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INTERNATIONAL FINANCIAL ARCHITECTURE AND FINANCING FOR DEVELOPMENT

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The idea of reforming the international financial system has been one of the most heated discussion points in the international community. The series of financial crises in the 1990s, which influenced many developing countries as well as OIC countries, further focused the attention on this matter. In this regard, this paper examines the international financial architecture in the light of the financial crises that affected developing countries in the last decade. More recently, financing for development emerged as a major objective of the international financial architecture. Thus, the paper also examines the relevance of the international financial architecture to financing for development. That is, promoting sustained growth and development, within and among countries, becomes one of the most important objectives of the new international financial architecture. Finally, the paper concentrates on the implications of the international financial architecture for OIC countries and presents policy recommendations to achieve the desired targets discussed. The OIC and developing countries have much to benefit from this framework since it provides various opportunities for all of them, irrespective to their stage of development.

1. INTRODUCTION

With the rapid advance of global interdependence, poverty and underdevelopment have become global problems for which the world must exercise with global responsibility. In fact, globalisation offers opportunities and poses challenges But the developing countries, including the OIC countries, face special difficulties in responding to those challenges and opportunities. In this regard, achieving sustainable economic growth and development should be within the boundaries of a fully inclusive and equitable global economic system. In this respect, the international financial architecture should be designed to help developing countries benefit from globalisation, while minimising its risks, and foster an environment conducive to increased domestic investment and higher sustained growth by raising the financial resources needed. In the context of economic and financial challenges

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facing developing countries, the role of international financial architecture should be handled with a view to enhancing coherence and consistency in support of development.

The link between finance and development is primarily described by the saving-investment mechanism. The principal trend in this regard during the 1990s was the growing importance of private flows, mainly to a small number of developing countries. Another major defining feature of this period was the vulnerability of developing and transition countries that received large amounts of private flows to financial crises and sudden reversals of resource flows. The peso crisis in Mexico in 1994/95 and the series of financial crises that affected Asia, Latin America and the Russian Federation in 1997 and 1998 are examples. In short, international shifts have taken place in the global financial system in the 1990s which still have a major impact on development worldwide.

Furthermore, like all other institutions, international financial institutions are creatures of their past. Their organisation and orientation reflect the economic and political contexts in which they were born and evolved. So too, will their future be shaped by global trends and the ways they respond to them. This suggests that the international financial architecture will play a more selective role in financing development in the 21st century, focusing on areas not adequately financed from other sources. In the progress of the new international financial architecture, while providing them with adequate support for development, guarding the vulnerable countries and social groups from the effects of crises is also essential. The first steps of the new international financial architecture are to be constructed by promoting greater global macroeconomic stability and reducing volatility in the exchange rates of the major currencies. These are also represented as vital elements of an environment for enhanced and predictable financial flows to developing countries. Briefly, the major objective of the financial reform is to enhance financing for development and poverty eradication. Moreover, sound domestic financial institutions are underlined as an important component of an international financial architecture in supporting development.

Moreover, financial crises in some countries in recent years have given rise to a number of initiatives aimed at reforming the international financial system. Some useful initial progress has been made, but the strengthening of the international financial architecture is not an easy process to be implemented. Much remains to be done to strengthen financial systems, promote adherence to international standards of good practice and promote better involvement of the private sector in preventing and resolving crises. In the International Monetary Fund, the shift to crisis prevention, including the timely detection of external vulnerability, is yet to be completed. The World Bank has also accelerated its refocusing to support member countries' long and medium-term structural and social reforms, particularly those useful for preventing crises and fostering economic and social recovery from financial crises, including the construction of social safety nets. Moreover, it requires full compliance by governments with the implementation of international standards, which are expected to strengthen the domestic financial system and improve the overall economic condition of the country. In this context, compliance with these standards will change significantly the regulatory and supervisory framework both in the public and private sectors of the country.

On the other hand, the OIC countries have also shown great interest in the matter since no meaningful and useful cooperation could be carried out in any field without financial arrangements and co-ordination. Moreover, the United Nations International Conference on Financing for Development, held in March 2002 in Mexico, is a crucial event in this matter. Thus, this report largely focuses on the topics discussed at the said Conference. The purpose of this report is to review the relevance of the international financial architecture to financing for development. The next section provides information on the role of this architecture in the light of the financial crises that affected developing countries in the last decade. The third section discusses the main topics on financing for development. The fourth section concentrates on the implications of the new international financial architecture for OIC countries. The last section concludes and presents policy recommendations to achieve the desired targets discussed in the report.

2. THE ROLE OF THE INTERNATIONAL FINANCIAL ARCHITECTURE AFTER THE 1990s FINANCIAL CRISIS

The international structures that govern the global financial and trade systems were developed at the end of the Second World War. A comprehensive global governance system was designed at the 1944 Bretton Woods Conference. The creation of the World Bank (International Bank for Reconstruction and Development or IBRD) alongside the International Monetary Fund (IMF) at Bretton Woods in the summer of 1944 created the institutional means to achieve financial stability. In the realm of international monetary and financial relations, the International Monetary Fund has been a major forum for discussion of international macroeconomic policy, co-ordination issues and the international financial architecture. A joint ministerial committee of IMF and the World Bank (the Development Committee), which initially focused on policies to promote the transfer of resources to the developing countries, has today a broader development agenda. Both committees and both institutions, like other organisations, have had to respond to many unforeseen challenges.

Indeed, many developments have taken place since the mid-1940s: the growth of multilateral development finance institutions in the 1950s and 1960s, the collapse of the fixed-exchange rate regime in the early 1970s and the consequent change in the role of the IMF, the debt crises of the developing countries during the 1980s and the growing need for debt relief policies, the growth in private capital flows in the 1980s and 1990s, and the financial crises of the latter half of the 1990s.

The new international financial architecture has its roots in the financial crisis that shook emerging market economies in the 1990s (Mexico in 1994-95 and East Asia in 1997-98). The problems in Russia in 1998, Brazil in 1998-99, and, more recently, Turkey and Argentina have only served to underscore the importance of strengthening the international financial architecture.

Although there are many important lessons that can be drawn from these crises, two are of particular significance. First, the domestic economic fundamentals, sound macroeconomic and structural policies, and notably a sound and properly-regulated financial system are as critical as ever. These crises showed some important bottlenecks in those fundamentals: an easy credit policy, inappropriate exchange rate policies, financial sector deficiencies, limited transparency of economic policy-making, high fiscal deficits and growing government debts. Second, with the rapid growth and integration of capital markets, new forms of tension have arisen in the international financial system. Consequently, there is a need for processes and practices to bolster this system.

Since crises will inevitably continue to erupt, their management and prompt resolution represent the key issues of the new international financial architecture. But as important as these tasks are, promoting sustained growth and broadly-shared prosperity, within and among countries, should be the objective of the financial architecture. This suggests that the international financial architecture will play a more selective role in financing development in the 21st century, focusing on areas not adequately financed from other sources. This poses a dilemma for the international financial institutions since the findings on aid effectiveness suggest that to achieve greater impact, they should concentrate assistance on countries where policies and institutions are reasonably supportive of development. These are likely to be the ones that are most attractive to private investors too. However, international financial aid should be directed towards countries where the conditions for investment are more difficult, but should at the same time be more selective about investing in those countries where the prospects for success are poor. The outcome is likely to be more selective and more limited, providing a vast range of lending opportunities.

All these developments led to ad hoc changes in existing institutions as well as the development of new ones. Groupings of major industrialised countries, especially the "Group of Seven"[1], were set up to help coordinate the macroeconomic policies of their member countries, and they have increasingly served as forums for the elaboration of positions and proposals on international economic and financial policies, often with profound implications for the rest of the world. As a response to the financial crises of the 1990s, the Group set up the Financial Stability Forum to bring together several specialised financial entities, IMF and the World Bank, with national financial authorities, particularly of the major industrialised countries.

Developing countries, for their part, have also set up over the years ad hoc intergovernmental bodies with varying mandates to consider different economic co-operation matters, such as the Group of Twenty-Four[2] and the Group of Fifteen[3]. Also, a sequence of *ad hoc*

[1] Canada, France, Germany, Italy, Japan, United Kingdom and United States.
[2] Algeria, Argentina, Brazil, Colombia, Democratic Republic of Congo, Côte d'Ivoire, Egypt, Ethiopia, Gabon, Ghana, Guatemala, India, Islamic Republic of Iran, Lebanon, Mexico, Nigeria, Pakistan, Peru, Philippines, South Africa, Sri Lanka, Syrian Arab Republic, Trinidad and Tobago, Venezuela.

consultative groups on financial issues have been set up to exchange views among selected developed and developing countries, culminating in the Group of Twenty[4] in 1999. Within the framework of the Berlin Meeting in 1999, the Group of Twenty will continue to promote the adoption of international standards and codes for transparency, macroeconomic policy, sound financial sector regulation and corporate governance in consultation with the relevant bodies and the private sector, and thereby strengthen the integrity of the international financial system. In addition, work on appropriate exchange regimes, prudent liability management, and orderly liberalisation of the capital account will be undertaken. These efforts are critical in the reduction of financial crises.

However, countries still confront the threat of sudden crises, and avoiding them will require prudent policies as well as measures to implement the financial architecture initiatives. To support their efforts and promote a stronger and better-integrated international financial system, the IMF must remain actively engaged with each of its member countries. Reform of the international financial architecture is in the interest of all Fund members. Clearly, it will benefit those that already have access to international capital markets. But, just as important, it will also help those that do not tap this crucial source of investment and growth.

In this regard, work on strengthening the international financial architecture is being undertaken on several fronts simultaneously. The major building blocks encompass transparency and accountability, international standards and codes, strengthening of financial systems, capital account issues, sustainable exchange rate regimes, detection and monitoring of external vulnerability, private sector involvement in forestalling and resolving crises, and IMF (nonconcessional) facilities. The function that each of these blocks performs within the international financial architecture is briefly reviewed below.

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[3] G15 and emerging south portal: Algeria, Argentina, Brazil, Colombia, Chile, Egypt, Indonesia, Islamic Republic of Iran, Jamaica, Kenya, Malaysia, Mexico, Nigeria, Peru, Senegal, Sri Lanka, Venezuela and Zimbabwe.

[4] Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States, European Union and Euro Area.

- **Transparency, accountability, and good governance**

Increased transparency and accountability are two critical elements of good governance, which work through several channels to promote financial system stability and better economic performance. Much of the effort to strengthen the international financial architecture involves heightening transparency by individual countries. The key to an efficient and stable international financial system is to ensure that all parties have access to the best available information and to make sure that decision making is transparent. The IMF also needs to explain itself better and to be more attentive to outside experience and advice.

Since 1997, the IMF and its member countries have been making public a vast and still-growing array of Fund and country documents. All documents are posted on the IMF's website (www.imf.org). Approximately 145 member countries now issue Public Information Notices, which share with the public the Executive Board's assessment of the annual "economic health check" carried out under the Fund surveillance. In addition, 75 countries released the staff reports prepared for these health checks under a pilot project begun in 1999. The Executive Board recently decided to make this a permanent policy, together with the publication of a broad range of other country documents, including staff reports on Fund lending.

Measures are being taken to make regularly available data, plus information about economic policies and practices, to inform both policymakers and market participants and reduce the risk of crisis.

- **International Standards and Codes**

The basic objective of these standards and codes is to foster the development, dissemination, implementation, and assessment of internationally accepted standards, principles, and guidelines of good practice for economic, financial, and business activities. Adherence to those international standards and codes of good practices helps ensure that economies and financial systems function properly at the national level. This is a key prerequisite for a well-functioning international system. Adoption of such standards is voluntary, but they can play an invaluable role in helping to prevent crises and boost economic performance.

The IMF has developed a Special Data Dissemination Standard that covers key economic data, and codes for transparency in monetary and fiscal policy. These are already in widespread use in member countries. The Fund has also prepared and published three rounds of Reports on the Observance of Standards and Codes with the aim of building up over time a comprehensive analysis of individual country progress. Under the Financial Sector Assessment Program (FSAP), assessments are also being carried out of the observance and implementation of financial sector standards and codes. These include Core Principles in banking, insurance, and payments systems. Guidelines have also been initiated to help countries manage their foreign exchange reserves and public debt effectively.

These serve as a framework that can highlight potential vulnerabilities and provide information on enhanced market discipline. From the perspective of member countries, standards and codes offer useful signposts for implementing structural reforms and building policymaking and supervisory capacities. From the perspective of private agents, if information on progress in implementing standards is made public and used as an input in risk assessments, it may help market participants better distinguish between competing opportunities, thereby contributing to better informed investment and lending decisions. In this way, standards and codes serve to reduce the possibility of market volatility.

- **The strengthening of financial systems**

In the light of the rapid globalisation of financial markets, strengthening financial systems is crucial in the new international financial architecture since the emergence of financial sector problems is the root cause of crises over the last decade in a range of countries. Moreover, there are important links between a country's financial sector and its overall economic health. A strong financial system can also contribute significantly to domestic and international financial intermediation, helping to mobilise savings and channel them to productive investments. Financial stability and effective financial intermediation can thus foster economic growth.

In May 1999, the IMF and the World Bank launched a joint Financial Sector Assessment Program (FSAP) to identify the strengths, risks, and vulnerabilities in national financial systems and ascertain their development and technical assistance needs. Conducted in more than two dozen countries so far, the FSAP aims to cover another two dozen countries each year, with a bias towards those that are important to the health of the global financial system. The IMF is also becoming involved in assessments of offshore financial centres and, together with the World Bank, is exploring how they might contribute to the fight against financial abuse, particularly money laundering.

- **Capital account issues**

A key objective in reforming the international financial system is to help countries benefit from international capital flows while minimising the risks they create. This requires careful management and sequencing of financial sector development and capital account liberalisation. It is important to meet certain preconditions before the capital account is fully opened if instability is to be avoided. The IMF is strengthening its capacity to provide practical advice and technical assistance as countries build the necessary institutions. It is paying more attention to capital account developments in its surveillance, and also undertaking additional research and analysis based on individual country experiences to help improve the quality of Fund advice.

The potential benefits of free capital flows for countries are considerable. These are underscored in the Interim Committee's September 1997 Statement on the liberalisation of capital movements. The Statement argues that (1) by facilitating the flow of savings across countries to their most productive uses, capital movements increase investment and growth and (2) by freeing capital flows, the international monetary system can function more efficiently. Recognising the risks of volatile capital flows, it emphasises the importance of appropriate domestic macroeconomic and structural policies and the establishment of a multilateral and nondiscriminatory system to underpin capital account liberalisation. Ongoing discussions on these questions centre on various approaches to achieving orderly capital account liberalisation and on the role of capital controls.

- **Sustainable exchange rate regimes**

The basic role of exchange regimes is to contribute to the efficiency of resources allocation within and across countries, as well as to the stability of the international financial system. This issue, which is at the core of the IMF's mandate, has again and again come into the spotlight since inconsistencies between the exchange rate regime and other economic policies have characterised a number of financial crises. In this context, the IMF advises each member country to choose the exchange rate regime that best suits its needs, given the characteristics and circumstances of its economy and its stage of institutional development. But no matter what regime a country chooses, ultimately it is the strength of its financial policies and institutions that is decisive for sustained growth and financial stability.

- **Detection and monitoring of external vulnerability**

While good macroeconomic policies and adequate foreign reserves remain the key to reducing vulnerability, the IMF is devoting more attention to help countries in assessing the risks they face. It is also developing an analytical framework to assess external vulnerability and working on early warning systems to monitor the risks that may arise from problems in member countries and conditions in international markets. This work is aimed at strengthening early detection and helping countries to better manage vulnerabilities to external shocks, especially in the face of potentially large and rapid movements in international private capital. The framework aims to promote the use of debt and reserve related indicators of external vulnerability, improve the reliability of early warning systems, and develop guidelines on public debt management.

Lack of reliable data (particularly on foreign exchange reserves) was critical to the crises in Mexico in 1995 and Thailand in 1997. Thus, the IMF has been emphasising the importance of accurate, timely and comprehensive statistics. Work with individual countries on their data systems and institutional arrangements will, in many cases, take years to complete. This is an area where technical assistance is particularly important. Of course, good data and constant monitoring will never be enough. As always, proper macroeconomic policies and adequate foreign exchange reserves remain essential.

- **Involving the private sector in forestalling and resolving crises**

The international financial system is comprised of private and public actors having complementary roles. Private finance seeks opportunities and responds to developments within countries and around the globe, channelling financial resources in amounts and forms that vary accordingly and widely. In this context, the fundamental role of governments is to establish the policy frameworks, institutions, rules of law and regulations that provide the infrastructure and norms within which private finance should operate. Through such means, the official sector should facilitate the private-sector process, contain its excesses and complement it with official financial flows.

Involvement of the private sector in crisis prevention and management can limit moral hazard, strengthen market discipline by fostering better risk assessment, and improve prospects for debtors to secure financial resources and for creditors to recover debts.

The rapid return of private capital to a number of countries following financial crises highlights the importance of engaging constructively with private sector creditors. There has been considerable progress in developing a framework for the involvement of the private sector in the resolution of crises. An important guiding principle is that IMF lending is inevitably limited, and that private investors must therefore assume responsibility for the risks they take. While there is broad agreement that private sector involvement should as far as possible be market-oriented and voluntary, the precise mechanisms are only evolving gradually. The aim is to create a framework as predictable as possible without sacrificing the flexibility needed to deal with individual cases. As well as dealing with the involvement of bank creditors and bondholders, the IMF is also seeking new ways to work out solutions to financial distress in the corporate sector. Borrowing countries increasingly recognise that good investor relations can improve understanding and reduce market volatility in periods of financial tranquillity and stress alike. Further research is needed on a number of issues, including spillover effects and the factors that determine how fast a country regains access to private finance. The IMF's capacity to pursue these issues is being enhanced by the creation of an International Capital Markets Department.

- **IMF financial facilities**

The IMF is implementing important changes to help focus its lending on crisis prevention and ensure a more effective use of its funds. In a related step, the policy conditions the IMF attaches to its loans are being reviewed. The aim is to streamline and focus conditionality to improve the quality of IMF programs.

The IMF revised its non-concessional facilities, effective November 2000, and made the terms of a new loan facility, the Contingent Credit Lines (CCL), more attractive. It established the presumption that borrowers will repay loans early if their external position allows it (time-based expectations). It also imposed a surcharge on the large use of IMF resources and strengthened postprogramme monitoring.

The initiatives for a new international financial architecture are complemented by initiatives for low-income countries focusing on debt relief and poverty reduction. To the extent that the international financial architecture is a force for macroeconomic stability, it also contributes to growth, which is crucial to efforts to fight poverty. In order to address the problems of high debt levels and poverty more effectively, the IMF took two major steps. First, it launched (jointly with the World Bank) the Initiative for Heavily Indebted Poor Countries (HIPC). Second, it made changes to its concessional facilities: the Enhanced Structural Adjustment Facility (ESAF) was replaced by Poverty Reduction and Growth Facility (PRGF) which aims at strengthening the poorer economies through macroeconomic and structural reforms designed to promote economic growth and reduce poverty. Financing and technical assistance made available under economic programs supported by the PRGF also help countries implement components of the international financial architecture. Moreover, several bilateral agencies and the IMF have introduced an important initiative: the Financial Sector Reform and Strengthening (FIRST) Initiative. FIRST will provide grants for technical assistance to low and middle income developing countries for capacity building and policy development.

To sum up, the IMF is also trying to reorient its surveillance, lending, and technical assistance activities to be more effective in preventing crises and promoting financial stability. Much unfinished business remains, but the focus has shifted to implementation and assessment. The process of building a stronger and more resilient international financial system is gathering momentum country by country and sector by sector. But the painstaking work being undertaken by member countries may take years to come to fruition, underlying the need for well-coordinated technical assistance focused on the particular requirements of each country. Despite the progress made, the international economic and financial system continues to face many risks. Moreover, those efforts need to be sustained with greater transparency and the effective participation of both developing and developed countries.

3. FINANCING FOR DEVELOPMENT

Development is not anything abstract. It is real change in the lives of people; it means enabling those people to be better off and build a better life for themselves. However, development goals discussed in various international conferences will not be reached without resources: human, natural and financial. Therefore, the problem is more than listing the goals and content of development. The focus should be on addressing the need for finance to meet these developmental requirements. In fact, the main goal is to achieve sustained economic growth and promote sustainable development to eradicate poverty. However, the fulfilment of these goals relies essentially on efficient and stable use of resources in an inclusive and equitable global economic system. That is, the new discussions on development should turn its focus on the provision of financial resources to achieve the efficient and high level of investment that fuels economic growth.

Furthermore, in order to foster development, every country should strive to maintain a set of macroeconomic and financial policies and institutions that can be sustained economically and socially and that are attuned to the circumstances of the country and to its relationship to the global economy. This national imperative is also desirable from the perspective of the international financial system. From this international perspective, the prudential management of the capital account and the regulation of banks and other financial intermediaries also assume particular importance. If countries decide to liberalise their external capital account transactions, they should do so in a carefully sequenced and paced manner. As part of this process, several types of measures can be applied to volatile capital flows to address the potential risks they pose for many low and middle income economies.

The objective should be to ensure adequate and sustained economic growth in all countries, consistent with existing commitments to sustainable development and poverty eradication. This requires, in turn, an international environment, including dynamic trade opportunities and a substantial, stable and sustained net transfer of resources to developing and least developed countries. The monitoring and assessment of world economic conditions should be undertaken from the perspective of these objectives and should address economic growth, unemployment, inflation, the balance of payments, exchange and interest rates, global financial flows, international commodity prices, growth of world trade and global "risk" factors**.** In order to provide policy makers with a variety of perspectives, global economic monitoring and assessment should continue to be carried out in the international financial institutions and in representative global and regional forums.

This section evaluates most of the topics discussed in the International Conference on Financing for Development held in Monterrey in March 2002. There are five key areas discussed here: mobilising domestic resources, increasing private sector investment, strengthening official development assistance (ODA), increasing market access and ensuring fair trade and solving the debt burden. In fact, all these issues are associated with the improvement of the coherence of the global and regional financial structures and the promotion of fair representation of developing countries in global decision making. Progress in all of them would be a major achievement and would provide significant benefits to developing countries, provided that an adequate foundation exists on domestic policies and governance.

3.1. Mobilising Domestic Financial Resources for Development

The primary responsibility for achieving economic growth and sustainable development lies with the developing countries themselves. This responsibility includes creating the conditions that make it possible to secure the needed financial resources for investment. There cannot be economic growth without investment of sufficient amount and quality. The domestic economy is virtually always the dominant source of savings for investment, and the domestic economic environment is a decisive determinant of the desire to invest. Furthermore, the equally crucial concept is the efficiency of investment. Thus, the crucial task is to enhance the efficiency, coherence and consistency of macroeconomic policies since they play a major role in promoting domestic resource mobilisation and development. Sound macroeconomic policies aim at sustaining high rates of economic growth, full employment, poverty eradication, price stability and sustainable fiscal and external balances. The purpose of these policies is to ensure that benefits of growth reach all people, especially the poor. Along with prudent fiscal and monetary policies, an appropriate exchange rate regime is required. Moreover, investments in basic economic and social infrastructure, social services and social protection, including education, health, nutrition, shelter and social security programmes, are vital for people, especially the most needy segment of the population, namely the poor.

Furthermore, sound macroeconomic policies encourage capital inflows, which can lead to increased productive investments, and discourage outflows (or capital flight). While the globalisation of capital movements increases opportunities, it also heightens risks. Opening of the capital account should normally be undertaken by laying the ground for properly sequencing capital account liberalisation so that the resulting financial flows can be adequately absorbed. At the same time, developing countries themselves must create new instruments to manage the risks associated with interest and exchange rate fluctuations in order to deal with the new circumstances. A key measure for ensuring long-run stability is to manage macroeconomic policy in boom periods in such a way as to avoid deep recurring cycles.

In this context, a financial system that facilitates efficient allocation of financing for productive purposes is essential for domestic resource mobilisation and equitable development. A diverse, well-functioning, competitive financial system is crucially important both for mobilising savings and for investing them productively. Every country needs a financial system that promotes savings and provides credit efficiently to small, medium, and large firms as well as to micro-enterprises, including those owned by the poor. Well functioning financial markets also facilitate the trading, hedging, diversifying and pooling of risk and the channelling of external financial resources. In view of the dominant role of commercial banking in the delivery of financial services, strengthening and reforming the banking system, including supervision by independent authorities, deserve priority. Banks must be competitive, efficient, properly capitalised, and well regulated and supervised. Well-developed and diverse financial systems are also critical for providing access to credit and other services to the poor and vulnerable segments of society in support of development and poverty reduction.

The development of such a system in developing countries requires a modern framework that progressively incorporates accepted international standards for capitalisation, accounting, auditing, regulation, and supervision, as well as arrangements for corporate governance and bankruptcy that are adapted to the local culture while meeting global standards. Building financial systems that will meet these specifications is difficult. The international community needs to help developing countries in this task.

3.2. Mobilising International Resources for Development: Foreign Direct Investment and Other Private Flows

The bulk of the savings available for a country's investment often comes from domestic sources, whether that country is rich or poor. But foreign capital can provide a valuable supplement to the resources a country can generate at home. Nowadays, large sums of capital cross national borders in the form of foreign direct investment (FDI) and constitute a further vast pool of funds from which countries can draw.

In fact, the availability of substantial private sector flows, both domestic and external, is a crucial ingredient in financing development. A well-functioning private sector and sound markets help the society invest its scarce resources efficiently and create productive employment. This is not needed just for growth but is also an integral part of poverty reduction strategies. Poor people will find routes out of poverty from the expansion of activities in farms and enterprises, particularly in rural areas. Furthermore, competitive markets also provide poor consumers with greater choice and better prices.

Private international capital flows, particularly foreign direct investment, along with international financial stability, are vital components of national and international development efforts. Foreign direct investment contributes toward financing sustained economic growth over the long term. It is especially important for its potential to transfer knowledge and technology, create jobs, boost overall productivity, enhance competitiveness and, ultimately, eradicate poverty through economic growth and development. Thus, a central challenge is to create the necessary domestic and international conditions to facilitate direct investment flows to achieve national development priorities, particularly for least developed and low-income countries.

Besides FDI, developing countries today can hope to benefit from inflows of portfolio capital from world capital markets. It is for this reason that progressively more developing countries have been liberalising their capital account in recent years. Countries with large foreign debts, particularly short-term and private sector debts denominated in foreign currencies, have proved to be vulnerable to crises, as herds of investors fled in panic. Therefore, measures that mitigate the impact of the excessive volatility of short-term capital flows are important and must be considered. Given each country's varying degree of national capacity, managing national external debt profiles, paying careful attention to currency and liquidity risk, strengthening prudential regulations and supervision of all financial institutions, liberalising capital flows in a well sequenced process are all consistent with development objectives.

On the other hand, critical to successful private sector-led growth is the climate for investment, which largely determines the opportunities for entrepreneurship. To attract and enhance inflows of productive capital, countries need to continue their efforts to achieve a stable, transparent and predictable investment climate, embedded in sound macroeconomic policies and institutions that allow businesses. To have maximum development impact, special efforts are required in some priority areas such as economic and regulatory frameworks for promoting and protecting investments, including the areas of human resource development, accounting standards and the promotion of a competitive environment.

Moreover, where the investment climate is not hospitable to private activity, improving it must be a priority. This will raise productivity and generate opportunities throughout the economy, particularly for the small businesses and farms vital to the incomes of poor people. Without such improvements, the impact of donor resources and of foreign capital flows will be sharply reduced. To complement national efforts, there is a need for the relevant international and regional institutions to increase their support for private foreign investment in infrastructure development and other priority areas. To this end, it is important to provide export credits, co-financing, venture capital and other lending instruments, risk guarantees, leveraging aid resources, information on investment opportunities, business development services and fora to facilitate business contracts.

3.3. International Trade as an Engine for Development

Trade is a vital engine for economic growth and poverty reduction. Poverty cannot be overcome without sustained rapid growth. The willingness and opportunity to trade liberally are critical to long-run poverty reduction. Developing countries that have intensified their links with the global economy through foreign trade and investment have tended to grow more rapidly over a sustained period and have experienced larger reductions in poverty than other developing countries. Unfortunately, many countries, particularly least developed ones, have not shared the benefits of globalisation and still lag behind both in trade growth and in policies and institutions conducive to the integration process.

Developing countries as a whole have been able to expand their exports substantially and have made major progress in liberalising their trade regimes since the 1980s. However, trade liberalisation should be approached in a sequenced manner and must be complemented with stronger measures to diversify and expand productive capacity. Rapid trade liberalisation can, in the short to medium terms, entail heavy adjustment costs such as reduction in employment and output, the loss of industry-specific and firm-specific human capital, and potential macroeconomic instability resulting from balance of payments difficulties or reductions in government revenues. Despite the aggregate progress, it is clear that many developing countries, especially least developed ones, have not achieved increases in their per capita gross domestic product (GDP) over the last three decades. The overall economic environment confronting many of the poorest countries makes it difficult for them to rapidly raise living standards, improve or even maintain export shares in traditional markets, or encourage rapid diversification.

In this regard, expanding market access for developing country exports is a clear priority and must be complemented by a concerted effort to ensure that all developing countries, including land-locked, small island and other countries facing special challenges, are in a position to benefit from increasing trade liberalisation. In fact, improving market access for all developing countries should be an integral part of the international community’s efforts to help achieve the global development goals. Expanding market access for manufactured goods, agricultural commodities and services would generate large income gains almost in all countries. Such gains would be greatest if the very significant barriers to trade in developing countries were also reduced. This suggests the need for a broad-based reciprocal liberalisation of barriers to trade in goods that can be achieved during the new World Trade Organisation (WTO) round. Indeed, for the key trade issues facing developing countries a new trade round with strong focus on development would offer the best solution.

A universal, rule-based, open, non-discriminatory and equitable multilateral trading system, as well as a meaningful trade liberalisation can stimulate development worldwide, benefiting countries at all stages of development. The establishment or enhancement of appropriate institutions and meaningful trade liberalisation is an important element in the sustainable development strategy of a country. In this context, contribution of trade in generating economic growth and employment lies at the heart of the work program of the WTO.

Furthermore, enhancing the role of regional and subregional agreements and free trade areas, consistent with the multilateral trading system, is essential in the construction of a better world trading system. Therefore, international financial institutions, including regional development banks, should continue to support projects that promote subregional and regional integration among developing countries.

Moreover, international financial and development institutions should expand and coordinate their efforts with increased resources for gradually removing supply-side constraints, improve trade infrastructure, diversify export capacity and support an increase in the technological content of exports, strengthen institutional development and enhance overall productivity and competitiveness.

Within this framework, in reducing vulnerability, there should be a greater diversification of the productive and export base. Both a high degree of trade openness and a more rigid and concentrated export structure generate special risks. Traditional and non-traditional exports from developing countries tend to be concentrated in critical areas, such as agricultural products, textiles and clothing. Countries with medium levels of income per capita and a more diversified export mix are nonetheless vulnerable to arbitrary actions in importing markets. The evidence is clear that stable and predictable market access for developing countries' exports is crucial for sustaining higher levels of investment in the tradable sector.

3.4. Strengthening Official Development Assistance (ODA)

Official Development Assistance (ODA) is one of the most important issues discussed in various conferences on development including the recent one in Monterrey. On average, ODA as a percentage of donor countries' gross national product (GNP) was already falling when the international community first adopted in 1970 the target of contributing 0.7 per cent of GNP. ODA remains crucial for the 49 least developed countries.

Official development Assistance (ODA) plays an essential role as a complement to other sources of financing for development, especially in those countries with least capacity to attract private direct investment. ODA can help a country to reach adequate levels of domestic resource mobilisation over an appropriate time horizon, while human capital and productive and export capacities are enhanced. But also it can be critical for improving the environment for private sector activity. ODA is also a crucial instrument for supporting education, health, public infrastructure development, agriculture and rural development and enhancing food security. A major priority in ODA distribution is that it should be in support of the neediest and should maximise the poverty reduction impact of ODA. Studies show that aid can have a direct impact on poverty when it is targeted to programmes such as those for children, nutrition and emergency relief.

These principles mean that partnership between donors and recipient countries is not only to transfer financial resources, provide access to knowledge and build capacity but also to help empower the poor. Moreover, all these efforts should be based on mutual respect, shared objectives and recognition of the common interests that emerge from globalisation. In this regard, multilateral, regional and subregional development finance institutions play an important role in channelling both concessional and non-concessional resources for development. That role is essential in providing financing for lower-income countries whose access to private markets is limited. The international community thus needs to continue to support these institutions and provide them with a continuous, predictable and assured flow of resources, adequate to fully carry out their mandated activities.

The challenge, therefore, is threefold: motivating increases in ODA and related resource flows; ensuring that resources are provided in a form that matches the short and long-term needs of developing countries; and improving the delivery mechanisms, co-ordination and other factors that determine the effectiveness and impact of available resources.

3.5. Solving the External Debt Problem

Sustainable debt financing is an important element for mobilising resources for public and private investment. But it is also a key element in reducing national vulnerabilities. External debt relief can play a key role in allocating resources that can be directed towards activities consistent with attaining sustainable growth and development. Moreover, the development of capital markets in many countries in recent years has expanded the range of options available to creditworthy countries underlining the growing importance of careful debt management. Many developing countries used debt financing effectively to expand their level of investment and this, in turn, led to growth and generated ample resources to repay debt and support both consumption and investment expenditures. Some countries, however, ended up with unbearable debt burdens.

Many low-income and least developed countries have accumulated debts and now face external debt servicing obligations that constrain their ability to support development and poverty reduction programmes. These accumulated debts also disturbed the fulfilment of basic human needs and decreased those countries ability to finance critical growth-oriented investments. Moreover, many developing countries ended up with unmanageable levels of debt or a serious mismatch between their financing needs and the maturity of their borrowings. While this debt may be manageable under rapid growth circumstances and in an otherwise favourable economic environment, their situation leaves them very vulnerable to abrupt changes in internal or external factors.

The low income and least developed group of countries has been the motivation and target of the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, which was designed to reduce their debt to sustainable levels. The Initiative provides an opportunity to strengthen the economic prospects and poverty reduction efforts of its beneficiary countries. Speedy, effective and full implementation of the Initiative, which should be fully financed through additional resources, is critical. The efforts of the Development Committee[5] and the International Monetary and Financial Committee[6] to deepen debt relief and expedite the HIPC process have been received as welcome steps in the right direction by the international community. Fully implementing the HIPC Initiative is an urgent and important objective. Many debtor countries are fulfilling the conditions required of them by the international community, and it is imperative for creditors to fulfil their side of the arrangement expeditiously. Donors need to provide the necessary resources while also ensuring that this would not be at the expense of other ODA flows.

Moreover, countries that attain debt sustainability under the HIPC initiative will still need further considerable assistance to achieve the desired goals. Low-income countries with fragile economies may find themselves unable to service debt obligations under certain circumstances, no matter how skilled their economic management is. Such circumstances may include natural calamities or economic catastrophes (such as major drops in the prices of export commodities or other terms-of-trade shocks). In those circumstances, special measures to alleviate the burden of debt servicing obligations, and even debt cancellation, will be called for. In fact, preventing the accumulation of excessive debt or the "bunching" of debt servicing obligations over a short period of time is critical to ensure debt financing since it plays a constructive role in development finance.

However, most low-income countries face much more than only a debt problem. They face a major problem of development financing. In the light of the experience of recent decades, mobilisation of resources in an effective way lies at the heart of the development agenda. The benefits

[5] Development Committee was established in October 1974 to advise the Boards of Governors of the IMF and World Bank on critical development issues and on the financial resources required to promote economic development in developing countries.

[6] International Monetary and Financial Committee was established on September 30, 1999 by a resolution of the IMF Board of Governors to replace the Interim Committee of the Board of Governors on the International Monetary System (usually known as the Interim Committee).

of efficient mobilisation of resources should target the most needy segment of the population, namely the poor. Indeed, private sector activities, which provide various job and income opportunities, is the key component of this process. Moreover, sound policies and strengthening of the financial sector are crucial for development and for attracting investments. In this context, reform of the international financial architecture is crucial and must be pursued to foster international financial stability and help to build an international financial environment supportive of development. That is, the international financial architecture should provide a more efficient way in mobilising resources and give the required flexibility to all developing countries that are implementing growth and poverty reduction-oriented policies.

4. IMPLICATIONS FOR THE OIC COUNTRIES

The recent international crises influenced many developing as well as OIC countries because of the instability inherited within the international financial system. Although globalisation has brought various opportunities to the world, its benefits such as high economic growth and employment, thus better standards of living, were not distributed equally among all countries of the world. Moreover, crises occurring in an individual country became not only a local problem for that country but a problem of the region and the world. That is, spillover effects of different shocks could be felt in various countries. Therefore, OIC countries should be aware of the possible negative effects of such international crises.

As discussed in the previous sections of the report, discussions on the new international financial architecture accelerated after the Asian crises that also affected some OIC member countries. The unease of these crises is still felt in some developing countries, so various measures have been taken by international institutions to cure the wound of affected countries. These efforts include giving high priority to the identification and prevention of potential crises and strengthening the underpinnings of international financial stability. More recently, financing for development emerged as a major objective of the international financial architecture.

The international crises that occurred in the 1990s revealed important lessons. For instance, domestic fundamentals and sound macroeconomic and structural policies are as critical as ever. That is, exchange rate problems, financial sector deficiencies and growing debts have shadowed the economic health of the developing countries. Unfortunately, most of the developing countries lack a diverse, well-functioning and competitive financial system. Since the central purpose of the financial sector is to promote savings and channel investible resources into productive channels, it plays an essential role in the mobilisation of both domestic and international resources for development. In this context, OIC countries should create a stronger financial sector to participate in higher yielding projects and reach the efficient and high amounts of investment that fuels economic growth. Within this framework, banks must be competitive, efficient, properly capitalised and well regulated and supervised. Therefore, strengthening and reforming the banking sector, including supervision by independent authorities, deserves priority.

Furthermore, it is important to point out that the OIC countries are not made up of an economically homogeneous group. So, they are all in different stages of development. Within this framework, financing needs of OIC countries will be different according to country-specific factors. For instance, there are the least developed member countries of the OIC which will be named as the OIC-LDC group. This group is made up of those members of the OIC which are designated as least developed countries by the United Nations. On the other hand, the group of OIC middle-income countries (OIC-MIC) is made up of those member countries of OIC which are classified as middle income countries according to their 2000 GNP per capita, (between $756 and $9266). Also, there are the OIC low-income countries (OIC-LIC) which are classified as low income countries according to their GNP per capita, ($755 or less). Altogether, there are 31 OIC-LDLICs and 14 OIC-MICs.

So far, almost all least developed and low-income countries have faced a problem of finance, namely financing their development. In fact, economic growth and development depend essentially on a country's ability to invest and make efficient and productive use of its resources. In this regard, Table A.1 shows the investment and saving performances of OIC countries. Of the 43 OIC countries for which the data are available, 17 countries experienced a rise in the share of investment in GDP during the period under consideration. In the rest of the countries it stayed constant or declined according to the countries' social, political and economic environment and the responses to the shocks they faced within the last decade. Moreover, all the groups of OIC countries, except the group of OIC transition countries (OIC-TCs), experienced a rise in their GDI as a percentage of GDP in the first half of the 1990s. Yet, in the second half of the 1990s, coinciding with the negative effects of the Asian crisis to economically-large OIC-MICs, the trend in GDI reversed. Only OIC-LDCs as a group increased continuously their share of investment in GDP. On the other hand, developing countries also experienced a higher percentage of investment in GDP, 25.8 per cent, compared with 22.2 per cent in developed countries in 2000. In fact, developed countries followed a quite flat pattern in their investment behaviours during the 1990s. In addition, although the share of investment in developing countries' GDP was 25.8 per cent in 2000, in the OIC countries this percentage was 20.5 per cent. If the required financing, which comes from domestic savings, is not available, the measures to boost investment will not succeed. In fact, saving rates play a crucial role in mobilising domestic sources. During the last decade, although gross domestic savings as a percentage of GDP in OIC countries has been lower than the average of developing countries, this percentage reached the same amount as that of the developing countries in 2000. In fact, all subgroups achieved a rising trend in their saving performance (See Table 1).

TABLE 1: INVESTMENT AND SAVING RATES
(%)

	Gross Domestic Capital Formation (% of GDP)			Gross Domestic Savings (% of GDP)		
	1990	1995	2000	1990	1995	2000
OIC-LDC	16.5	18.3	22.2	7.3	7.8	15.5
OIC-MIC	26.4	27.8	21.8	20.7	21.8	21.8
OIC-OEC	22.5	22.7	18.3	26.2	28.6	38.1
OIC-TC	32.3	23.4	16.2	22.5	19.9	21.6
OIC Countries	24.6	25.4	20.5	21.6	22.9	26.6
Developing Countries	25.8	28.8	25.8	26.3	27.2	26.5
Developed Countries	21.7	21.5	22.2	20.9	21.4	21.6

Source: Table A.1 in the Annex.

Although the principal trend in the 1990s was the growing importance of private flows, particularly foreign direct investment, the distribution of FDI inflows has been concentrated in a small number of OIC member countries. In this context, FDI flows to OIC countries accounted for around 3.7 per cent of the world in 1990 as shown in Table 2.

TABLE 2: FDI INFLOWS TO OIC COUNTRIES

	FDI Inflows to OIC Countries (million US $)		
	1990	1995	2000
Total OIC-LDCs	-76	249	1176
Total OIC-MICs	5358	13553	5453
Total OIC-OECs	2346	-21	2959
Total OIC-TCs		1695	2467
Total OIC Countries	7628	15476	12055
OIC as % of World	3.7	4.6	0.94
Developing Countries As % of world	14.8	23.4	15.6

Source: Table A.2 in the Annex.

However, after the slight increase in the first half of the last decade, the trend was dramatically reversed in the second half. The two major OIC countries attracting the bulk of FDI flows to OIC countries over the last two decades, Indonesia and Malaysia which were negatively affected by the Asian crisis, composed the source of decline in OIC countries' share in FDI flows. Although FDI inflows to those two countries were US$ 4.3 million and US$ 5.8 million in 1995 respectively, they ended up with a decline in 2000 (See Table A.2 in the Annex). Moreover, FDI outflows from Indonesia increased following the crisis years. Being an economically large country, this outflow also affected the OIC countries' share in world FDI flows which was 0.9 per cent in 2000. Consequently, distribution of private financial flows does not follow a fully equitable and steady path. Therefore, the central challenge is to attract FDI flows and other private flows to a much larger number of countries and sectors. Key to this effort is the emergence and consolidation of transparent, stable and predictable frameworks for private activity as well as institutions, corporate governance and infrastructure that allow businesses, both domestic and foreign, to operate efficiently.

Moreover, for OIC-LDCs and OIC-LICs whose access to international markets is limited, official development assistance (ODA) plays an essential role as a complement to other sources of financing for development. However, the net ODA received by OIC countries declined in the last decade as illustrated in Table 3. Only net ODA received by OIC-TCs increased during the same period. Moreover, ODA received by OIC countries as percentage of developing countries declined from 50 per cent to 41 percent in the 1990s. Therefore, the declining trend in ODA flows should be reversed for developing countries to finance their development. In this regard, multilateral, regional and subregional development finance institutions play an important role in allocating both concessional and non-concessional resources for development.

TABLE 3: NET ODA RECEIVED BY OIC COUNTRIES

	Net ODA received by OIC Countries (million US $)		
	1990	1995	2000
Total OIC-LDCs	8966	7448	5563
Total OIC-MICs	14415	7955	6413
Total OIC-OECs	892	949	588
Total OIC-TCs	11	829	1222
Total OIC Countries	24284	17181	13786
OIC Countries as % of Developing Countries	50.6	49.8	41.7

Source: Table A.3 in the Annex.

Developing countries that intensified their links with the global economy through trade and investment have tended to grow more rapidly over a sustained period and have experienced larger reductions in poverty than other developing countries. Unfortunately, many countries, particularly low-income ones, including OIC-LDCs have not shared the benefits of globalisation. Although total exports of OIC countries doubled in the last decade, OIC countries' share in world exports has shown a negligible improvement. Among the OIC subgroups, OIC-MICs and OIC-TCs experienced a large rise in their exports (See Table A.4 in the Annex). In this framework, primary commodity exports with exogenously-determined prices constitute an important source of macroeconomic instability in these countries since international prices of primary commodities tend to fluctuate sharply. In this context, 15 OIC countries are classified as exporters of primary commodities and 13 OIC countries has fuel as the main source of export earnings (IMF, World Economic Outlook May 2001, p. 159). Therefore, many OIC countries, particularly OIC-LDCs and OIC-LICs, need to diversify their economies to achieve sustained levels of economic performance and decrease their vulnerability to external shocks.

Also, external debt relief can play a key role in liberating resources that can be directed towards activities consistent with attaining sustainable growth and development. However, when we consider the external debt of the OIC countries, the picture becomes worse. In reference to the World Bank's classification of all economies according to their indebtedness, 23 OIC countries are classified as severely - indebted countries and another 15 are classified as moderately-indebted (World Bank, Global Development and Finance 2002, pp. 130-131). Furthermore, as presented in Table A.4 in the Annex, the total external debt of OIC countries increased in the last decade. This rise was largely experienced by all subgroups except the OECs group.

The majority of the OIC countries will benefit from the new international financial architecture in financing their development. As discussed in the above paragraphs, OIC countries suffer from various macroeconomic problems. In fact, all those problems disturb the efficient and stable resource allocation that is essential for development. The main objective of the new international financial architecture should be to refresh and create resources for development in this way, yielding various opportunities for developing countries, including the OIC countries. Moreover, financing for development includes measures for prevention and management of financial crises. In this context, international institutions and regional development banks are the most important supplements to achieve the desired targets. Thus, OIC members should concentrate their efforts on the allocation and efficient use of Islamic resources for the to benefit of all member countries.

5. CONCLUSION

The new international financial architecture was accelerated with the Asian crisis and its objective and the new path of this financial system were shaped with a new title, that is Financing for Development. The OIC and developing countries have much to benefit from this framework since it provides various opportunities for all developing countries, including OIC members, irrespective to their stage of development. In this respect, OIC and developing countries can collaborate on regional cooperation matters related to the strengthening of the international financial system and on topics that are of particular concern to them. Shortly, the new international financial architecture connects all development goals under the umbrella of finance as discussed in Section 3. Within this new framework, mobilising domestic and foreign resources composes the new way of the financial architecture.

In this regard, particular attention was focused on the impediments to growth, development and poverty reduction created by the trade barriers and subsidies of developed countries since the revenue that developing countries could realise will be higher than the existing level if such measures are abolished. Within this framework, some additional measures in dealing with the external debt problem are needed since reduced debt service obligations are seen as crucial for allocating additional domestic resources to development and anti-poverty projects such as health and education. In addition, several conferences elaborated on the potential contribution of the private sector to development and poverty eradication. In this context, developing countries, including OIC members, need to create the necessary conducive conditions to support entrepreneurship, particularly in small and medium sized enterprises, including farms, and to encourage private investment, including FDI.

The operation of a financial system is dependent on overall economic activity, and financial institutions are significantly affected by certain macroeconomic developments. This suggests that financial system stability assessments need to take into consideration the broad macroeconomic picture, particularly factors that affect the economy's vulnerability to capital flow reversals and currency crises. These facts hold useful lessons for the OIC countries. Consequently, all these financial activities should aim to ensure the best possible outcomes for the peoples in these countries in terms of growth and development, including employment and social protection.

However, constructing an international financial system in a globalised and interdependent environment is the most painful and vital part of the development agenda. This system should be open, efficient and innovative. That is, it should be just and reasonably stable and should spread the opportunities to all. In addition, managing crises effectively is the key step in the international financial system. It also calls for increased efforts to build the capacity of the developing countries to help them participate fully in international trade and finance. Moreover, sound domestic financial sectors are underlined as an important component of an international financial architecture in supporting development. Important international efforts are under way to reform the international financial architecture. Those efforts need to be sustained with greater transparency and the effective participation of developing and least developed countries.

Furthermore, as economic integration increases, so does the importance of international institutions. Existing institutions are receiving expanded mandates and new institutions and discussion fora are created. In this context, as a response to globalisation-related challenges, there has been a resurgence of interest in economic and financial cooperation among regions and countries in the areas of international trade, investment, monetary issues and financial sector oversight. More specifically, financial institutions are seen to offer opportunities for macroeconomic consultation and coordination, provision of liquidity during crises, development banking, etc. Regional and subregional arrangements can be very effective instruments for promoting development, and the opportunities for intensified integration should be explored by interested countries and supported by the international community.

To strengthen economic cooperation among OIC member states, the international financial architecture plays an important role in facilitating the diversification of trade and production of goods and services in order to increase complementarities and facilitate access to international markets. Financial activities, in the promotion of sustainable development, should be handled in a more effective way in OIC economic cooperation activities in order to introduce a new dimension and dynamism into cooperation efforts among Islamic countries. That is:

1. Expanding and intensifying monetary and financial cooperation among the OIC member countries in order to allow for an optimal use of resources that already exist in the OIC community.

2. Strengthening direct cooperation among financial institutions in the member countries in the area of effective and stable mobilisation of domestic and foreign resources.

3. Utilizing resources under various forms of financing for investment in economic and social infrastructure projects and enterprises in member countries through the provision of medium and long term financing for investment projects.

4. Encouraging joint-venture investments and deepening financial markets on the basis of mutual benefits by promoting and developing capital markets and also promoting various means of financial intermediation, such as insurance companies and mutual funds.

5. Strengthening the banking sector of member countries in research, capacity building and resource mobilisation, which is crucial for fruitful future cooperation.

6. Encouraging trade promotion activities among the OIC countries and benefits from trade and orienting them towards financing development.

7. Economising on utilisation of foreign exchange reserves and fostering a more economical use of financial resources.

Consequently, to finance these development needs, greater coherence and coordination are essential. Efforts to build a more stable and participatory international system must be pursued. In this regard, reform of the international financial architecture is crucial and must be pursued to foster international financial stability and help build an international financial environment that is supportive of development. Within the boundaries of the new international financial architecture, it is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes taking into account the readiness of the domestic institutions in each country. Finally, all activities including the theme of coherence and consistency of the international monetary, financial and trading systems, should be in support of development.

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ANNEX

TABLE A.1: SHARE OF INVESTMENT AND SAVINGS IN OIC COUNTRIES (AS % OF GDP)

	Gross Domestic Capital Formation (% of GDP)			Gross Domestic Savings (% of GDP)		
	1990	1995	2000	1990	1995	2000
Bangladesh	17	17	23	10	8	18
Benin	14	20	20	2	9	6
Burkina Faso	21	22	28	8	6	9
Chad	16	9	17	0	-10	1
Comoros	20	17.6	13	-3.2	-10.0	1.0
Djibouti	14	8.6	12.9	-10.2	-9.2	-0.2
Gambia	22	21	17	11	5	4
Guinea	18	15	22	18	11	17
Guinea-Bissau	30	16	18	3	-5	-9
Mali	23	26	23	6	10	7
Mauritania	20	15	30	5	11	15
Mozambique	16	60	34	-12	5	10
Niger	8	6	11	1	1	3
Senegal	14	16	20	9	10	11
Sierra Leone	9	6	17	8	-9	-8
Sudan	15	17	14			15
Togo	27	14	21	15	9	6
Uganda	13	16	18	1	7	3
Yemen	15	12	19	4	10	28
OIC-LDC average	**16.5**	**18.3**	**22.2**	**7.3**	**7.8**	**15.5**
Cameroon	18	15	16	21	21	20
Côte d'Ivoire	7	13	12	11	20	19
Egypt	29	17	24	16	6	17
Guyana	27.7	31.7	28.7			
Indonesia	31	38	18	32	36	26
Jordan	32	26	20	1	3	-6
Lebanon	18	29	18	-64	-22	-7
Malaysia	32	41	26	34	37	47
Morocco	25	21	24	19	13	18
Pakistan	19	19	16	11	16	12
Syria	15	27	21	16		24
Tunisia	32	24	27	25	20	24
Turkey	24	25	24	20	20	17
OIC-MIC average	**26.4**	**27.8**	**21.8**	**20.7**	**21.8**	**21.8**

TABLE A.1: (*continued*)

	Gross Domestic Capital Formation (% of GDP)			Gross Domestic Savings (% of GDP)		
	1990	1995	2000	1990	1995	2000
Algeria	29	32	24	27	29	44
Bahrain	16	18				
Gabon	22	26	26	37	48	28
Iran	29	29	20	27	34	34
Kuwait	18	12	11	4	18	37
Libya	18	15				
Nigeria	15		23	29		34
Oman	13	17		35	27	
Qatar	18	35				
Saudi Arabia	20	20	16	30	30	40
U.A.E.	20	27		45	27	
OIC-OEC average	**22.5**	**22.7**	**18.3**	**26.2**	**28.6**	**38.1**
Albania	29	16	19	21	-8	-3
Azerbaijan		16	26		4	28
Kazakhstan	32	22	14	30	19	25
Kyrgyzstan	24	16	16	4	10	4
Tajikistan		17	20		18	16
Turkmenistan	40		40	28		49
Uzbekistan	32	23	11	13	24	17
OIC-TC average	**32.3**	**23.4**	**16.2**	**22.5**	**19.9**	**21.6**
OIC average	**24.6**	**25.4**	**20.5**	**21.6**	**22.9**	**26.6**
Developing Countries	**25.8**	**28.8**	**25.8**	**26.3**	**27.2**	**26.5**
Developed Countries	**21.7**	**21.5**	**22.2**	**20.9**	**21.4**	**21.6**

Source: World Development Indicators 2002, and African Development Indicators 2002

TABLE A.2: FDI INFLOWS TO OIC COUNTRIES

	FDI inflows to OIC countries (million US $)		
	1990	1995	2000
Bangladesh	3	2	170
Benin	1	13	30
Burkina Faso	1	10	12
Chad	-	13	50
Comoros	-	2	2
Djibouti	-	3	5
Gambia	-	8	14
Guinea	18	24	33
Guinea-Bissau	2	1	5
Maldives	6	7	12
Mali	-7	123	56
Mauritania	7	7	2
Mozambique	9	45	139
Niger	-1	16	11
Senegal	-3	35	107
Sierra Leone	32	-2	3
Somalia	6	1	20
Sudan	-31		392
Togo	18	38	60
Uganda	-6	121	254
Yemen	-131	-218	-201
Total OIC LDCs	**-76**	**249**	**1176**
Cameroon	-113	7	45
Cote d'Ivoire		268	290
Egypt	734	598	1235
Guyana	8	74	67
Indonesia	1093	4346	-4550
Jordan	38	13	300
Lebanon	6	35	180
Malaysia	2333	5816	5542
Morocco	227	335	201
Pakistan	244	719	308
Surinam	-43	-21	-12
Syria	71	100	84
Tunisia	76	378	781
Turkey	684	885	982
Total OIC MICs	**5358**	**13553**	**5453**
Algeria	-	5	6
Bahrain	-4	431	500
Brunei	3	13	-19

TABLE A.2: (*continued*)

	FDI inflows to OIC countries (million US $)		
	1990	1995	2000
Gabon	74	-113	90
Iran	-362	17	36
Iraq	-	2	
Kuwait	-6	7	16
Libya	159	-107	-128
Nigeria	588	1079	1000
Oman	141	29	62
Qatar	5	94	303
Saudi Arabia	1864	-1877	1000
U.A.E	-116	399	100
Total OIC-OEC	**2346**	**-21**	**2966**
Albania	-	70	92
Azerbaijan	-	330	883
Kazakhstan	-	964	1249
Kyrgyzstan	-	96	19
Tajikistan	-	15	24
Turkmenistan	-	100	100
Uzbekistan	-	120	100
Total OIC-TCs	**-**	**1695**	**2467**
Total OIC Countries	**7628**	**15476**	**12062**
All-LDCs	**154**	**2016**	**4414**
All-DCs	**30248**	**77489**	**199395**
World	**203812**	**331068**	**1270764**

Source: World Investment Development Report, various years. United Nations. New York and Geneva.

TABLE A.3: NET ODA RECEIVED BY OIC COUNTRIES

	Net ODA received by OIC countries (million US $)		
	1990	1995	2000
Bangladesh	2100	1292	1171
Benin	268	280	211*
Burkina Faso	331	491	336
Chad	316	236	131
Comoros	45	42	21*
Djibouti	194	105	75*
Gambia	100	47	49
Guinea	296	417	153
Guinea-Bissau	132	119	80
Mali	487	541	360
Mauritania	240	230	212
Mozambique	1008	1064	876
Niger	398	274	211
Senegal	823	666	423
Sierra Leone	63	206	182
Sudan	827	242	225
Togo	261	192	70
Uganda	671	835	819
Yemen	406	169	265
Total OIC LDCs	**8966**	**7448**	**5563**
Cameroon	447	444	380
Cote d'Ivoire	689	1213	352
Egypt	5438	2015	1328
Indonesia	1747	1391	1731
Jordan	888	540	552
Lebanon	259	187	197
Malaysia	469	109	45
Morocco	1051	495	419
Pakistan	1130	824	703
Syria	684	359	158
Tunisia	393	71	223
Turkey	1220	307	325
Total OIC MICs	**14415**	**7955**	**6413**
Algeria	263	312	162
Gabon	132	144	12
Iran	105	191	130
Kuwait	7	3	3
Libya	20	6	15
Nigeria	250	212	185
Oman	66	59	46

TABLE A.3: (*continued*)

	Net ODA received by OIC countries (million US $)		
	1990	1995	2000
Saudi Arabia	44	17	31
U.A.E	5	5	4
Total OIC-OEC	**892**	**949**	**588**
Albania	11	182	319
Azerbaijan	0	119	139
Kazakhstan	0	66	189
Kyrgyzstan	0	285	215
Tajikistan	0	65	142
Turkmenistan	0	28	32
Uzbekistan	0	84	186
Total OIC-TCs	**11**	**829**	**1222**
Total OIC Countries	**24284**	**17181**	**13786**
All-LDCs	**15136**	**14235**	**10574**
All-DCs	**47918*** **	**34469** **	**33025**

Source: World Development Indicators and UNDP Human Development Report 1998,1999 and 2001.

Note: *1999,**1997,***1991.

TABLE A.4: MACROECONOMIC INDICATORS FOR OIC COUNTRIES

	External Debt (US $ million)		Exports (US $ million)	
	1990	2000	1990	2000
Bangladesh	12757	15609	1672	5658
Benin	1245	1599	122	232
Burkina Faso	834	1332	152	221
Chad	530	1116	89	85
Comoros	185	232	23	15
Djibouti	206	262	59	148
Gambia	369	471	172	20
Guinea	2476	3388	605	820
Guinea-Bissau	712	942	34	63
Maldives	78	207	52	287
Mali	2502	2956	251	241
Mauritania	2141	2500	469	499
Mozambique	4665	7135	383	379
Niger	1793	1638	272	167
Senegal	3731	3372	861	862
Sierra Leone	1206	1273	150	49
Sudan	14762	15741	511	1155
Togo	1286	1435	268	427
Uganda	2583	3409	181	355
Yemen	6345	5616	1561	1899
OIC-LDCs	**60406**	**70233**	**7887**	**13582**
Cameroon	6679	9241	2026	2217
Côte d’Ivoire	17259	12138	2813	4702
Egypt	33402	28957	2585	5458
Guyana	1945	1455	232	643
Indonesia	69872	141803	25681	67327
Jordan	8184	8226	922	1428
Lebanon	1779	10311	455	825
Malaysia	16421	41497	29420	102390
Morocco	23527	17944	4574	8338
Pakistan	20663	32091	5587	9156
Surinam			469	512
Syria	17068	21657	4218	4628
Tunisia	7690	10610	3555	6233
Turkey	49238	116209	13420	27625
OIC-MICs	**273727**	**452139**	**95957**	**241482**
Algeria	27896	25002	11018	20225
Bahrain			3836	8058
Brunei			2212	3093
Gabon	3984	3995	2483	3883

TABLE A.4: (*continued*)

	External Debt (US $ million)		Exports (US $ million)	
	1990	2000	1990	2000
Iran	9021	7953	19305	22195
Kuwait			8143	11577
Libya			13878	12471
Nigeria	33440	34134	10273	20410
Oman	2736	6267	4584	8869
Qatar			3278	9685
Saudi Arabia			44416	69327
U.A.E.			21984	38362
OIC-OEC s	**77077**	**77351**	**145410**	**228155**
Albania	349	784	322	280
Azerbaijan	36	1184	228*	1400
Kazakhstan	1724	6664	244*	7977
Kyrgyzstan	294	1829	315*	527
Tajikistan	382	1170	29*	936
Turkmenistan	276		64*	1892
Uzbekistan	1032	4340	162*	2709
OIC-TC s	**4093**	**15971**	**322**	**15721**
OIC-total	**1480170**	**2563592**	**249576**	**498940**
Developing Countries		**2491975**	**936700**	**2243700**
World total			**3386100**	**6341200**
OIC as % of world			**7.4**	**7.8**

Source: World Development Indicators 2002, IMF Global Development Finance 2002, IMF Direction of Trade Statistics 2002.
* the most recent year available.