a number of organs of the United Nations System and the International Energy Agency (IEA). Nevertheless, Dr. Hermann Scheer, a member of the German *Bundestag* who first called for IRENA's creation in 1990, argued that neither of those organizations provided sufficient focus on renewable energy. According to Scheer, who chairs the World Council for Renewable Energy, the fact that 136 states have signed IRENA's statute should reassure the sceptics. No other inter-governmental organization came into being with so many members at its formation, Scheer declared. He called on governments to endow IRENA with the necessary resources to support member states in drafting policies to introduce renewable energies nationally.

IRENA aspires to become the main driving force for a rapid transition toward the widespread and sustainable use of renewable energy on a global scale. The agency will act as the global voice for renewable energy, providing practical advice and support for both industrialized and developing countries, thereby helping to improve frameworks and build capacity.

Renewable energy is generated from natural resources such as wind, sunlight and geothermal sources. Such energy could be used to produce electricity for domestic and industrial use. The experts assert that renewable energy has a number of benefits including the fact that it is free – apart from the initial investment and scheduled maintenance – as compared to crude oil and other conventional energy resources. Plans to develop Masdar City as the world's first carbon-free metropolis has had a huge impact on research and development efforts for renewable energy in the Emirates. ■

The physical potential of renewable energies



Source: Nitsch, F. (2007): Technologische und energiewirtschaftliche Perspektiven erneuerbarer Energien. Deutsches Zentrum für Luft- und Raumfahrt.

PHOTO: 2009 MICHU

Africa and South America hold South-South Summit

Margarita Declaration speaks of closer cooperation

A record 61 African and South American (ASA) states met in summit, September 24-25, on the Venezuelan island of Margarita in the Caribbean. The leaders discussed global power structures and, among other issues, cooperation in energy, finance, trade, regional security, agriculture, mining and development prospects. It was the second such summit in three years aimed at helping foster closer collaboration between the two regions. The two-day summit came right after the 64th United Nations General Assembly Session in New York and the meeting of the G20 in Pittsburgh, Pennsylvania, USA. The earlier ASA summit was in Abuja, Nigeria, in 2006.

A key objective of OFID, as spelled out in its mandate, is the promotion of South-South solidarity.

Some 28 of the 61 states at Margarita (eight South American and 20 African) were represented at the highest level – by heads of state and government. Others were vice-presidents, prime ministers, foreign ministers and other ranking officials. They called for new links between the continents, including joint military, banking and mining efforts. Host of the summit, President Hugo Chávez Frias of Venezuela is eminently popular in many African countries. He called for a unified mining company; an oil company and a bank, as his colleagues highlighted their countries resources which they could individually contribute. The leaders also supported a Special Fund to help strengthen the capacity of developing countries to confront climate-related hardships.

Apart from President Chávez, other prominent leaders at the summit included President Luiz Inácio Lula da Silva of Brazil; President Cristina Fernández of Argentina; Ecuadorean President ▶

The Margarita Declaration proposes wider cooperation in education, technology, mining, agriculture and energy, and reasserts the commitment of African and South American leaders to the eradication of poverty and hunger.

◄ Rafael Correa; Chilean President Michele Bachelet; Abdelaziz Bouteflika of Algeria; Robert Mugabe of Zimbabwe; Evo Morales of Bolivia; and Muammar El-Gaddafi of the Socialist Peoples Libyan Arab Jamahiriya, who currently chairs the African Union. This was Gaddafi's first visit to the Americas in his 40 years as leader of Libya.

A Declaration produced at the Margarita summit touched on a wide range of global issues. It urged a reform of the UN Security Council; it proposed wider cooperation in education, technology, mining, agriculture and energy; and condemned piracy, nuclear weapons and illegal arms trade. A chapter expressed renewed commitment to collaboration in the fight against poverty and asserted ASA's desire for genuine development.

The 95-point, 30-page *Declaration* also touched on the need to solve, in a peaceful way, any problem or dispute that could endanger regional or global security. Furthermore, the *Declaration* said the two regions are committed to championing anti-drug initiatives, proposals and actions. The document nevertheless recognized the traditional use of *coca* leaves by the indigenous peoples of Bolivia as a cultural tradition that should be respected by the international community.

The *Declaration*, furthermore, reasserted the commitment of African and South American leaders to intensify efforts to eradicate poverty and hunger in the context of the *Millennium Development Goals (MDGs)*. The Director-General of the Food and Agriculture Organisation of the United Nations (FAO) Jacques Diouf, who attended the summit, remarked that for the first time in history, more than one billion people in the world faced hunger.

On the sidelines of the summit, the presidents of seven South American countries – Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela – signed a "foundation document" for a *Bank of the South* or *Banco del Sur,* to be endowed with a total US$20 billion as start-up capital. Brasilia, Buenos Aires and Caracas will each provide US$4 billion dollars. President Chávez suggested that the bank, to primarily fund anti-poverty and development projects, will hold foreign reserves of countries of South America. He stressed that "keeping them in banks of the North so that they make loans using our own money, will be silly." Chávez also said the Bank of the South should forge an alliance with a similar institution in Africa, possibly the African Development Bank, to create a "South-South" bank financially strong enough to finance larger scale development projects and programs. The Venezuelan leader suggested a name for the new South-South Bank – *"Bancasa"* (for ASA – Africa-South America – as the present summits are known).

Along with the *Margarita Declaration,* a number of countries also signed bilateral agreements to boost or establish trade and finance. Venezuela signed a Memorandum of Understanding with Sierra Leone to create a joint mining company. Venezuela will sign similar agreements with Mali, Mauritania, Niger and Namibia in the near future. Several other leaders spoke in favor of regional cooperation in the areas of food and agriculture. They also expressed interest in taking part in the next FAO food security summit scheduled for November 2009, in Rome.

Some key statements by the leaders at the summit were widely disseminated by the global media:

- Argentine President Fernández was quoted as saying that the emerging cooperation between Africa and South America could give rise to a new model of cooperation that would include the transfer of technology and generate jobs. She declared that Argentina could offer technology, expertise and machinery, "so that Africa would not have to depend on charity from international organizations, but would produce its own food itself."

PHOTO: REPÚBLICA BOLIVARIANA DE VENEZUELA, MINISTERIO DEL PODER POPULAR PARA LA COMUNICACIÓN Y LA INFORMACIÓN

Venezuelan President Hugo Chávez Frias pointed out that South America and Africa together hold one-quarter of the planet's oil reserves.

- Brazil's Lula da Silva said "we have to construct a new alliance, discover opportunities and help ourselves mutually." He summed up the general tenor of views among the 28 leaders at the summit.
- Ecuador's Correa, who holds the rotating presidency of the Union of South American Nations (UNASUR) added that for the first time ever, there were sufficient resources in the world to solve the problem of hunger. He said: "We have the biggest permanent reservoir of clean water in the world and yet they call us the poor."
- Gaddafi told his colleagues that, "for African countries, it is closer to visit our brothers in South America." The Libyan leader also reiterated criticism of the UN system which he made a few days earlier in New York.
- President Chávez further underscored the potential of the two regions which, together, hold one-quarter of the planet's oil reserves. Prior to the summit, Venezuela and Equatorial Guinea, which produces nearly 400,000 barrels per day of oil but has no refinery of its own, signed agreements with Mauritius and Niger to study the construction of a sub-regional refinery in West Africa. It is proposed that the refinery would eventually serve even OPEC country Nigeria. President Chavez told the summit that the 21st Century "will not be a bi-polar or uni-polar world." Instead, "it will be multi-polar...Africa will be an important geographic, economic and social pole...And South America will be too," he declared.

At the close of the summit, Venezuela offered facilities to house an ASA Summit Secretariat on Margarita Island. The leaders agreed to a follow-up mechanism, to be based on sector-related working groups. These high-level officials will meet in the next few months to work out proposals to be presented to an assembly of foreign ministers within the next several months. The third Africa-South America summit will be in Libya in 2011.

Linking the past, present and future

OPEC releases annual publications

In a world where energy interdependence among nations seems to advance year-on-year, it is essential to have a handle on just what is happening, as well as where, when and why. It is without doubt a challenge, given the increasing scope and intricacies of the global energy system, but one that needs to be undertaken. For OPEC, meeting this challenge is clearly evidenced in two of its annual publications — the Annual Statistical Bulletin and the World Oil Outlook. **James Griffin** and **Alvino Mario Fantini** report on the press conference that marked the release of the latest issues of these two publications.

The Annual Statistical Bulletin (ASB), now in its 44th year, and the World Oil Outlook (WOO), first published in 2007, are part of OPEC's efforts to advance awareness and provide a better understanding of the major issues that are of concern to the Organization and the oil market in general. The ASB ties in the past and the present, bringing together time-series data for a wide variety of oil market and energy indicators. The WOO links the present and the future, with state-of-the-art economic modelling and forecasting used to present information, projections and concepts for the medium- and long-term outlooks.

The Organization's efforts are visible in comments expressed by OPEC Secretary General, Abdalla Salem El-Badri, in the forewords of both publications. In the ASB, El-Badri says the publication "is meant to further enhance transparency through data-sharing amongst all stakeholders in the oil industry." As for the WOO, he stresses that the publication's "goal is to provide a useful reference guide for the coming year: it is an important tool that helps further the common interest among all stakeholders for energy market stability as we look to bring more clarity to the oil market and develop solutions and ways forward in the years ahead."

This year, the release of the two publications took place at a press conference in early July, in front of assembled press and analysts at the OPEC Secretariat in Vienna, as well as a global online audience. The event was presided over by El-Badri, who was joined by Dr Hasan M Qabazard, Director of the OPEC Research Division, Fuad Al-Zayer, Head of the Data Services Department, Mohamed Hamel, Senior Adviser, and Dr Fuad Siala, Alternative Sources of Energy Analyst, and currently Officer-in-Charge of the Energy Studies Department.

Following introductions by Dr Omar Farouk Ibrahim, Head of OPEC's PR & Information Department, and brief preambles from El-Badri and Qabazard, the floor was given to Al-Zayer, to present the key findings and main messages of the ASB.

PHOTOS: OPEC

At the launch of the ASB/WOO were HE Abdalla Salem El Badri, OPEC Secretary General *(centre)*; Dr. Hasan M. Qabazard, Director, Research Division *(2nd left)*; Dr. Fuad M. Siala, Officer-in-Charge, Energy Studies Department *(1st left)*; Mr. Fuad Al-Zayer, head, Data Services Department *(2nd right)*; and Mr. Mohammed Hamel, Senior Adviser, *(1st right)*.

Rising levels of reserves

In presenting the publication's findings, Al-Zayer began by highlighting that the data indicates that proven oil reserves in OPEC Member Countries have risen by 75 billion barrels (bn b) in 2008. This occurred despite an overall increase in production, he noted. Specifically, OPEC's proven reserves reached 1,027bn b at the end of 2008, compared with 952bn b at the end of 2007. This is more than double OPEC's cumulative oil production since the beginning of productive activities in Member Countries (448bn b), he added.

With OPEC's current proven reserves in Member Countries representing 79 percent of the global total, the 2008 data appears to underscore the ongoing importance of the Organization's activities for meeting world energy needs. The balance of 21 percent represents non-OPEC reserves (about 268bn b), said Al-Zayer.

Data for proven natural gas reserves is also included in the ASB, noted Al-Zayer. At the end of 2008, OPEC Member Countries held 93 trillion cubic metres of gas, or 51 percent of total world gas reserves, he said. Non-OPEC reserves, on the other hand, were 89 trillion m^3, or 49 percent.

Continued production

In addition, as Al-Zayer explained, OPEC continues to be a reliable supplier of crude oil to the world, with Member Country crude oil production in 2008 increasing "on average" by more than one million barrels/day (b/d), while non-OPEC production fell by more than 500,000 b/d. This demonstrates the Organization's commitment to ensuring that the market is always well-supplied.

In fact, in a slide showing production levels going back to 1962, Al-Zayer explained that OPEC Member Countries accounted for nearly half of all world production, with their share accounting for more than half in the mid-1970s. Currently, OPEC's share of world crude production stands at 45.9 percent, he said.

Consumption levels, too, are reflected in the ASB data. For example, in 2008, decreasing oil consumption in North America and Europe was offset by growth in developing countries in the Middle East and China, noted Al-Zayer. In fact, lower oil consumption in the OECD economies last year led to the first decline – by 350,000 b/d – in world oil consumption since 1993. The price of crude was also significantly volatile in 2008, he added, making it an especially difficult environment in which to make investment decisions.

Upstream and downstream activities

The 2008 ASB data also show that OPEC Member Countries continued to increase their investments in exploration and production, despite noticeably rising costs. One measure of the growth in production activities in the ASB is the data regarding the number of active drilling rigs in both OPEC and non-OPEC countries. The number of rigs reached its highest level in 2008 with 400 active rigs in Member Countries, Al-Zayer said. However, he added that "the picture has changed during the latter part of 2008," with figures showing a sharp decline, due to the global economic downturn.

The figures also showed that OPEC Member Countries have continued to ▶

◀ invest in downstream refineries, both at home and in major consuming countries. The data in the ASB show that the growth of refinery capacity over the past 20 years has taken place primarily in OPEC Member Countries and in Asia. Other areas, like Europe and the United Sates, "have remained relatively stagnant", Al-Zayer said.

OPEC's investments in downstream activities are also reflected in the increased amount of OPEC exports of refined products – with 4.4 million b/d exported in 2008, compared with 4.3 million b/d in 2007. The majority of the export growth, said Al-Zayer, has been witnessed in Asia.

HE Abdalla Salem El Badri fielding questions from a reporter after the Press Conference

Oil revenues and development

Another of the ASB's important features is the inclusion of summary data for all of OPEC's Member Countries. GDP per capita levels, for example, show that the average income in each Member Country is US$4,700 per capita – compared with the OECD average of US$36,400. This simple fact may remind people that OPEC's Members are developing countries.

In fact, as Al-Zayer noted, OPEC Member Countries continue to be highly dependent on oil exports. Oil exports remain the primary means for OPEC Member Countries to generate revenue for the development of their people and economies. In fact, for seven of the 12 Member Countries, oil export earnings represent more than 90 percent of total exports, noted Al-Zayer. The OPEC average is 74.3 percent.

Due to significant price increases in 2008, the value of all OPEC exports increased by US$304 billion over 2007, reaching US$1,356 billion (versus US$1,052 billion in 2007). The value of OPEC's petroleum exports alone increased by about US$261 billion in 2008, reaching more than US$1,000 billion, noted Al-Zayer.

The increasing value of oil exports, however, was partly offset by higher levels of imports, with their value reaching US$757 billion in 2008. "It is worth mentioning that 75 percent of petroleum revenues — and 56 percent of all exports — were required for importing goods from other countries," said Al-Zayer. And the ongoing price volatility has made it a challenge for Member Countries to plan their national budgets, he added.

A turbulent year

Following the conclusion of the ASB presentation, the baton was passed to the WOO. In its third year, the WOO is now widely recognized as one of the industry's premier publications; one that receives widespread media coverage and one drawn upon by a wide variety of industry stakeholders. And given, as the WOO 2009 describes, that "the year that has passed between the publication of the 2008 edition and the finalization of this year's has been one of unprecedented turbulence," there was much for the new publication to analyze and comment on.

This was clearly evident in the presentation delivered by Mohamed Hamel. He underscored the extreme volatility in the oil market "with OPEC's Reference Basket price reaching more than US$140 per barrel last summer, before falling by 75 percent to close to US$30/b by the end of 2008," with the central element linked to this freefall, "the global financial crisis, which was triggered by the sub-prime mortgage crisis in the US, before rapidly spilling across the world."

Additionally, Hamel noted that it was now recognized that the extreme volatility witnessed by oil markets had been exacerbated by speculation and was not helpful for market stability. This was taken further in El-Badri's foreword in which he stated: "OPEC has repeatedly called for better regulation and increased transparency in these (commodity) markets, for the benefit of both producers and consumers alike. This call had a prominent place in the foreword of last year's WOO. There is evidently a need for this to be repeated here."

The downturn has impacted both economic activity and international trade, leading to a choking of demand for oil. "World oil demand fell in 2008 and our expectation is that we will see a further significant decline this year. It is the first time since the early 1980s that oil demand has declined in two successive years," Hamel said.

Nevertheless, he was quick to point out that a recovery will follow, although its timing and strength remain some-

Fuad AL-Zayer, Coordinator, ASB 2008 and Mohammed Hamel, Coordinator, WOO

what uncertain. In this year's WOO Reference Case it is assumed that the end of 2009 represents the bottom of the cycle with global output declining by 1.3 percent. In 2010 and 2011, recovery is underway, but far from complete. And it is only by 2012 that economic growth is back to trend values. Once the recovery is complete, economic growth averages 3.4 percent *per annum* (pa) for the next decade, with the average rate falling in the following decade in line with demographics and productivity gains.

This will obviously have implications for future energy and oil use and Hamel also added that policies, such as the US Energy Independence and Security Act, and the European Union climate and energy legislative package, constitute key drivers in this regard. In 2009, both policies are incorporated into the WOO.

With this base in mind, there are a number of key findings.

A demand viewpoint

From a demand perspective, energy demand in the Reference Case increases by 42 percent by 2030, or 1.5 percent pa on average, with fossil fuels continuing to satisfy most of the world's energy needs. Looking at oil demand specifically, Hamel said that "medium-term prospects (to 2013) for oil demand are adversely impacted by the economic recession and the expected slow recovery." OECD demand falls in this period, with the main source of incremental demand coming from developing countries. Overall, there is a major reassessment from last year, with oil demand by 2013 projected to be 5.7 million b/d lower.

Looking long-term, oil demand, with the transportation sector remaining the main source of the increment, is expected to grow from 85.6 million b/d in 2008 to close to 106 million b/d by 2030, although this 2030 figure is around 8 million b/d lower than last year. Once again, developing countries are set to account for most of this rise.

Hamel said that "OECD countries' demand actually peaked in 2005 and sees a steady future decline, by around 4 million b/d in 2030, compared with 2008." Nevertheless, Hamel underlined that, even by 2030, oil use per capita in developing countries will remain far below that of the developed world.

In fact, Hamel stated, despite the increase in energy use, a large share of the world population will continue to lack access to modern energy services.

Supply is sufficient

On the supply side, Hamel stressed that the resource base is sufficient and there would be a wide range of conventional and non-conventional sources of oil to satisfy demand. He said: "The key issues are not related to availability, but more to deliverability and sustainability, as well as to uncertainties surrounding the extent to which increases in the demand for crude will actually materialize."

In the medium-term, total non-OPEC supply, mainly from non-conventional oil, is expected to continue to see a modest rise, increasing by just over 1 million b/d from 2008–13. From OPEC's viewpoint, the Reference Case points to OPEC's crude oil supply having fallen dramatically in 2009 in the face of the global recession, then rising slowly over the medium-term and returning to 2008 levels by around 2013. And in the long-term, non-OPEC supply rises to 2030, due to non-crude sources, OPEC natural gas liquids also increase, which means that demand for OPEC crude will increase from 31.2 million b/d in 2008 to 41 million b/d in 2030. This is 2.5 million b/d lower than the projection in last year's WOO.

This year's WOO also emphasizes that large investments are currently underway in OPEC Member Countries to ▶

Who gets what from oil?

Fuad Al-Zayer, Head of OPEC's Data Services Department, concluded his presentation of the ASB with a quick look at the updated version of the OPEC document, Who Gets What from Oil? Offering a breakdown of the actual price of a liter of oil, the publication graphically illustrates the tax burden imposed on the final consumer of oil in G7 countries.

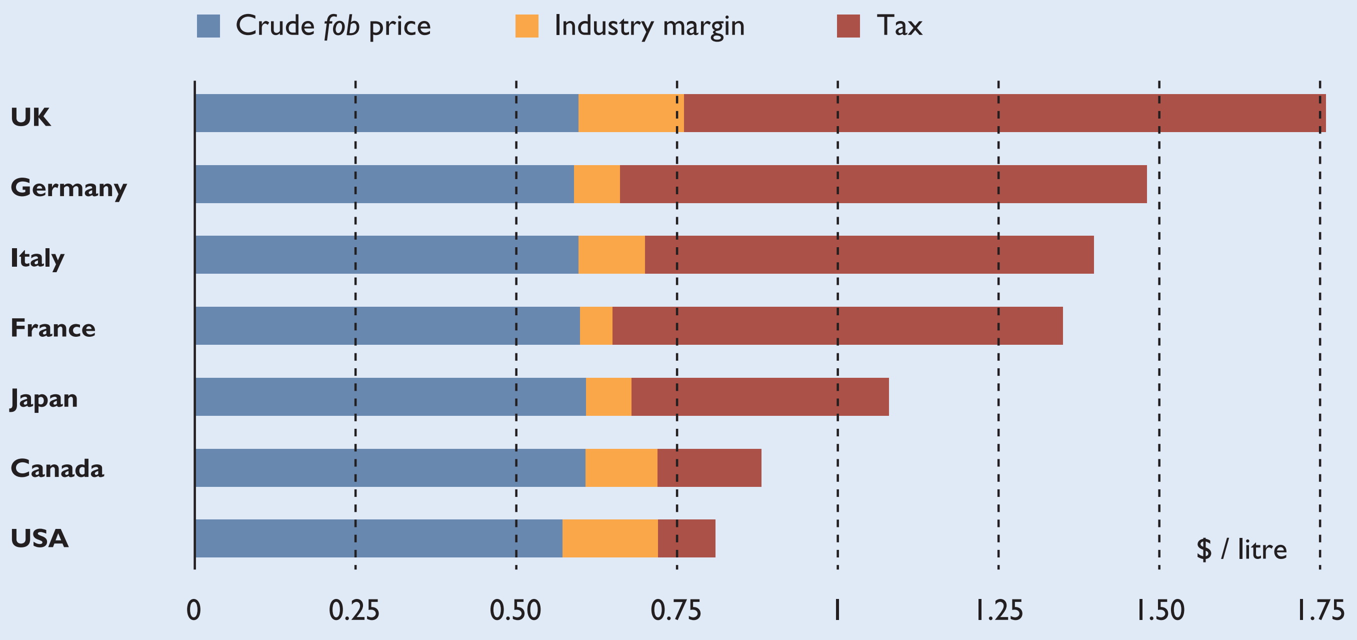
Al-Zayer explained that the cost to produce and sell a liter of oil consists of the actual price of crude, the industry margin (including refinery, transportation and distribution costs) and the taxes imposed by the national governments of consuming countries. He noted that with the exception of Japan, Canada and the US, all G7 countries make more money from taxes on oil than oil producers make from the sale of crude.

In aggregate, Al-Zayer highlighted that for the five-year period 2004–08, the total revenue from taxes received by G-7 country governments was US$3,418 billion, compared with the US$3,346 billion in crude oil sale revenues received by OPEC producers.

In the United Kingdom, in particular, the tax on a litre of oil represents nearly 57 percent of the cost of a litre, with only 34 percent going to the actual price of the crude and nearly nine percent to cover industry margins. In other words, the UK government makes nearly 1.7 times more off a litre of oil than the producers of that oil.

In summary, Al-Zayer said that what the information in the brochure indicates is that, in general, the real price burden on consumers comes from taxation in consuming countries.

Who gets what from a litre of oil in 2008?



Notes: Figures are estimated prices in US dollars per litre for the year 2008. Industry margin includes transport, insurance and other costs. Crude fob oil price includes cost of production and other related expenses.

Source: Research Division, OPEC, Vienna, Austria, 2009.

expand upstream capacity. Hamel said: "This should be sufficient to not only satisfy demand for OPEC oil, but also to provide a comfortable cushion of spare capacity, of around 6 million b/d by 2013." However, he also stressed that this is inextricably connected to the assumption that oil prices in the Reference Case are assumed to be sufficient to ensure that investments are undertaken in a timely manner.

Alternative scenarios explored

The concept of a deeper and longer recession than currently envisaged, coupled with a medium-term low oil price environment in the medium-term, is explored in a 'Protracted Recession' scenario. Although Hamel stated that the likelihood of an extended recession had recently subsided, the scenario depicts a future where businesses face tight and expensive credit conditions, world output is reduced by an additional six percent by 2013, world demand is lower by around 2.4 million b/d, albeit demand for OPEC crude is slightly higher, and crude oil prices are significantly softer than in the Reference Case.

The upshot is that this has all had an adverse impact upon companies' cash flows and financing conditions and thus upon oil supply prospects, in both OPEC and non-OPEC countries. And in turn, Hamel highlighted, "spare capacity could fall to around two percent of world demand, compared with around four percent last year and almost eight percent this year." He added that the message from this scenario is that, "as history has shown in the past, too low oil prices are not sustainable. They would lead to tightness and thus much higher prices when the global economy recovers."

In the long-term, the WOO also explores the huge uncertainties over demand for OPEC oil and how much investment is required. This is delved into in two further alternative scenarios: one depicts higher economic growth and the other lower, compared with the Reference Case. Hamel stated that by as early as 2020, demand could be as low as 29 million b/d, or as high as 37 million b/d, which "translates into an uncertainty gap for upstream development investment requirements in OPEC Member Countries of over US$250 billion."

These are significant numbers, underlining the importance of security of demand. Hamel asserted that there was a "real prospect of wasting resources on unneeded capacity."

Downstream challenges

The WOO also explores the downstream, with the economic downturn and shrinking product demand having damaging impacts on the sector, with falling utilization rates and weakened refining margins. This is occurring alongside an increase in refineries' potential to run crude, because of investments decided during the previous high margin cycle. It results in a projected distillation capacity surplus in the Reference Case of around 5 million b/d by 2012, pointing "to the increasing likelihood of refinery closures over the coming years, particularly in the Atlantic basin, in order to restore margins and reach satisfactory utilization rates," stressed Hamel.

In the longer term, however, the global refining system will require substantial capacity additions. Current projections indicate the need for around 18 million b/d of new distillation capacity, 10m b/d of conversion capacity and more than 20 million b/d of desulphurization capacity. Hamel said investments in conversion capacity should be mainly geared to hydro-cracking and more than 70 percent of new desulphurization capacity will be oriented to diesel sulphur reduction."

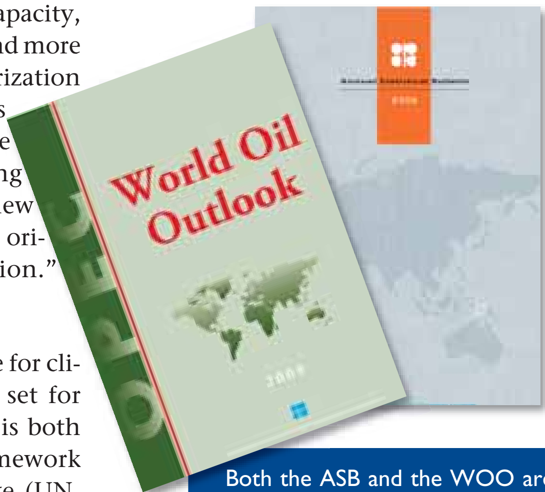
Approaching Copenhagen

This year is also an important one for climate change with negotiations set for Copenhagen in December. This is both within the United Nations Framework Convention on Climate Change (UNFCCC) track to enhance the implementation of the Convention and inside the Kyoto Protocol track, to agree on further commitments for Annex-I countries. The importance of these is evident in the WOO, which explores the implications for future CO_2 emissions.

Hamel said this edition "stresses again the historical responsibility of developed countries in the current state of the Earth's atmosphere. Cumulative greenhouse gas emissions even by 2030 are still largely from developed countries." Moreover, he added that developed countries, having the financial and technological capabilities, should take the lead in mitigation and adaptation efforts, including through the provision of adequate financial resources and the transfer of technology to developing countries. "This is enshrined in the UN Framework Convention on climate change and its Kyoto Protocol," he said.

Linking the past, present and future

The ASB and the WOO provide linkages across the past, present and future. They are valuable resources that detail how the oil industry got to where it is today and what challenges remain for the development of a sustainable energy future in an increasingly interdependent world. They are also important elements in the furthering of pragmatic dialogue and cooperation among all stakeholders.



Both the ASB and the WOO are available for free download at the OPEC website: www.opec.org.

Cheese-making business flourishes in rural Armenia

PHOTOS: PROVIDED BY FMAP

In Armenia, a precarious enterprise run by a widowed mother of three in a remote, post-conflict village has been transformed into a booming business, thanks to a microcredit loan provided through the *Farmer Market Access Program.* Spearheaded by the International Fund for Agricultural Development (IFAD) and cofinanced by OFID, the initiative aims at stimulating and diversifying commercial activity among struggling rural communities.

Aida Ghasryan lives in Syunik district, one of the most remote and least developed regions of Armenia. The region's economy, already fragile after the collapse of the Soviet Union, was badly damaged during the conflict with Azerbaijan over the Nagorno-Karabakh region from 1991 to 1994. Its distance from the capital and lack of transport connections has impeded economic recovery. When her husband died, Ghasryan was left alone without a job and with three small children to support. "I couldn't give up," she says. "Three lives depended on me." Ghasryan had a small dairy farm and some experience in cheese processing, having worked as a qualified cheese-maker in the local factory during the Soviet period. She began to produce cheeses from home on a very small scale. Today, thanks to her dogged determination and a loan through the IFAD-funded Agricultural Services Project, Ghasryan's company is a prosperous family business, producing almost 20 tons of cheese a year. The project, implemented in Armenia from 2001 to 2006, provided microcredit services for small business development as part of a broader drive to support rural and economic development in disadvantaged and remote areas of Armenia.

Loan helps overcome hurdles

Ghasryan faced a number of challenges getting her small business off the ground. For one thing, cheese-making in itself is a risky venture. It is a slow and labor-intensive process that requires a great deal of supervision, as well as laboratory analysis and tests. The smallest instance of carelessness can spoil the product, and many risks are involved in the different stages of production, from milk storage, pasteurization and curd-making to pressing of the cheese, salting, ripening and storage. On top of that, she had to deal with other overwhelming difficulties, particularly in the early stages. With few assets, no equipment or production site, and no access to markets, Ghasryan found the start-up to be particularly difficult. But undaunted by the risks and responsibilities involved, Ghasryan sold her farm to invest more money in the business, and began buying milk from her neighbours. Eventually her hard work paid off. When she secured the US$20,000 loan from the IFAD-funded project in 2004, it made a crucial difference to her business. She bought new processing equipment, repaired and expanded the production site, and founded Daliha Ltd, named after her three children, David, Lilit and Hakob. Daliha Ltd specializes in making a Roquefort-type cheese. "This is an especially risky type of cheese," says Ghasryan. "It takes three months to ripen, and even then you have no guarantee of getting the right quality. I also make fresh cheese to cover operational costs."

Market links stimulate economy

Another major obstacle Ghasryan has had to overcome is the difficulty of gaining market access. Syunik is remote and there is little demand for her cheeses in the district. But she has managed to solve the problem of product distribution by establishing links with three dealers who sell her products in Yerevan, the capital. Ghasryan's business is helping stimulate the local economy. By purchasing 650 litres of milk per day from 15 families, she generates income for her fellow villagers. In the future Ghasryan and her children intend to take out a second loan to expand production. They plan to buy a farm, equipment and a laboratory and open up a second production site. "I'm so happy that I have overcome so many obstacles and been able to secure this prosperous future for my children," she says. Since 2002, IFAD has helped strengthen the economic and social position of women through the programmes and projects it supports in eastern European and former Soviet countries, by helping women's businesses take root and thrive. *Source: IFAD*

PHOTO: IRRI

Research is helping to develop hardier varieties of rice that can grow in difficult conditions.

Researchers develop new rice varieties to meet hike in demand

BY ANNA ILARIA-MAYRHOFER

Although what was deemed the “rice price crisis” in early 2008 has abated somewhat, its effects cannot be ignored, nor the underlying causes. And while the average consumer in the industrialized world may not be seriously affected by paying more for their favourite breakfast cereal or packet of rice, higher food prices have disastrous consequences for families in the developing countries, where rice is the staple food for around three billion people.

The continuing high cost of rice is a worrying trend, not least for the poor families in developing countries who spend up to 40 percent of their income on rice. And for whom even a seemingly small increase in price means that they can no longer afford to pay for schools fees, health care and other basic amenities.

So what are the reasons for demand outpacing supply and keeping prices up? For one, the world population continues to rise, while cultivable land is shrinking, partly due to desertification and erosion. Secondly, soaring fuel prices have escalated transportation costs, which translates into more expensive seeds and fertilizer. During the years when rice was abundant and inexpensive, many developed countries became complacent about investing in agricultural research and development. And despite the climb in rice prices, ample investments have not been forthcoming, thus slowing the progress of research organizations that strive to develop sustainable solutions for farmers. It has become the general consensus among stakeholders, agricultural research institutions and others that while rice production must be maximized, allotting more land for agriculture is not a viable solution. Rather, technologies must be devised and disseminated that will help optimize rice yields while utilizing less land.

Fortunately, organizations such as the International Rice Research Institute (IRRI), have made enormous strides in doing just that. Based in Manila, the Philippines, IRRI has devoted nearly half a century to helping the developing world stave off poverty and famine. As well as teaching small farmers how to integrate inexpensive technologies and boost rice yields, the Institute has also tested tens of thousands of cultivars and bred hardier varieties of rice plants that can withstand severe weather conditions such as flood, drought and saline soils, With offices scattered across 14 nations, IRRI is known as the “Home of the Green Revolution in Asia.”

Rice is a labor-intensive crop, not only during the maturation process in the paddy, but also after harvest. Farmers must face a number of daunting challenges to ensure that losses are kept to a minimum, while the paddy rice undergoes a lengthy, multi-step preparation process. Although methods vary from region to region, traditional methods are the most widely practiced in developing countries. Some of them, however, result in higher losses and hang in delicate balance with weather conditions. Overall post-harvest losses in Asia, the top rice-producing region in the world, are estimated at approximately 10-15 percent. And when one examines the painstaking process it takes to get from the paddy to the table, it becomes easier to understand how easily losses can occur, particularly among low-income farmers who often lack up-to-date equipment and technical support.

From paddy to storage

Post-harvest processing begins with threshing, to remove the grain from the plant, clean it and then store it temporarily before milling. The rice must be dried as quickly as possible after harvest to prevent mold and contamination from pests. Sun drying is one of the most common methods used in Asia, and to a lesser extent, drying machines. This is a vital step, as the moisture level must be low before it is suitable for storage; the longer the rice is stored, the lower the initial moisture content must be.

For rice destined for consumption, the paddy grains must be milled to remove the inedible outer hull of the grains. A one-step milling method leaves the second bran layer, thus resulting in brown rice. To produce the more widely-eaten polished white rice, an additional milling step is required. Although larger commercial operations use machines that that yield high "head rice recovery" (the amount of unbroken grains produced), typical village mills tend to recover only around 30 percent of the original paddy rice.

PHOTO: IRRI

Poor families in developing countries spend up to 40 percent of their income on rice, which is the staple food of billions.

Once milled, the rice must be stored. The most favored method by Asian farmers entails storing grains in 40-50 kg jute sacks in open granaries, although sometimes other types of containers are used. Such methods, however, are susceptible to spoilage from moisture as well as insect or rodent pests.

Simple technologies, small cost

IRRI has striven, therefore, to provide farmers with simple, low-cost technologies that can help resolve some of these problems. The Institute also offers village-level extension services, which have proven to be invaluable. Such services are especially useful for farmers who may not be able to afford modern machinery, but can nonetheless benefit from incorporating new methods and learning how to avoid many of the problems that result in losses.

To test the most effective storage methods, IRRI scientists conducted an analysis of live insect counts found in rice. Grains stored in bags in open warehouses had the highest levels; the lowest were found when airtight, or hermetically-sealed, containers were used. IRRI thus developed the *IRRI Super Bag*, ▶

◀ a 50 kg-capacity plastic liner that is impervious to moisture and reduces oxygen levels from 21 percent to 5 percent (thus producing an environment not conducive to insect life). The reusable bags cost only around US$1 each – an expense farmers can swiftly recover as a result of less spoilage.

IRRI has also demonstrated to farmers that traditional storage containers, such as clay pots, can be made more insect and water-resistant simply by painting their inner and outer surfaces with acrylic paint and sealing the openings with grease, silicon or other water-resistant substances. Recycled plastic containers have also proven to be efficient, inexpensive solutions.

Another tool that has been developed by IRRI, along with the International Maize and Wheat Improvement Center (CIMMYT), is a web-based Cereal Knowledge Bank that was launched in 2008 as "the world's leading repository of extension and training materials related to cereal and cereal production." Users can tap into a plethora of information, such as fact sheets, e-learning courses and a "Rice Doctor." The latter helps farmers to identify problems and glean potential solutions, often using existing technologies – such as how to prevent grain breakage during milling by making small modifications to the machine and maintaining optimal levels of moisture.

To help famer reduce losses in the field, IRRI developed the Farmer Participatory Research (FPR) approach, where scientists, together with farmers, implement different cultivation technologies. First, in each village, group meetings are carried out with a facilitator (generally a researcher), the village head and a small group of farmers. Here, the farmers discuss their specific problems, agree upon a potential strategy with the researcher, and then seek volunteers to test the solution on their own fields – doing so in accordance with their normal practice. While the relevant experiments are carried out, extension workers make follow-up visits. Afterwards, participating farmers prepare a report about the experiment, which is discussed at a workshop that is attended by local extension workers and neighboring farmers. FPR has been welcomed by farmers as they are involved in the entire process, and the successful results have been swiftly disseminated to other communities.

PHOTO: IRRI

The use of proper rice storage techniques can dramatically reduce losses due to spoiling through damp and pests.

At the forefront of research

IRRI is also at the forefront of developing new strains of rice that can withstand adverse conditions and has the potential to help millions of impoverished farmers. Farming families in developing countries have been forced to accept famine as a regular occurrence. This is often the case when food supplies from the previous year's harvest become depleted and the new crop is not yet ready to be harvested. Households must then resort to depleting their savings or, more often than not, trading their livestock for food supplies, leaving them with even fewer income-generating opportunities.

There are a number of reasons for a late harvest, although the most prevalent obstacle put in the farmers' path is adverse weather conditions. Inclement weather – such as drought or excessive rain – during a plants' reproductive stage can wipe out an entire crop.

After many years of dedicated research, IRRI, in collaboration with a host of scientists and partner institutions, has developed strains of drought-tolerant rice that have been successfully tested in India and the Philippines. The findings are very promising. While yields during normal rainfall for drought-resistance types were roughly the same as those of the regular varieties; during times of drought, yields reached approximately 1.5 – 2 tons/ha, instead of the 0.5 ha a farmer might expect from planting the regular variety. In the Philippines, drought-tolerant strains brought another bonus – a two-week earlier maturation, which enables farmers to get their produce to marketplaces earlier and avoid late harvests under unfavorable climatic conditions. Another benefit of the drought-tolerant strain is that unlike its counterparts, it doesn't need to be planted in flooded paddies, a tremendous boon in water-scarce regions.

IRRI has also developed a flood-resistant rice that has been tested in Bangladesh, a low-lying country that experiences major annual flooding. *Swarna Sub-1* came about when, five years ago, IRRI scientists inserted a submergence-resistant gene into the conventional strain of Indian rice. What they ended up with was this: a cultivar that could withstand more than two weeks of being underwater. The local branch of IRRI, with donor support, embarked on a distribution program of seeds and seedlings of *Swarna Sub-1* across nine districts in the country. With test plots expanding and enthusiastic support from farmers, it is hoped that the use of this variety will be adopted country-wide. ■

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