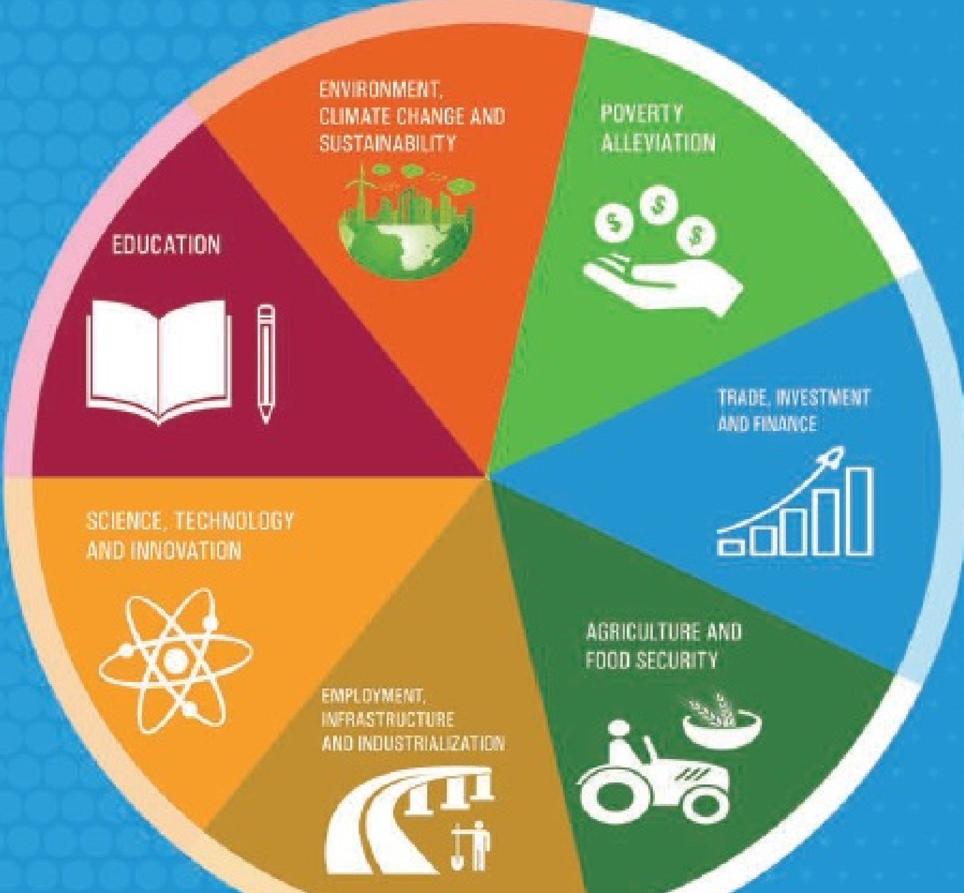
OIC ECONOMIC OUTLOOK 2018

Challenges and Opportunities towards Achieving the OIC-2025



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STATISTICAL, ECONOMIC AND SOCIAL RESEARCH AND TRAINING CENTRE FOR ISLAMIC COUNTRIES

Organization of Islamic Cooperation

The Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC)

OIC ECONOMIC OUTLOOK 2018

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Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
CEE	Central and Eastern Europe
DOTS	Direction of Trade Statistics
EC	European Commission
EIB	European Investment Bank
EU	European Union
FDI	Foreign Direct Investment
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GMTI	Global Muslim Travel Index
GNI	Gross National Income
HIPC	Heavily Indebted Poor Countries
IADB	Inter-American Development Bank
ICT	Information and Communication Technology
IDB	Islamic Development Bank
IFS	International Financial Statistics
ILO	International Labour Organisation
IMF	International Monetary Fund
IPR	Intellectual Property Rights
ISIC	International Standard Industrial Classification
KILM	Key Indicators of Labour Market
LAC	Latin America and the Caribbean
LDC	Least Developed Countries
LIFDCs	Low Income Food Deficit Countries
MDB	Multilateral Development Bank
MDG	Millennium Development Goal

MENA	Middle East and North Africa
MVA	Manufacturing Value Added
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
OIC	Organisation of Islamic Cooperation
PPP	Purchasing Power Parity
R&D	Research and Development
RER	Real Exchange Rate
RTA	Regional Trade Agreement
SDG	Sustainable Development Goal
SME	Small and Medium-sized Enterprise
SSA	Sub-Saharan Africa
STI	Science, Technology and Innovation
TOT	Terms of Trade
TPS-OIC	OIC Trade Preferential System
TRWR	Total Renewable Water Resources
TYPOA	Ten-Year Programme of Action
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
UNRWA	United Nations Relief and Works Agency for Palestine Refugees
UNSD	United Nations Statistics Division
USA	United States of America
USD	United States Dollar
WB	World Bank
WDI	World Development Indicators
WEF	World Economic Forum
WEO	World Economic Outlook

Foreword

Recent global economic developments and prospects show that global economy is relatively healthy, less vulnerable, and steadily growing. Global economic growth rate was recorded at 3.8% by the end of 2017, fastest rate since 2012. Global economic growth will slightly improve but remain broadly stable over the coming years with expected growth rates of 3.9% in 2018 and 2019. However, growing tensions over tariffs in the world trade negatively affects projections and predictions related to export, investment and private consumption levels. With around 5% growth rates, the developing countries are projected to grow slightly faster in 2019, but still below the average growth rates achieved in the period from 1999 to 2018.

However, though they constitute a substantial part of the group of developing countries, the average economic growth rates of the group of the OIC member countries remain below the average of developing countries. The average growth rate of the group of OIC countries has slowed down to 3.8% in 2017, compared to 4.2% in 2016. The average rate of growth in the OIC countries will likely to increase, with average growth rate forecasted to be around 4.1% in 2018 and 4.2% in 2019. However, while increase in oil prices are supporting recovery in domestic demand in oil exporting OIC countries, many of them are still under the influence of harsh austerity measures that were taken during the sharp decline in oil prices in 2014/15. This requires greater cooperation among the OIC countries to achieve economic development goals.

Given such a state of affairs, this edition of the "OIC Economic Outlook" Report focuses on the challenges and opportunities towards achieving the OIC-2025. The OIC-2025 is a comprehensive agenda for cooperation and partnership that is anchored in the provisions of the OIC Charter with 18 priority areas and 107 goals. Its adoption by the OIC leaders at the 13th Session of the Islamic Summit (Istanbul, 14-15 April 2016) signifies the commitment at the highest political level to working together for a shared future. It stresses the importance of political ownership and mainstreaming of OIC projects by Member States in their national priorities for effective implementation of the Programme. The Report concentrates only on the priority areas related to economic development and provides a preliminary assessment of the goals set by the OIC-2025 in order to provide another impetus to their implementation at OIC and individual country level.

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Section 1 on Recent Economic Developments in the World is prepared by Erhan Türbedar, Section 2 on Production, Growth and Employment in OIC countries is prepared by Mazhar Hussain and Section 3 of the report on Trade and Finance in OIC countries is prepared by Kenan Bağcı. Section 4 of the report on Efforts towards Strengthening Intra-OIC Cooperation and the Importance of OIC-2025 and Section 7 on Trade, Investment and Finance are prepared by Cem Tintin. Section 5 on Poverty Alleviation and Section 6 on Agriculture and Food Security are prepared by Mazhar Hussain. Section 8 on Employment, Infrastructure and Industrialization is prepared by Kenan Bağcı (8.1, 8.5 and 8.6), Fadi Farasin (8.2), Erhan Türbedar (8.3) and Cem Tintin (8.4 and 8.6). Section 9 on Other Priority Areas is prepared by Fadi Farasin (9.1) and Erhan Türbedar (9.2 and 9.3).

Executive Summary

RECENT ECONOMIC DEVELOPMENTS IN THE WORLD

World Economic Trends and Prospects

Growth

Global economy is relatively healthy and less vulnerable. After slowdown in 2015-2016, growth rates have accelerated in both developed and developing countries, enabling for increase in the world real GDP growth rate from 3.2% in 2016 to 3.8% in 2017 – fastest rate since 2012. All the world major economies are growing right now, and this was relatively rare situation over last seven years. According to the major forecasting institutions, towards 2020 world real GDP will continue to growth, but without expansion. The key things to watch over the next period will be rising uncertainty about the global trade, rising interest rates, global inflation trends and the sensitivity of the global economy to oil price increases. All of these factors are likely to determine the path of global economic growth over the next few quarters and years.

Unemployment

Real GDP growth in the world has resulted with stabilizing of the global unemployment rate, which averaged 5.5% (190 million people) in 2017. However, in many parts of the developing world the employment growth is under shadow of increased number of people entering labour market, thus paving the way for unemployment to remain persistently high. Further, low-quality employment is on the rise. In 2017, 42% of employed people in the world were working in difficult conditions for low wages with little security. The global youth and women unemployment rate was 12.6% and 6% respectively, higher than total unemployment rate.

Trade

Global trade volume of exports and imports has strengthened by 4.9% in 2017 – highest rate since 2011. Export volume of goods and services grew 4.2% in developed countries and 6.4% in developing countries in 2017. Annual growth in import volume of goods and services was considerably stronger in developing countries in 2017 (6.4%) than in the developed ones (4.0%). Trade policy has become the biggest risk for global economic growth in 2018, due to increases in trade protectionism between the US and its major trading partners. Still, over 2018-2019, global trade growth is expected to remain strong, on the assumption that existing trade tensions do not worsen further.

Investments

The slight recovery in investment share in GDP has continued, reaching 21.2% in 2017 for developed countries, and 32.3% for developing ones. Projections for 2018 and 2019 indicates that investment will continue to provide a stimulus to economic growth throughout the world. In contrast to other macroeconomic variables which saw improvement in 2017, global inward FDI flows fell by 23.4% in 2017, to 1.43 trillion dollars from 1.87 trillion dollars in 2016. Medium-term projection shows that global FDI flows will remain well below the average over the past 10 years.

Financial Conditions

In the period from 2016 to June 2018, global financial conditions were quite convenient for the global economic recovery. However, many countries started (or are keen to start) removing the emergency policy settings, which dominated over the last decade. Tightening in financial conditions will inevitably push up the cost of financing for households and businesses. Rising US interest rates have pushed up the value of dollar, paving the way for financial vulnerabilities in some countries.

Current Account Balance

The current account surplus in developed countries has widened to 0.8% of GDP in 2017, while current account deficit of developing countries moderated form -0.3% in 2016 to -0.08% in 2017. The most notable improvement in the current account balances was realized in oil exporting countries, due to rise in oil prices. The current account balance is expected to remain relatively stable for developing economies. Stronger domestic demand is projected to increase imports and shrink the current account surplus of developed countries over 2018 and 2019.

Fiscal Balance

The global fiscal developments reflect recovery, with the world general government fiscal balance as percentage of GDP decelerating from -3.5% in 2016 to 3.3% in 2017. Over the 2018-2019, average global fiscal balance is expected to remain broadly stable at their 2015-2017 levels. Developing countries with large government budget and current account deficits, small foreign currency reserves and a large share of foreign currency-denominated debt will remain to be highly vulnerable to sudden changes in market conditions.

Recent Economic Developments in OIC Countries

Production, Growth and Employment

Production

OIC countries witnessed an increasing trend in economic activity and their GDP increased from US$ 15.8 trillion in 2013 to US$ 19.4 trillion in 2017. As a group, the OIC countries produced 15.3% of the world total output and 26.3% of that of the developing countries in 2017. In current prices, the share of OIC countries in world total GDP is measured as only 8.2%. Considering the fact that the individual countries such as United States and China had higher shares than that of the OIC countries as a group (15.3% and 18.2%, respectively in 2017), the contribution of the OIC countries to the world output is below their potential.

The average GDP per capita in OIC countries has also increased continuously and reached US$ 11,137 in 2017, compared to US$ 9,812 in 2013. The gap between the average per capita GDP levels of the OIC member countries and those of non-OIC developing countries has widened over the years. The average per capita GDP differential between OIC countries and non-OIC developing countries was recorded at US$ 636 in 2017.

Growth

The GDP growth of OIC countries has slowed down to 3.8% in real terms in 2017, as compared to 4.4% in 2013. Nevertheless, prospects for growth in OIC countries are bright amid the global economic upswing, with a notable rebound in global trade and increase in oil prices. The average rate of growth in the OIC countries will likely to increase in 2018, with average growth rate forecasted to be around 4.1%. The average growth rate of the real per capita GDP in the OIC countries has been positive during the period 2013-2017. This implies that the real GDP in the OIC member countries has grown on average faster than the population. The growth in per capita is forecasted to recover to 2.3% in 2018 and before further consolidating to 2.5% in 2019.

Production by Sectors

The analysis of value-added by major sectors in the total GDP of the OIC countries and non-OIC developing countries shows a similar structure. Although agriculture is widely known to be the primary economic activity and assumed to play a major role in the economies of developing countries, this feature does not stand firm in the case of OIC and non-OIC developing countries as groups. In terms of the average shares of the value-added of the four major sectors in the OIC GDP in 2016, service sector recorded the largest share with 52.7%, followed by the industrial sector (both manufacturing and non-manufacturing) with 35.8%, while the share of agriculture, fishing and forestry was relatively small (11.6%).

GDP by Major Expenditure Items

When the shares of the major expenditure items in the total GDP are considered, final household and government consumption continued to be the highest in the total GDP over the years. In 2016, the OIC household consumption accounted for the lion share of 59.3% followed by gross capital formation (28.2%) and general government final consumption (14.9%). These figures marked an increase in the share of government consumption and decrease in household consumption compared to the previous year. Meanwhile, the share of gross capital formation in total GDP of non-OIC developing countries has increased by 9.4 percentage points whereas the share of household consumption declined by 9.8 percentage points over the same period.

Unemployment

Unemployment is one of the most serious problems facing the world today. OIC countries recorded significantly higher average unemployment rates compared to the world, developed and non-OIC developing countries during the period 2000-2018. During this period, total unemployment rates in OIC countries fluctuated between 7.5% and 6.8%. Average unemployment rate in non-OIC developing countries remained visibly lower (around 2%) than the OIC average throughout period under consideration, which is expected to remain at 5.0% in 2018. Unemployment rates for male labour force are typically lower than the rates for female in all country groups. The figures on youth unemployment in OIC countries are even less promising. As of 2018, youth unemployment in OIC countries is expected to remain at 15.4%, while it will decline to 10.8% in developed countries and remain at 11.5% in non-OIC developing countries.

Labour Productivity

Globally, labour productivity has witnessed an increasing trend during the period 2011-2017. The output per worker in OIC countries has increased from US$ 25 thousands in 2011 to US$ 28 thousands in 2017, as measured in constant international prices based on purchasing power parity (PPP). This upward trend was not affected by slowdown in economic activity especially in oil exporting countries during the period under consideration.

Inflation

Inflation is on increase across the globe reflecting primarily the impact of increase in prices for oil and other commodities. In the OIC countries, average inflation rate for 2017 was higher than the world average. Unlike the global trends, inflation in the OIC countries remained stable around 6.5%. The average consumer price index marked an increase of 26.5% in the OIC countries during 2012-2017. However, this is well below the average increase recorded in non-OIC developing countries (30.4%) and nearly double of the global increase of 13.8% during the same period.

Fiscal Balance

Latest statistics show that the fiscal tightening policies adopted in the aftermath of financial crisis have led to improvement in fiscal balances across the world. Nevertheless, sharp decline in commodity prices especially for oil in 2014/15 lead to increase in fiscal deficits in all major oil exporting countries in the developing world. During the period under consideration, the OIC member countries as a group witnessed sharp decline in their fiscal balance from a surplus of 0.4% 2013 to a deficit of 6.1% in 2016. In 2017, OIC countries recorded fiscal balance deficit of 4.3% of GDP. This improvement in fiscal deficit in OIC countries is largely triggered by increase in oil prices and consequently improving fiscal position of oil exporting OIC countries.

Trade and Finance

Merchandise Trade

In line with global trend, OIC countries have witnessed an improvement in their total exports to world and their aggregate exports increased to US$ 1.63 trillion in 2017. Due to over-proportional increase of exports from OIC countries, the share of OIC countries in total exports of developing countries bounced back to 23.7% in 2017, compared to 22.8% in 2016. OIC countries' collective share in total world merchandise exports decreased to its lowest level of 8.8% in 2016. However, this ratio increased to 9.3% in 2017, reflecting better economic performance of OIC countries compared to other country groups. In 2017, the top 5 (10) largest OIC exporters accounted for 59.7% (77.9%) of total merchandise exports of all member countries. Similarly, total merchandise imports of OIC countries increased from US$ 1.6 trillion in 2016 to US$ 1.76 trillion in 2017. Despite the increase in import volumes, the share of OIC countries in global merchandise imports remained stable at 9.9%, while its share in total imports of developing countries fell from 26.7% in 2016 to 25.8% in 2017. The top 5 (10) OIC importers accounted for 57.5% (73.5%) of total OIC merchandise imports in 2017.

Services Trade

In 2017, world services exports totalled only US$ 5.3 trillion. OIC countries exported US$ 369 billion worth of services in 2017, which is the highest number recorded by the group of OIC countries. On the other hand, the total services imports of OIC services reached US$ 531 billion in the same year and, hence, the OIC countries as a group continued to be net importer of services. As of 2017, OIC countries as a group account for 6.9% of global services exports and 10.3% of global services imports. United Arab Emirates, with US$ 70 billion exports and 19.1 % share in total OIC services exports, was the top exporter in services in 2017.

Trade Balance

Despite minor improvements observed in 2017, contribution of OIC countries to global flow of goods and services remain below their potential. Inadequate level of capacity in manufacturing and services make them net importers of both goods and services. In 2017, total deficit of OIC countries as a group recorded at US$ 127 billion in manufacturing goods. Despite the fall in trade deficit in services since 2014, they still collectively record a total of more than US$ 160 billion deficit in 2017.

Intra-OIC Merchandise Trade

After stabilizing around US$ 390 billion during 2012-2014, intra-OIC exports decreased to US$ 274 billion in 2016. In line with global expansion of trade, total intra-OIC exports reached US$ 319 billion in 2017. Despite the fluctuations in intra-OIC trade, the share of intra-OIC trade in total trade of OIC countries constantly increased during the period 2011-2017 and reached 19.9% in 2017 compared to its level of 17.5% in 2011. UAE ranked first with US$ 71.4 billion and 22.4% of total intra-OIC exports.

FDI Flows and Stocks

World total FDI inflows amounted to US$ 1.43 trillion in 2017, marking a decrease of more than US$ 430 billion over previous year's value of US$ 1.87 trillion and corresponding to 23% fall. In 2017, the total value of FDI flows to OIC countries increased for the first time since 2011, which was recorded at US$ 106.9 billion, corresponding to 6.3% increase compared to the previous year. The share of OIC countries in global FDI inflows increased from 5.2% in 2016 to 7.1% in 2017. On the other hand, OIC countries collectively hosted 6.4% of the global FDI stocks in the same year. By attracting US$ 23 billion worth of FDI in 2017, Indonesia accounted 21.6% share in total FDI flows to OIC countries.

Financial Sector Development

The level of financial sector development in OIC countries remains shallow. The average volume of broad money relative to the GDP of OIC countries was recorded at 66.5% in 2017, compared to as much as 135% in non-OIC developing countries and 125% of the world average. In the same year, the domestic credit provided by the financial sector in OIC countries was on average equivalent to 66.1% of the GDP whereas this figure was 144.3% in non-OIC developing countries and 212.3% in developed countries. On the other hand, access to finance in OIC countries improved significantly over the years, which increased from 27.8% in 2011 to 46.3% in 2017.

External Debt and Reserves

The total external debt stock of OIC countries continued to increase and it reached US$ 1.6 trillion in 2016. In terms of maturity structure of the external debt, short term debts accounted for 19% of total external debts of OIC countries, while 26.6% of total debts of non-OIC developing countries were short term debts. Turkey remains the most indebted OIC member country in 2016 with over US$ 406 billion debt. World total monetary reserves, including gold, reached US$ 12 trillion in 2017, of which US$ 1.6 trillion are owned by OIC countries. The share of OIC countries in world total reserves declined from 13.8% in 2016 to 13.2% in 2017.

ODA and Remittances

In 2016, net ODA flows from all donors to developing countries reached US$ 157.7 billion. While 35% of ODA flows remain unexplained (no information available to which countries they flowed), out of remaining US$ 101.6 billion ODA flows, 54.9% flowed to OIC countries in 2016. In 2016, the top 5 countries received 39.9% of total ODA flows to OIC region whereas the top 10 received 61.0% of them. The inflows of personal remittances to OIC member countries increased from US$ 115 billion in 2011 to US$ 141 billion in 2017.

Challenges and Opportunities towards Achieving OIC-2025

Efforts towards Strengthening Intra-OIC Cooperation and the Importance of OIC-2025

OIC countries constitute a substantial part of the developing world and reflect high levels of heterogeneity and divergence in terms of socio-economic development. The OIC developed its first comprehensive action plan, namely the OIC Ten Year Programme of Action (2005-2015), with a vision to make the OIC more reflective of the realities of the 21st century and to reform and expand its activities and programme, to become more relevant to the challenges facing the Member States. After the completion the period of the TYPOA, the OIC prepared and adopted the OIC 2025 in order to address issues emerging out of political and economic developments in the world as well as to help OIC countries in achieving sustainable development.

The OIC-2025 recognizes the significance of the SDGs and shares the promise that it holds for all people. The OIC-2025 focuses on 18 priority areas with 107 goals and vast majority of them either directly or indirectly linked with the economic development of OIC countries. By exerting efforts towards achieving goals stated in the OIC 2025, OIC countries can achieve sustainable development and strengthen their economies.

OIC-2025: Poverty Alleviation

Like elsewhere, poverty in OIC member countries is a multi-dimensional phenomena and a result of a complex socio-economic and political structure of a particular country. It is associated with poor economies, poor human resources, poor social services provision, and poor policies to tackle the challenges facing human and socio-economic development. Implementation and coverage of social protection systems varies greatly across the OIC member countries. In general, 37 out 54 OIC member countries with data have recorded decrease in the share of people living in extreme poverty since 2015. Despite these positive trends, the state of poverty, both in terms of income poverty and multidimensional poverty remained alarmingly high especially in OIC member countries located in South Asia and Sub-Saharan Africa region.

Many high burden OIC member countries continued to grapple with low economic progress and high incidence of unemployment coupled with low access to amenities like education and health services, which are key social determinants of poverty in a country/region. More critically, surge in civil conflicts and wars remained the major factors in the endurance of poverty in many OIC member countries. Over the years, frequency, duration and impacts of humanitarian crises, mainly driven by natural disasters and conflicts, continue to increase, particularly in OIC countries.

OIC-2025: Trade, Investment and Finance

Intra-OIC Trade and Investment

Intra-OIC trade has the potential to generate significant economic benefits as well as to enhance cooperation among OIC countries. In a similar fashion, foreign investment brings new capital to countries, creates jobs and enhances productivity through spillover effects. International trade volumes of OIC countries, as a group, have been on the rise since 2015 where exports, imports and total international trade volume indices went up between 2015 and 2017. There is also a meaningful progress in terms of intra-OIC trade. As in trade figures, FDI inward flows and stocks in OIC countries went up between 2015 and 2007. These figures on trade and investment flows of OIC countries imply that the OIC group is more integrated with the global economy in 2017 when compared to 2015. Yet, major barriers in trade and investment flows among the OIC countries remains. Therefore, more needs to be done to improve business environment in order to achieve goals stated under the intra-OIC trade and investment dimension.

Islamic Finance Development

The Islamic financial sector has the potential to contribute to the achievement of sustainable economic development in many ways. It helps to improve access to finance, be an effective tool in reducing poverty, and empower capital markets. On the financial front, Islamic finance offers a window of opportunity in OIC countries that could be used in bridging the gap in financing for development. The number of Islamic banks in OIC countries only increased from 169 in 2015 to 178 in 2017. The total amount of Shariah-compliant financing went up from 854 billion in 2015 to 1017 billion in 2017. These figures reveal that there is a limited progress over time given the size of population and size of economies of OIC countries. Challenges on physical as well as on regulatory infrastructure constitute an important barrier for the growth of industry. Human capital shortages and lack of harmonized standards on principles and definitions on Islamic finance instruments can be considered as other major challenges that need to be addressed both at the national as well as at the OIC levels.

OIC-2025: Agriculture and Food Security

Agriculture is very important and crucial economic sector for many OIC countries with high potential to significantly improve their socio-economic situation. This is particularly true for the 36 agricultural-based OIC member countries, 19 of which are least-developed countries. These countries enjoy high potential in terms of at least one of the main three ingredients of the agriculture sector (i.e., arable land, agricultural labour force and water resources).

Agricultural production is growing steadily across the majority of OIC member countries, with 51 out of 56 member countries reordering positive growth in agricultural production index during the period 2010-2016. However, their performance in terms of their per capita food production index indicates that a majority of these countries has insufficient food production capacity to meet the domestic demand for their growing populations and, therefore, have to rely heavily on food imports. One of the major issues constraining sustainable agricultural development in many OIC countries relates to low land and labour productivity, which is of paramount importance in the process of agricultural development. Poor land and labour productivity in many OIC member countries can be attributed to the use of outdated farming methods and techniques including misuse or insufficient use of fertilizers and mechanization.

In terms of food security, many OIC member countries have recorded significant decline in prevalence of undernourishment. Nevertheless, level of undernourishment remained still very high in several member countries. On the other hand, 13 member countries witnessed increase in prevalence of undernourishment during the period under consideration. The situation remained particularly alarming in 28 Income Food Deficit Countries (LIFDCs) and Countries in Crisis Requiring External Assistance, which are characterized by low income level, conflicts, political instability and high prevalence of undernourishment.

OIC-2025: Employment, Infrastructure and Industrialization

Industry

Share of OIC countries in global manufacturing is slowly increasing but it is still very low. In order to increase production and export capabilities, OIC countries need effective industrial development policies. This is necessary to achieve greater productivity and competitiveness in manufacturing sector. Industrial development requires inclusive strategies that bring in all potential actors who can contribute to the development process. Governments should raise people's spirit to engage in entrepreneurial activity, innovative SMEs to enter foreign markets, identify the gaps in human capital, infrastructure and institutions and bridge those gaps, establish special finance institutions and financial mechanisms to finance industrial development projects, build the technology and innovation capacity of their countries and engage in regional partnership to make use of potentials of greater markets.

Transport

OIC countries face critical obstacles and challenges in the field of transportation, which hinder their economic development. Already inadequate infrastructure and maintenance services cannot be improved considerably due to insufficient financing resources and investment in the transportation sector and transportation infrastructure projects. Transportation networks and corridors plays a role in reducing the cost of doing business, and providing access and connectivity to areas that otherwise would have been isolated. However, the transportation network densities and capacities of the OIC countries, as a group, lag behind other country groups. Due to the significant variations in the spatial distribution of population, the intensity of economic activities and the level of economic development among the member countries, the potential solutions to poor transport development should be tailored to the challenges faced by each individual country.

Energy

Achieving universal access to modern energy by 2030 will require an enormous increase in OIC Member States' total power generation. The scale of this challenge will demand enormous financial investments, considerable political will and consideration of all the available technological options. For the OIC Member States with low levels of access to electricity, renewables may be the cheapest way to provide electricity access. For people living in rural areas, decentralised systems, predominantly supplied by solar and wind renewable energy technologies, may offer the lowest cost pathway to electricity access. Investments in non-hydro renewables are important also for OIC Member States with relatively higher levels of access to electricity.

Tourism

Beyond generating economic benefits and boosting productive capacities, tourism has the potential to foster inclusion by reducing poverty and inequalities among vulnerable groups such as the poor, youth and women. This sector can make tangible contribution in promoting socio-economic development as well as strengthening the bonds of solidarity among the people. As a group, OIC countries have a high potential for the development of a sustainable international tourism sector. The selected indicators in the domain of tourism indicate that in the OIC group, on average, desirable levels of tourism development and cooperation have not yet been achieved. Underdeveloped transportation networks, visa requirements, insufficient tourism diversification policies and weak marketing strategies not only negatively affect the overall development of the tourism sector in OIC countries but also curbs the growth in the intra-OIC tourism activities.

Labour, Employment and Social Protection

OIC countries face major labour market challenges in enhancing employability, creating jobs and protecting labour. Appropriate legislation and regulations together with adequate means of enforcement, are essential for the protection of workers' safety and health. It is also important to protect the rights of the labour force and provide them with decent working conditions. On the other hand, the high incidence of the informal economy is a major challenge for the rights of workers, including the fundamental principles and rights at work, and for social protection, decent working conditions, inclusive development and the rule of law. Governments should invest and create conditions to enhance education and training at all levels to promote productivity. However, many OIC countries need support in the design and implementation of appropriate education and training policies to attain human development, productivity and economic growth.

Entrepreneurship and SMEs development

Overall business environment in OIC countries has been improving that implies doing business becomes relatively easier. As a result, the average score of OIC countries in the World Bank's Doing Business Index went up from 52.7 in 2015 to 55.1 in 2017. However, OIC countries have a long way to go. Doing business in OIC countries is relatively more difficult when compared with developed countries, where number of required procedures to start a business and problems in accessing to electricity differ significantly. OIC countries need to make reforms to create a more conducive business environment that entrepreneurs and SMEs can flourish and grow. It is essential to make all these reforms and devise policies in OIC countries through a gender lens as women entrepreneurs are in a more disadvantaged position in the business environment in many OIC countries.

OIC-2025: Other Related Priority Areas

Environment, Climate Change and Sustainability

Despite the progress in adaptation and mitigation process, a significant number of OIC member countries remained exposed to major environmental challenges. This state of affairs necessitates more leadership at both national and local level to mainstream the climate resilience into every aspect of implementation of OIC-2025. Given the fact that climate change is expected to intensify disaster risks significantly in many member countries, there is a serious need for adopting prudent environmental management practices to reduce disaster risks and the adverse effects of climate change. In the context of increasing water productivity there are two vital and interrelated activities that are of great importance to the issue, namely the improvement in technical efficiency of water use and the efficient allocation of available water among competing uses.

Education

By 2015, the OIC was home to around 273 million adults aged 15 and over – 16% of OIC total population, including 170 million females, who were not able to read and write. Failures in education are not just a wasted development opportunity, but also a livelihood challenge that particularly affect young people, women and other disadvantaged groups. The future development agenda of OIC Member States should recognize the central role of education and set more clearly education-related targets. In this regard, equitable access to quality education should be provided for all, at any stage of life.

Science, Technology and Innovation

On average, the OIC region is not innovative, and its competition in global economy is largely based on labour costs, rather than value-added. For that reason, there is an urgent need to channel effective technical assistance and capacity building tailored to the specific needs of OIC Member States, to address technology infrastructure gaps as well as capacity constraints. The experience of successful developing countries shows that STI policies should be integrated into national development strategies, supported by sufficient national and international investments, committed to cooperation that involves both public and private bodies, as well as supported by mechanisms that ensure effective implementation.

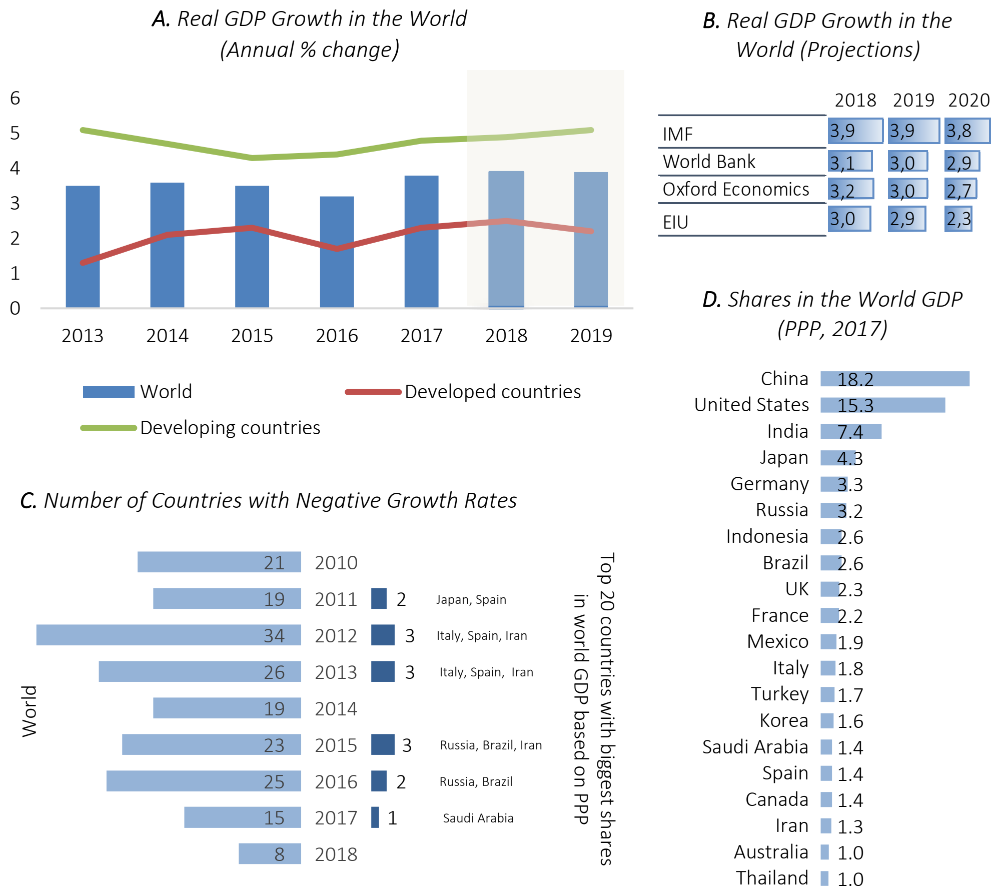
PART I: RECENT DEVELOPMENTS IN THE WORLD ECONOMY

Chapter One

World Economic Trends and Prospects

Global economy is relatively healthy, less vulnerable, and steadily growing. Although modest by historical standards, a synchronized global recovery from 2016 is encouraging. After slowdown in 2015-2016, growth rates have accelerated in both developed and developing countries, enabling for increase in the world real GDP growth rate from 3.2% in 2016 to 3.8% in 2017 – fastest rate since 2012. Number of world countries in recession has dropped from twenty-five in 2016 to fifteen in 2017 and by end of 2018 only eight countries are projected to have negative growth rates (Figure 1.1).

Figure 1.1: Economic Growth, Recession and Shares in the World GDP



Source: IMF, World Economic Outlook database, unless otherwise stated.
Notes: Shaded area indicates projections (World: N = 193; Developed: N = 39; Developing: N = 154)

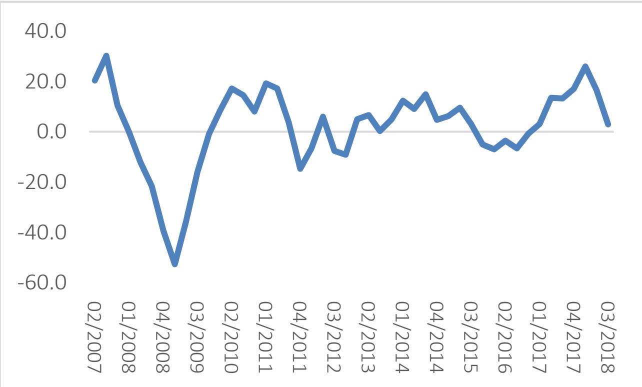
All the world major economies are growing right now, and this was relatively rare situation over last seven years. For example, within sample of twenty countries consisting of ten developed and ten developing economies, which in 2017 account for 76% of global GDP based on PPP, in 2011 Japan and Spain were in recession. Over 2012 and 2013, together with Spain, Italy and Iran have experienced negative growth rates. Russia and Brazil were in recession from 2015 to 2016 and Saudi Arabia in 2017 (Figure 1.1C). Those who are expected to close 2018 by negative growth rates are not big economies, therefore global growth will remain broadly stable in 2018.

• Global economic growth favourable, but not free of risk

In the latest World Economic Outlook, the International Monetary Fund (IMF) forecasts that the global economy will expand at 3.9% in both 2018 and 2019, slightly faster than the 3.8% achieved in 2017. However, as demonstrated within Figure 1.1B, other major forecasting institutions see 2018 as a near-term peak for world growth rates. Compared to the IMF, world real GDP growth projections of World Bank, the Oxford Economics and the Economist Intelligence Unit (EIU) are less optimistic and indicating to the slight slowdown in GDP growth in upcoming years. For them, towards 2020 world real GDP will continue to grow, but without expansion, what brings possibility for the end of the synchronized global growth that has prevailed since 2016.

According to the findings of Ifo Institute's quarterly World Economic Survey, the world's economic climate deteriorated sharply in third quarter of 2018, with the indicator dropping from 26 points in the first quarter of 2018 to 2.9 points in the third quarter, returning to almost the same level as in the first quarter of 2017 (Figure 1.2). The evaluation of the 1,200 experts covering 120 nations showed that the economic climate deteriorated in nearly all regions.

Figure 1.2: World Economic Climate



Source: Ifo Institute, CESifo Group.
Notes: This graph summarizes results of a quarterly surveys conducted by Ifo Institute. The survey focuses on qualitative information, i.e. assessments of a country's general economic situation and expectations regarding key economic indicators. The July 2018 survey received responses from 1,200 experts in 120 countries. Zero point means that the share of positive and negative answers is equal.

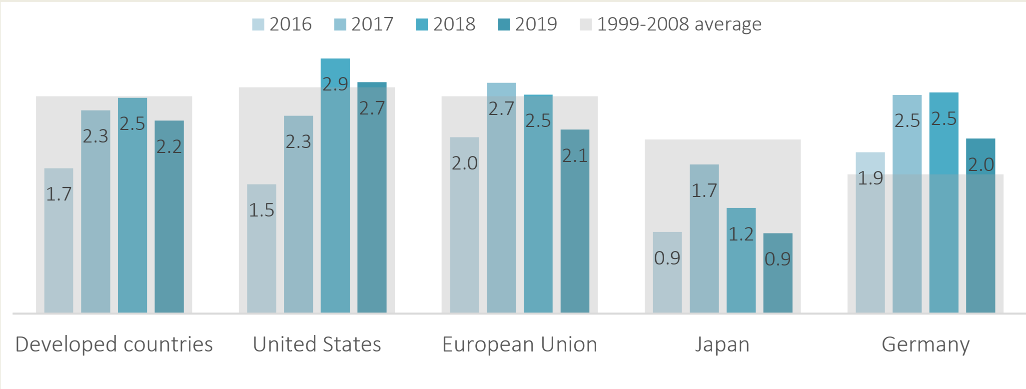
In general, the ongoing conflict over tariffs in the world trade have negatively affected Ifo respondents' assessments and predictions related to export, investment and private consumption levels. Assessment scores of the current economic situation and future expectations declined significantly in the EU and Asian developing economies including China, and in Latin America. In the USA economic expectations also cooled down. However, the assessments for the CIS and MENA regions showed a pick-up.

• Growth divergences among developed economies are widening

Real GDP growth figures for last three years continue to display robust growth momentum for developed countries. They are expected to grow 2.5% in 2018, reaching their average growth rate realized in the period from 1999 to 2008. Growth projection for 2018 indicates to highest growth rate of developed countries since 2011, before easing to a 2.2% in 2019.

The US economy seems strong, which is projected to grow 2.9% in 2018 - an acceleration from the 2.2% expansion in 2017, and then cool slightly to 2.7% in 2019. Until the end of 2019, it is expected to expand above its average growth potential that existed from 1999 to 2008 (Figure 1.3). In general, outlook for the US economy remains strong due to fiscal stimulus and solid gains in the labour market. However, tax cuts will massively increase the US government's budget deficit, creating the need for severe spending cuts in the coming years. For that reason, the U.S. economic growth could be interrupted in the middle term.

Figure 1.3: Real GDP Growth in Developed Countries



Source: IMF, World Economic Outlook database.
Notes: Figures for 2018 and 2019 are projections (Developed: N = 39; European Union: N = 28)

Economic climate in the European Union (EU) remains relatively favourable, despite a slowdown in GDP growth. In the EU, IMF expects growth of 2.5% in 2018, which will then slow to 2.1% in 2019. This trend holds across major EU countries, including Germany, where growth is seen going from 2.5% this year to 2.0% in 2019. Slowing economic growth in EU is a result of ongoing fiscal consolidation, but also concerns over global trade disputes. Especially France, Italy, Spain and Portugal are facing a daunting task of fiscal consolidation under conditions of weakening aggregate demand.

Economic growth appears to have slowdown in Japan in 2018 and it is projected to further moderate in the next year. The world's fourth-largest economy Japan (Figure 1.1D) has enjoyed a moderate recovery since 2012, remaining below its 1999-2008 real growth averages. Japan is experiencing its worst labour shortage due to an aging population, which is negatively affecting earnings of some industries such as transportation and construction.

- **Developing economies appear relatively stable, but still below potential growth rates**

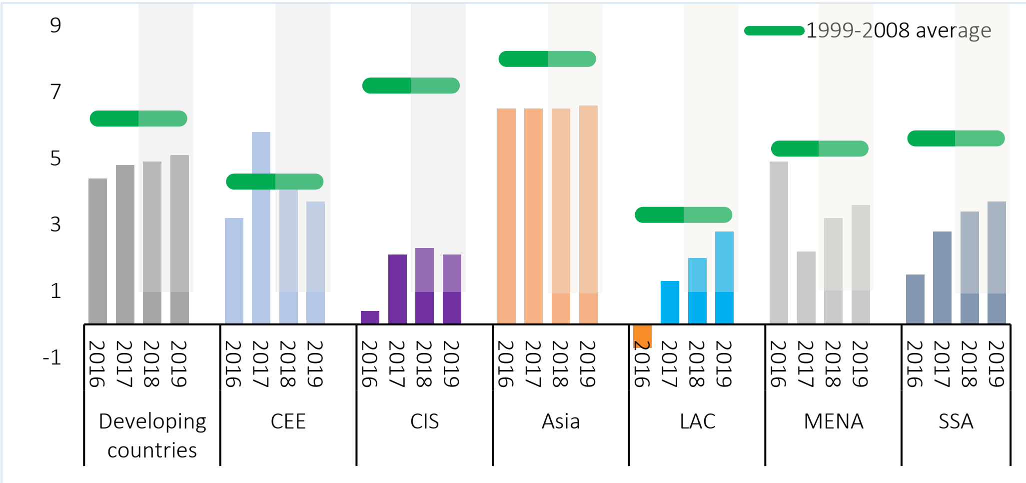
Most developed economies experience slower economic growth as compared to developing countries. The IMF expects developing economies to register average growth of 4.9% in 2018, which would be the fastest growth since 2014. The developing countries are projected to grow slightly faster in 2019, but still below the average growth rates achieved in the period from 1999 to 2008 (Figure 1.4).

In Central and Eastern Europe (CEE) growth is projected to moderate from 5.8% in 2017 to 4.3% in 2018 and further to 3.7% in 2019. Approximately 4% growth rate in the CEE economies is quite achievable in short-term by removing the slack in the labour market, particularly with ensuring wider participation of women and youth in the labour market. But in the long-term growth rate in CEE will depend on improved productivity and entrepreneurship.

Turkey, biggest economy in the CEE region, is experiencing sharp depreciation of its national currency. Further, its structural current-account deficit and the high level of foreign-currency denominated debt held by the private sector are increasing Turkey's external financing needs. Under given conditions, IMF projects growth rate of Turkey to slowdown from 7% in 2017 to 4.4% in 2018 and 4% in 2019.

In the Commonwealth of Independent States (CIS), existing real growth rates are far away from the regions average registered for the 1999-2008 period. Growth in the CIS countries is projected to be at around 2.1-2.3% in 2018-2019. The outlook for the Russian economy is not very promising too. In the absence of any serious restructuring of the economy, in the middle-term average real GDP growth of Russia is expected to stabilize around 1.5% annually.

Figure 1.4: Real GDP Growth in Developing Countries



Source: IMF, World Economic Outlook database.
Notes: Shaded area indicates forecasts (Developing: N = 154; CEE - Central and Eastern Europe: N = 12; CIS - Commonwealth of Independent States: N = 12; Asia: N = 30; LAC - Latin America and the Caribbean: N = 32; MENA - Middle East and North Africa: N = 21; SSA - Sub-Saharan Africa: N = 45).

Developing Asia remains the world's most dynamic region in economic terms, whose real growth is projected around 6.5% over 2018-2019 (Figure 1.4). Still, IMF projections shows that China's real economic growth slowed to 6.9% in 2017, which is significantly below its historical growth levels, that in average accounted 10.1% in the period from 1999-2008. Real growth in China is projected to moderate to 6.6% in 2018 and 6.4% in 2019. With 6.7% of real GDP growth in 2017, India continues to take place among fastest-growing economies. Driven by manufacturing and agriculture, India's economy is projected to grow 7.4% in 2018 and 7.8% in 2019.

In Latin America and the Caribbean (LAC), the recovery is expected to strengthen modestly from 1.3% in 2017, to 2% in 2018 and 2.8% in 2019. The region's biggest economy Brazil began to recover in 2017 with 1% of real GDP growth - the fastest since 2014, which is projected to increase between 2.3-2.5% over 2018-2019. However, political uncertainty, strikes and chaos in logistics sector as well as difficult fiscal picture may negatively affect economic prospects of this country.

Economic growth in the Middle East and North Africa (MENA) region is expected to pick up in 2018 and 2019, after being subdued at 2.2% in 2017. Particularly oil exporting countries from the MENA region are expected to benefit from increases in oil prices. Economy of MENA region is expected to expand 3.2% this year and 3.6% in 2019. The economy of Saudi Arabia, which shrank 0.7% in 2017, is projected to grow by 1.7% in 2018, and around 2% in 2019.

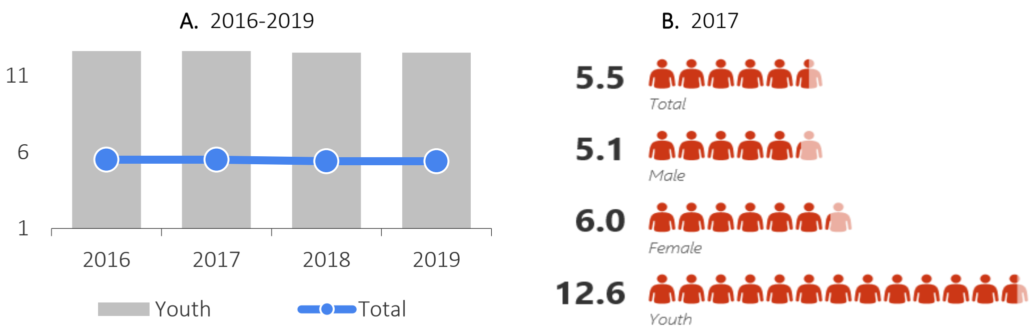
Between 2018 and 2019, the recovery in Sub-Saharan Africa will continue, largely driven by global growth and higher commodity prices (Figure 1.16). Growth in this region is expected to increase from 2.8% in 2017 to 3.4% in 2018, rising further to 3.7% in 2019.

• Economic growth continues to be largely disconnected from employment growth

Real GDP growth in the world has resulted with stabilizing of the global unemployment rate, which averaged 5.5% (190 million people) in 2017 (Figure 1.5). The International Labour Organization (ILO) projects that world unemployment rate will drop slightly to 5.4% in 2018, while unemployment in developed countries is expected to reduce to 5.2% this year - the lowest rate since 2007. The labour situation has improved in some developing economies as well. However, in many parts of the developing world the employment growth is under shadow of increased number of people entering labour market, thus paving the way for unemployment to remain persistently high.

Unfortunately, low-quality employment is on the rise. In 2017, 42% of employed people in the world were working in difficult conditions for low wages with little security. ILO expects this ratio to increase to 43% (1.4 billion people) by end of 2018. This vulnerable employment ratio is particularly high in Africa (66%), Asia and Pacific (48.7%) and Latin America and the Caribbean (32.1%). In some regions such as Sub-Saharan Africa and Southern Asia, vulnerable employment will account for 72% of total employment in 2018.

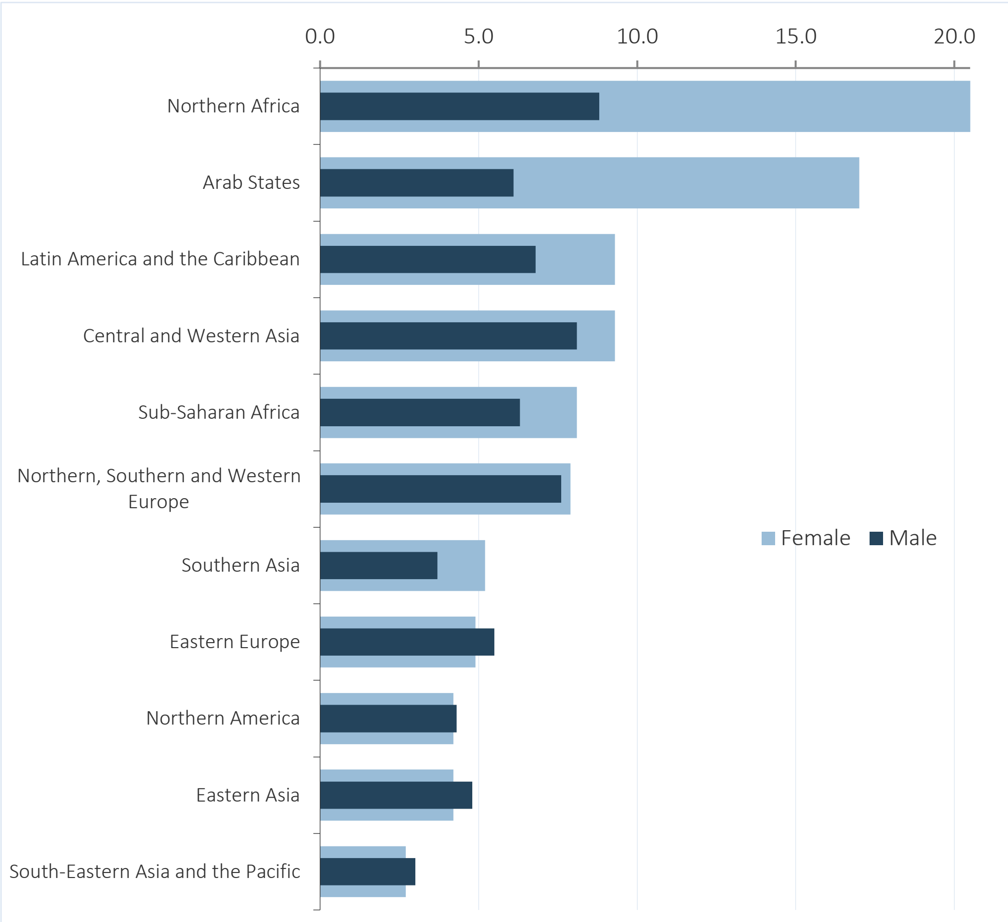
Figure 1.5: Unemployment in the World (%)



Source: ILO modelled estimates.

The lack of employment opportunities for youth (i.e. those between 15-24 years of age) remains to be another major global challenge. In 2017, the global youth unemployment rate was 12.6%, or 2.3 times higher than total unemployment rate (Figure 1.5). This ratio is expected to drop slightly to 12.5% over 2018-2019. The challenge is particularly acute in Northern Africa and Arab states, where respectively almost 29% and 22% of young people in the labour market are expected to remain without a job in 2018 and 2019.

Figure 1.6: Unemployment by Gender (%, 2018)



Source: ILO modelled estimates.
Notes: Northern Africa: N = 7; Arab States: N = 12; Latin America and Caribbean: N = 49; Central and Western Asia: N = 11; Sub-Saharan Africa: N = 51; Northern, Southern and Western Europe: N = 38; Southern Asia: N = 9; Eastern Europe: N = 10; Northern America: N = 5; Eastern Asia: N = 8; South-Eastern Asia and the Pacific: N = 32.

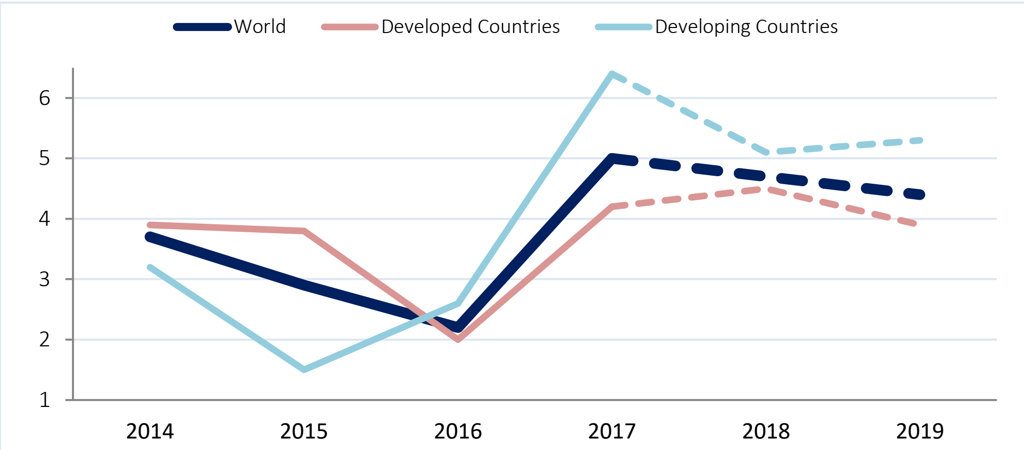
The global unemployment rate of women for 2017 – at 6.0% – is 0.9 percentage points higher than the rate for men, according to ILO modelled estimates. Further, the global women's labour force participation rate – at 48.5% in 2017 – is 26.6 percentage points below the same rate of their male counterparts.

Differences in unemployment rates between women and men in developed countries are relatively small. But in the developing regions such as the Arab States and Northern Africa, female unemployment rates are more than twice as large as men's, due to social norms that obstruct women's participation in employment. It is obvious from the Figure 1.6 that for women it is harder to get a job in many regions of the world.

- **Trade policy has become the biggest risk for global economic growth**

Global trade volume of exports and imports has strengthened to 4.9% in 2017 – highest rate since 2011. Over 2018-19, global trade growth is expected to remain strong and take values between 4.7-5.1%, on the assumption that existing trade tensions do not worsen further. The acceleration of world trade was mainly driven by solid trade growth in Asia and Europe, especially on the export side.

Figure 1.7: Export Volume of Goods and Services (Annual % change)



Source: IMF, World Economic Outlook database.
Notes: Dashed lines indicates projections (World: N = 193; Developed: N = 39; Developing: N = 154)

Export volume of goods and services grew 4.2% in developed countries and 6.4% in developing countries in 2017, up from 2.0% and 2.6% respectively in the previous year (Figure 1.7). The IMF predicts that export volume of developed countries will improve and grow by 4.5% in 2018, while decelerate in developing countries at around 5.1%. Although benefits from the strength of exports were felt across all regions (with the exception of the MENA region) in 2017, they were most pronounced in CIS, developing Asia and CEE regions. For 2018, slowdown in exports is projected for these three regions. Among developing economies, only SSA and MENA regions are expected to perform better in exports in 2018, with significant improvements compared to 2017 (Table 1.1).

As shown in Figure 1.8, annual growth in import volume of goods and services was considerably stronger in developing countries in 2017 (6.4%) than in the developed ones (4.0%). UK saw slight decrease in year-on-year growth in imports in 2017, whereas import growth accelerated in US, Japan and Germany. Among developing economies, import growth in CIS economies peaked to 13.9% in 2017 while year-on-year import change in the MENA and SSA regions were negative.

Table 1.1: Global Trade by Countries and Regions (Annual % change)

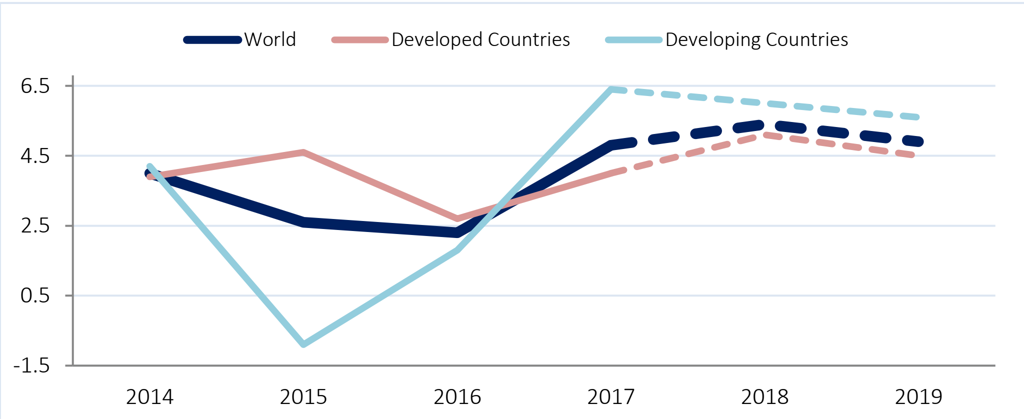
Export Volume of Goods and Services					Import Volume of Goods and Services			
2016	2017	2018	2019		2016	2017	2018	2019
2.0	**4.2**	**4.5**	**3.9**	**Developed Countries**	**2.7**	**4.0**	**5.1**	**4.5**
-0.3	*3.4*	*3.4*	*3.2*	United States	*1.3*	*4.0*	*6.0*	*3.8*
1.3	*6.8*	*5.0*	*2.9*	Japan	*-1.9*	*3.6*	*4.3*	*3.3*
2.6	*4.7*	*6.1*	*5.0*	Germany	*3.9*	*5.1*	*6.1*	*5.4*
2.3	*5.7*	*4.2*	*1.5*	United Kingdom	*4.8*	*3.2*	*2.8*	*0.8*
2.6	**6.4**	**5.1**	**5.3**	**Developing Countries**	**1.8**	**6.4**	**6.0**	**5.6**
4.8	*8.4*	*7.1*	*6.2*	CEE	*6.1*	*8.7*	*6.9*	*6.1*
-0.2	*8.9*	*4.8*	*2.9*	CIS	*-3.0*	*13.9*	*5.7*	*2.4*
2.5	*8.8*	*6.2*	*6.2*	Asia	*4.9*	*8.1*	*6.5*	*7.3*
2.8	*3.8*	*2.4*	*4.2*	LAC	*-2.5*	*4.6*	*5.0*	*4.3*
3.9	*-0.6*	*2.3*	*3.6*	MENA	*-0.9*	*-0.2*	*4.0*	*2.4*
-0.2	*2.8*	*5.1*	*5.4*	SSA	*-7.3*	*-0.2*	*7.9*	*5.0*

Source: IMF, World Economic Outlook database.
Notes: Figures for 2018 and 2019 are projections (Developing: N = 154; Developed: N = 39; CEE - Central and Eastern Europe: N = 12; CIS - Commonwealth of Independent States: N = 12; Asia: N = 30; LAC - Latin America and the Caribbean: N = 32; MENA - Middle East and North Africa: N = 21; SSA - Sub-Saharan Africa: N = 45).

However, projections for these two regions indicate to significant increase in import volume for 2018, while growth in imports in CIS region is expected to ease to 5.7%.

Although global momentum in trade remains generally strong, trade-related risks became quite significant. Real GDP growth rates could be at risk of slowing further if trade protectionism increases between the US and its major trading partners, including the US's traditional allies. The US president Donald Trump is shifting his country's previous qualified support for free trade in a protectionist direction, what is harmful not only because of the direct impact on trade but

Figure 1.8: Import Volume of Goods and Services (Annual % change)



Source: IMF, World Economic Outlook database.
Notes: Dashed lines indicates projections (World: N = 193; Developed: N = 39; Developing: N = 154)

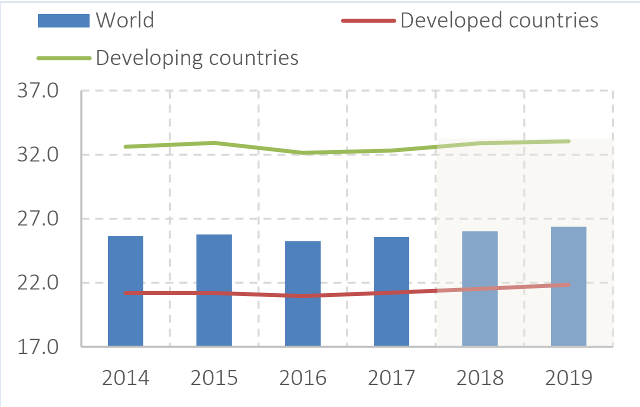
because of business confidence generally, investments and global supply chains. If a trend of reciprocal trade restrictions last for a long time, their global consequences will be inevitable.

The good news is that US protectionism is incentivising countries to develop regional trade agreements and diversify their trade partners, as it is the case with European Union and Asian countries, including Japan, who are speeding up the opening of their markets for closer economic ties. Another example is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which is expected to come into effect in 2019.

The World Bank in its last Global Economic Prospects report warns that protectionist trade policies may affect developing economies more severely than developed ones, with the message that policy and institutional reforms supportive to increase in investments are needed now more than ever.

- **Slight increase in domestic investments followed by strong decrease in FDIs**

Figure 1.9: Investment Share in GDP (%)



Source: IMF, World Economic Outlook database.
Notes: Shaded area indicates forecasts (World: N = 193; Developed: N = 39; Developing: N = 154)

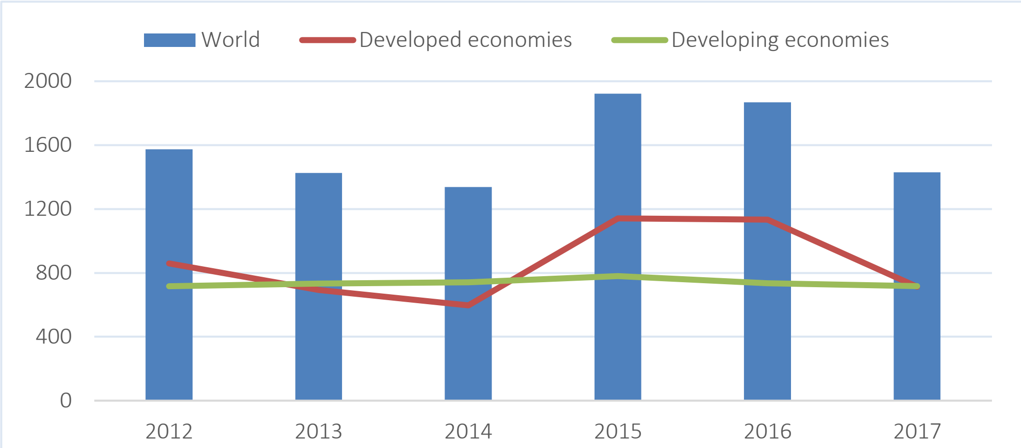
Figure 1.9 points out to slight acceleration in world investment since 2016. Both among developed and developing economies, the slight recovery in investment share in GDP has continued, reaching 21.2% in 2017 for developed countries, and 32.3% for developing ones. Projections for 2018 and 2019 indicates that investment will continue to provide a stimulus to economic growth throughout the world.

Investment levels varied more among different regions in 2017. For instance, investment fell as a share of GDP in MENA and LAC regions, remained more stable in the CIS economies, while marked strongest increase in CEE region. In 2018, CEE economies are projected to continue to lead in investment growth, whereas a slowdown in investments is expected for CIS region.

Reduction in domestic investment increases the importance of foreign direct investment (FDI), which remains the largest external source of finance for developing economies. According to the United Nations Conference on Trade and Development (UNCTAD), in 2017 FDI makes up 39% of total incoming finance in developing countries as a group.

Unfortunately, in contrast to other macroeconomic variables, such as GDP growth rates, which saw substantial improvement in 2017, global inward FDI flows fell by 23.4% in 2017, to 1.43 trillion dollars from 1.87 trillion dollars in 2016. Inward FDI flows to developed countries fell by

Figure 1.10: FDI Inflows in the World (USD Billion)



Source: UNCTAD, World Investment Report 2018: Investment and new Industrial Policies, Geneva: 2018.
Notes: World: N = 163; Developed: N = 39; Developing: N = 124)

37%, to 712 billion dollars, while FDI flows to developing countries remained more stable around 717 billion dollars, seeing no recovery following the 12% drop in 2016. Asia remains to be the largest FDI recipient in the developing world, in contrast to Africa where FDI flows continued to slide, reaching 42 billion dollars in 2017, down 21% from 2016.

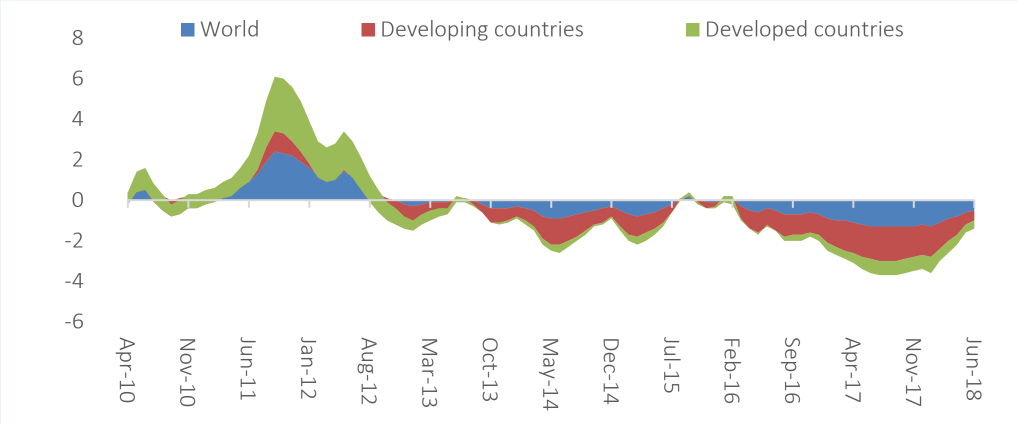
UNCTAD observed that the negative FDI trend in the world is caused in large part by a decrease in rates of return. With only a very modest recovery in FDI flows predicted for 2018, UNCTAD expects this negative trend to be a long-term concern, with projection that global FDI flows will remain well below the average over the past 10 years.

- **Developing countries vulnerable to tightening of global financial conditions**

In the period from 2016 to 2017, global financial conditions were quite convenient for the global economic recovery. Figure 1.11 shows that financial condition indices were below the historic averages, due to monetary policies that boosted investor confidence and risk appetite. However, in 2018, US, UK, Japan and a number of developing countries have started to tighten their monetary policies, while the European Central Bank is preparing for a possible increase in interest rates next year. In general, officials of many countries are keen to start removing the emergency policy settings that dominated the last decade.

US Federal Reserve has raised interest rates twice until August 2018 and is expected to continue with steadily rate rise during the year. For almost a decade, interest rates in US were very low, encouraging investors to buy assets or issue loans in developing economies with higher returns. Today, with higher interest rates, some U.S. assets became more attractive and investors are responding by pulling funds out of developing economies. Further, rising US interest rates have pushed up the value of dollar, paving the way for financial vulnerabilities in some countries, sharp falling in value of some currencies such as Argentine peso and Turkish lira, and making debt denominated in US dollars more expensive to service.

Figure 1.11: Global Financial Conditions (Differences from averages since 1991)



Source: Bank of England, *Inflation Report,* August 2018.
Notes: This graph is based on financial conditions indices that summarise information from the following financial series: term spreads, interbank spreads, corporate spreads, sovereign spreads, long-term interest rates, policy rates, equity price returns, equity return volatility, house price returns and credit growth. An increase in the index indicates a tightening in conditions (World: N = 43; Developed countries: N=24; Developing countries: N=19).
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Still, it is obvious from the Figure 1.11 that until June 2018 global financial conditions have remained relatively friendly, compared to past averages. However, tightening in financial conditions will inevitably push up the cost of financing for households and businesses. Particularly if the US continue to raise interest rates, and if European Union and other countries decide to follow the same policy, this could stress credit markets, which could in turn put additional pressure on companies and countries with elevated corporate debt, wide current account or fiscal deficits.

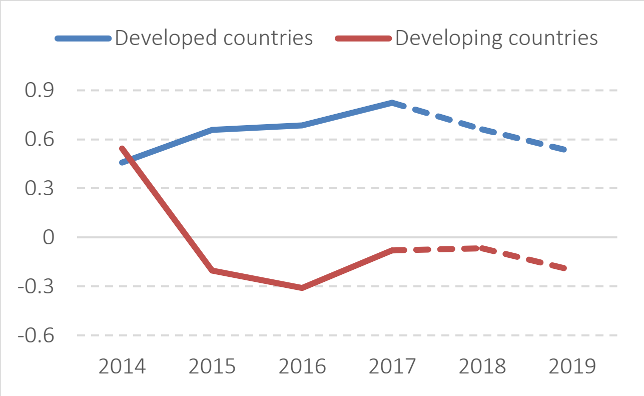
• Current account fragilities serious in some oil-importing countries

Current account balances have improved both in developed and in developing countries in 2017, compared with their 2016 levels. The current account surplus in developed countries has widened to 0.8% of GDP in 2017. However, stronger domestic demand is projected to increase imports and shrink the current account surplus of developed countries over 2018 and 2019 (Figure 1.12).

Average current account deficit of developing countries moderated form -0.3% in 2016 to -0.08% in 2017, and it is expected to remain relatively stable in 2018. The most notable improvement in the current account balances was realized in oil exporting countries, due to rise in oil prices. Further rise in oil prices in 2018 will be beneficial for oil exporters, but could increase current account fragilities in some oil-importing countries, such as India, Indonesia, Pakistan, South Africa and Turkey, where import demand remains strong.

The US continues to have the largest trade deficit in the world in absolute terms (466.2 billion dollars in 2017), while Germany and Japan has by far the largest trade surplus in the world, again in absolute terms. However, trade deficits or surpluses are larger as a share of the GDP in a

Figure 1.12: Current Account Balance (% of GDP)



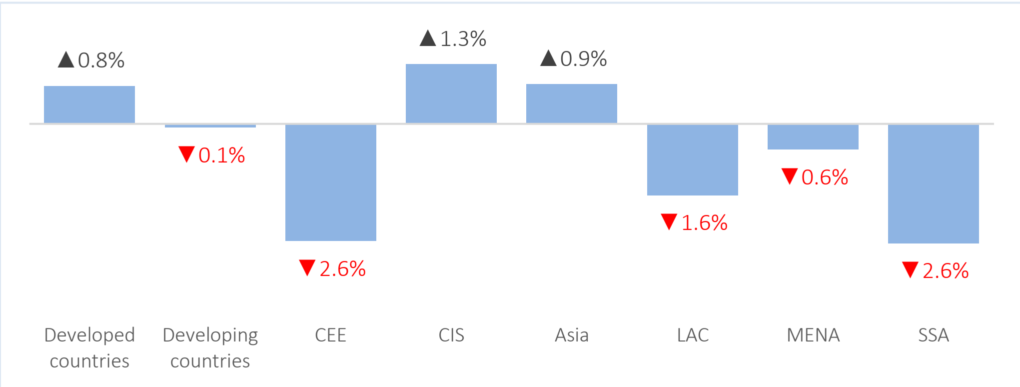
Source: IMF, World Economic Outlook database.
Notes: Dashed lines indicates projections (World: N = 193; Developed: N = 39; Developing: N = 154)

number of other countries. In 2017 the US current account deficits remained almost stable at -2.4% of GDP. Driven by expansionary fiscal policy US current account deficits is projected to reach -3.0% in 2018.

Current account balances have worsened in CEE, LAC, MENA and SSA regions in 2017, and improved on average in CIS and developing Asia. In 2018, the current account deficits are projected to rise modestly in CEE, LAC and SSA regions, especially in those countries with relatively strong domestic demand growth.

China's current account surplus has plunged to 1.4% in 2017 and is projected to shrink further over 2018 and 2019. In the first quarter of 2018, China recorded its first current account deficit since 2001. On the other hand, rising oil prices has had a positive effect to Russia's balance of payments, increasing current account surplus from 2% of GDP in 2016 to 2.6% in 2017. In 2018, Russian current account surplus is projected to be even healthier, reaching 4.5% of GDP.

Figure 1.13: Current Account Balance (2017, % of GDP)



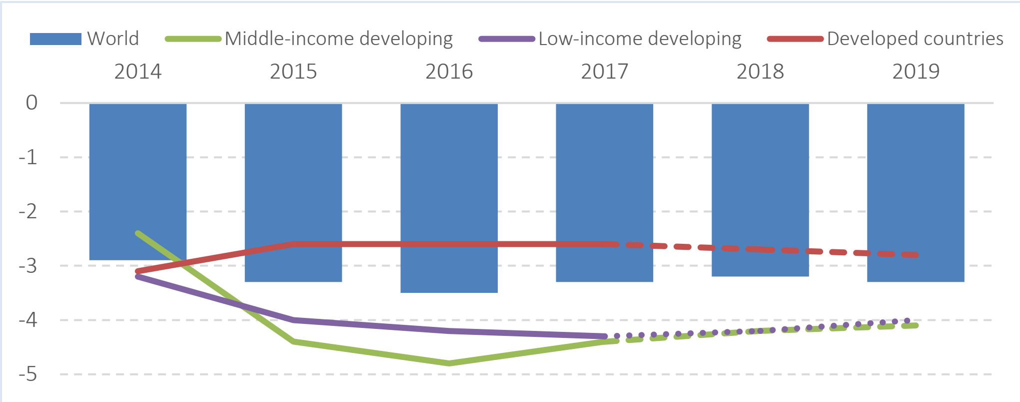
Source: IMF, World Economic Outlook database.
Notes: (World: N = 193; Developed: N = 39; Developing: N = 154; ; CEE - Central and Eastern Europe: N = 12; CIS - Commonwealth of Independent States: N = 12; Asia: N = 30; LAC - Latin America and the Caribbean: N = 32; MENA - Middle East and North Africa: N = 21; SSA - Sub-Saharan Africa: N = 45).

- **Fiscal balances remain to be broadly stable**

As illustrated in Figure 1.14, the global fiscal developments reflect recovery, with the world general government fiscal balance as percentage of GDP decelerating from -3.5% in 2016 to 3.3%

in 2017. Over the 2018-2019, average global fiscal balance is expected to remain broadly stable at their 2015-2017 levels.

Figure 1.14: General Government Fiscal Balance (% of GDP)



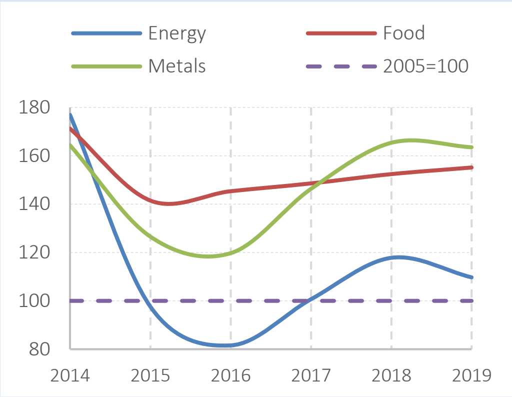
Source: IMF, Fiscal Monitor 2018.
Notes: Dashed lines indicates projections (World: N = 115; Developed: N = 35; Middle-income developing countries: N = 40; Low-income developing countries: N = 40)

Middle-income developing countries have triggered the most recent global fiscal recovery, where average fiscal balance drop to -4.4% of GDP in 2017, up from -4.8% in 2016. In same period, fiscal balance remained unchanged in developed countries (-2.6% of GDP), and slightly increased in low-income developing economies (-4.3% of GDP in 2017). Over 2018-2019 a further improvement in fiscal balance is expected for developing countries in average. On the other hand, despite projected slight increases in fiscal deficit of developed countries, general trend of fiscal stabilization is expected to continue.

Among developed countries, US faces greatest fiscal deficit, which reached -5.3% in 2017 and is expected to increase to -5.9% of GDP in 2018. Within the group of developing countries, deficit in general government fiscal balance remains to be significantly higher in countries such as Zimbabwe, Saudi Arabia, Kenya, Yemen, Burkina Faso, Brazil, India, Argentina and Algeria.

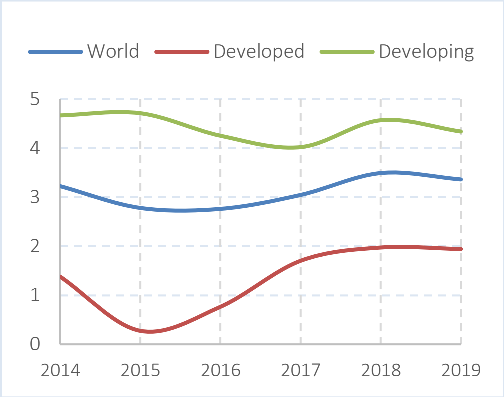
Developing countries with large government budget and current account deficits, small foreign currency reserves and a large share of foreign currency-denominated debt will remain to be highly vulnerable to sudden changes in market conditions. As illustrated at Figure 1.15, energy prices are expected to continue with growth during 2018, bringing additional financial burden to some oil importing economies. Due to increased demand, period from to 2016 to 2018 is also witnessing to rise in other commodity prices, such as food and metals, which are much higher from 2005 base year. Higher commodity prices, particularly energy prices, have pushed up global inflation rate, which reached 3.0% in 2017 and is projected to continue the upward trajectory in 2018 (Figure 1.16). In the period from 2015 to 2017, on average, inflation rates in developed and developing countries have moved in opposite directions – increasing in developed and decreasing in developing economies. However, for developing countries relatively faster growth in inflation rates is projected for 2018. Geographically this year in developing Asia and MENA regions inflation rates are expected to rise most substantially, and decrease in CIS, SSA and LAC regions.

Figure 1.15: World Commodity Prices (2005 = 100)



Source: IMF, World Economic Outlook database.
Notes: World: N = 193; Developed: N = 39; Developing: N = 154

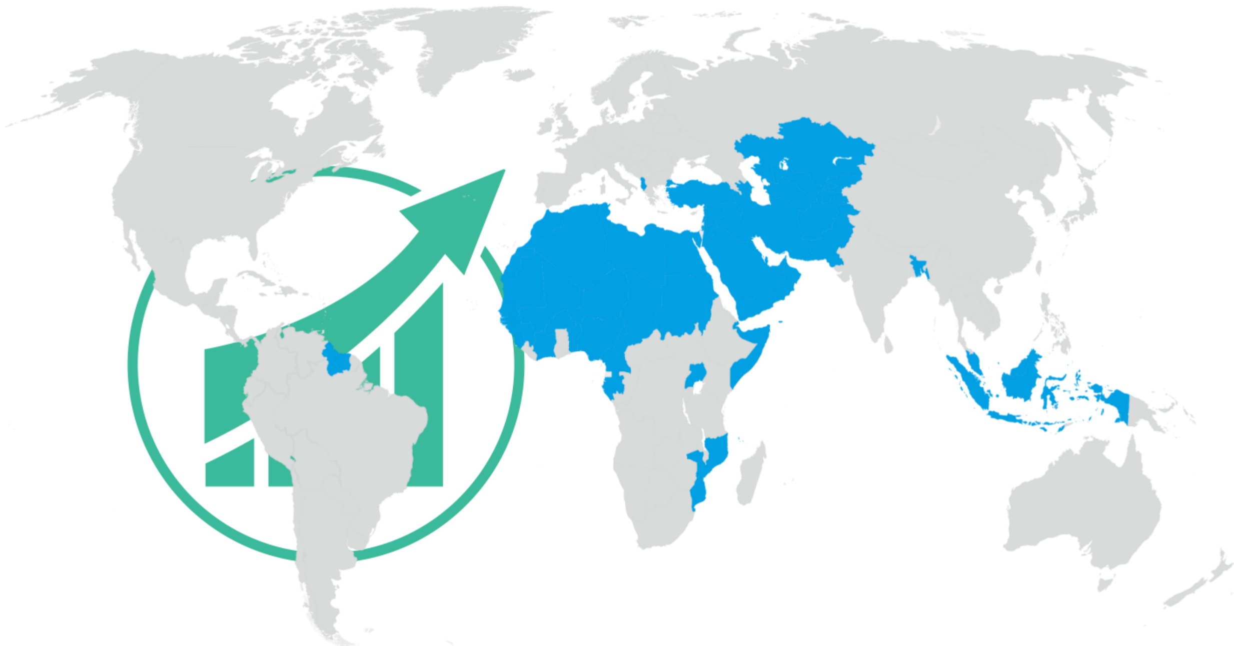
Figure 1.16: Inflation (% change)



Source: IMF, World Economic Outlook database.
Notes: Average consumer prices (World: N = 193; Developed: N = 39; Developing: N = 154)

The key things to watch over the next period will be rising uncertainty about the global trade, rising interest rates, global inflation trends and the sensitivity of the global economy to oil price increases. All of these factors are likely to determine the path of global economic growth over the next few quarters and years.

PART II: Recent Economic Developments in OIC Countries



CHAPTER TWO

Production, Growth and Employment

2.1 Production and Growth

The group of OIC countries are well endowed with potential economic resources in different fields and sectors such as agriculture, energy, mining and human resources, and they constitute a large strategic trade region. Yet, this inherent potential does not manifest itself in the form of reasonable levels of economic and human development in many individual OIC countries as well as in the OIC countries as a group. In 2017, having accounted for 24.0% of the world total population, OIC member countries produced as much as 15.3% of the world total GDP – expressed in current USD and based on PPP (Figure 2.1a). When measured in current prices, however, OIC member countries account only 8.2% of global production in 2017(Figure 2.1b).

Over the last 5 years, the group of OIC countries has increased its share in the world output only by 0.2 percentage point to reach 15.3% in 2017 (Figure 2.2). Considering the fact that the individual countries such as United States and China had higher shares than that of the OIC countries as a group (15.3% and 18.2%, respectively in 2017), it can be stated that the contribution of the OIC countries to the world output is below their potential. On the other hand, the share of the OIC countries in the total GDP of developing countries has declined steadily and was recorded at 26.06% in 2017, a decrease by 0.6 percentage points over the 5-year period under consideration (Figure 2.2).

The decline in the share of the OIC countries in total GDP of the developing countries indicates that the OIC economies have performed poorer than non-OIC developing countries in expanding their output. Although the projections for 2016 and 2017 indicate that the GDP of the OIC countries as a whole will continue to grow, it is predicted that the share of the OIC countries in the world output will be stable around 15.3% in 2018 and 15.4% in 2019. However, the share of the OIC countries in the total output of the developing countries is estimated to shrink further to 25.8% in 2018 and 25.6% in 2019 (Figure 2.2).

Figure 2.1a: Gross Domestic Product, PPP Current USD (2017)

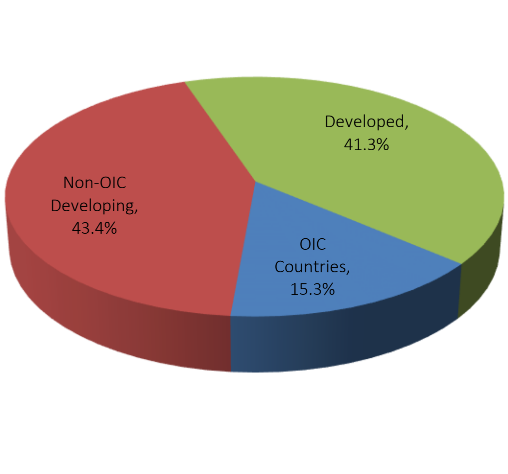
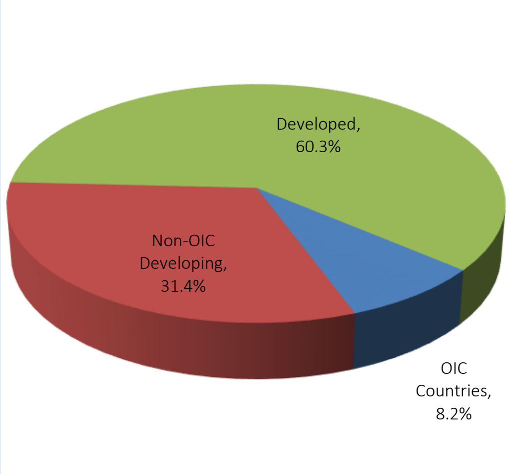
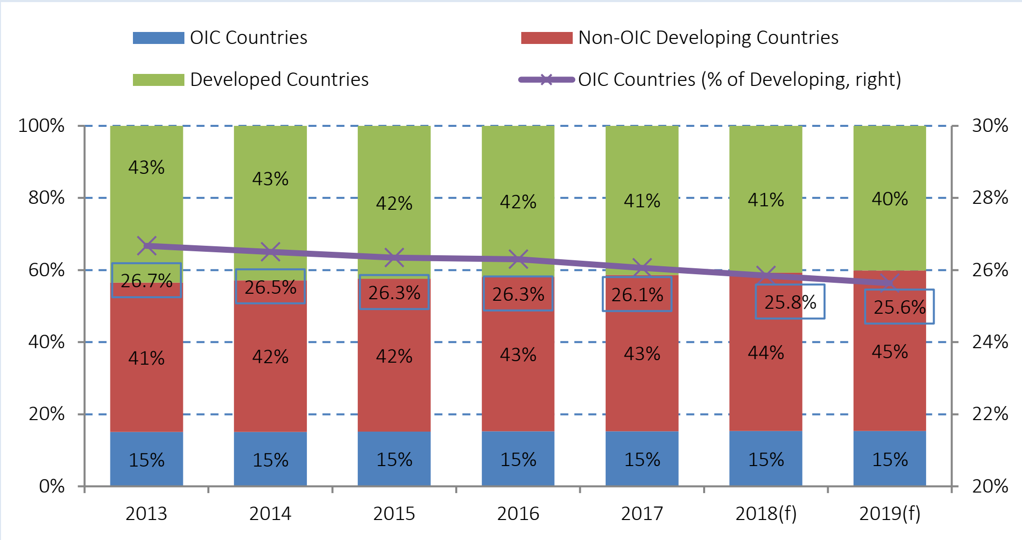


Figure 2.1b: Gross Domestic Product, Current USD (2017)



Source: IMF World Economic OutlookDatabase April 2018. Data Coverage: 55 OIC, 98 non-OIC , and 39 developed countries.

Figure 2.2: Gross Domestic Product, PPP Current USD



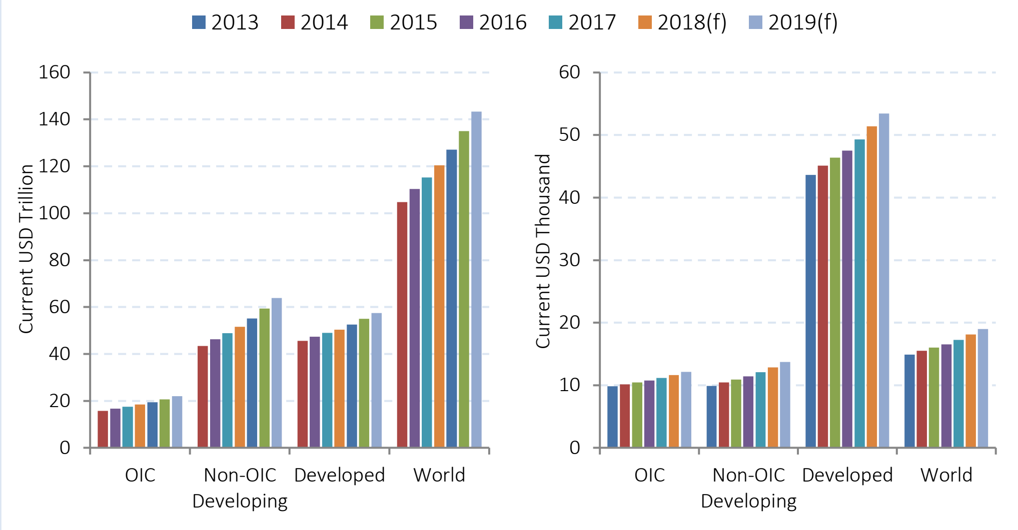
Source: IMF WEO Database April 2018. Data Coverage: 55 OIC, 98 non-OIC, and 39 developed countries.

- **Production:** Share of OIC countries in total world GDP remained at 15.3% in 2017

Global GDP – expressed in current USD and based on PPP – has witnessed an increasing trend over the period 2013-2017, reaching US$ 127 trillion in 2017 compared to US$ 104.7 trillion in 2013 (Figure 2.3, left). During the same period, OIC countries also witnessed an increasing trend in economic activity and their GDP increased from US$ 15.8 trillion in 2013 to US$ 19.4 trillion in 2017. During the same period, non-OIC developing countries experienced a more rapid increase in their output as the total GDP in these countries reached US$ 55.1 trillion in 2017, a level which is well above the US$ 43.4 trillion they recorded in 2013. Though the share of OIC countries in the world total GDP slightly increased to 15.3%, their share in the total GDP of developing countries group has declined steadily and was recorded at 26.3% in 2017, a decrease by 0.6 percentage points over the 5-year period under consideration.

During the same period, the average GDP per capita in the OIC countries has increased continuously and reached US$ 11,137 in 2017, compared to US$ 9,812 in 2013 (Figure 2.3, right). The gap between the average per capita GDP levels of the OIC member countries and those of non-OIC developing countries has widened over the years. In 2013, average GDP per capita in the OIC countries was not very much different from those of the non-OIC developing countries. However, the situation got worse since then and the average per capita GDP differential between OIC countries and non-OIC developing countries was recorded at US$ 636 in 2017. The latest estimates show that this gap is expected to worsen in coming years. During the same period, the average GDP per capita in the OIC countries has also diverged from the world average as the gap increased from US$ 5,077 in 2013 to US$ 6,088 in 2017.

Figure 2.3: Total GDP (left) and GDP per capita (right), based on PPP



Source: SESRIC staff calculations based on IMF WEO Database April 2018, (f: forecast). Data Coverage: 55 OIC, 98 non-OIC, and 39 developed countries.

- **GDP per Capita:** The gap between average GDP per capita in OIC countries and the world continued to diverge

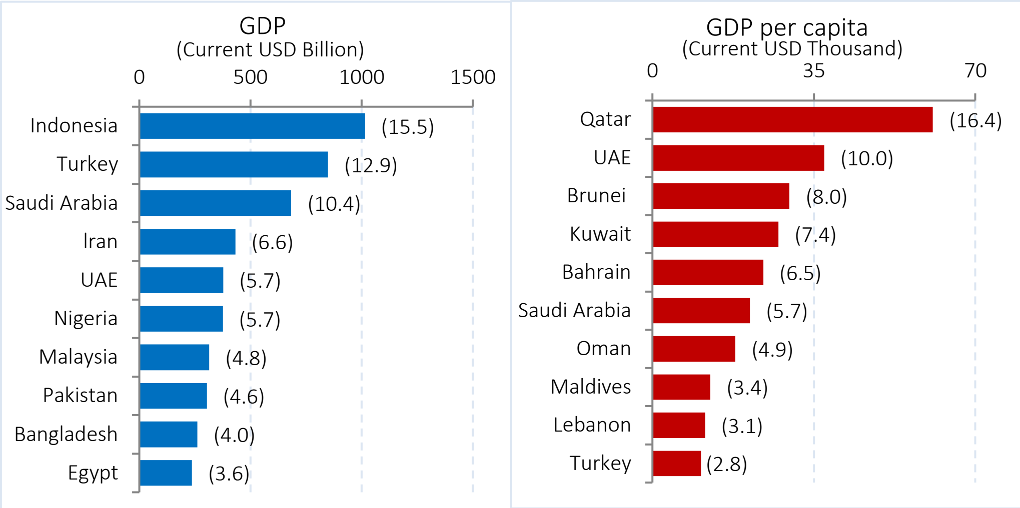
Furthermore, it is observed that the total GDP of the OIC countries is still produced by a few member countries. In 2017, the top 10 OIC countries in terms of the volume of GDP produced 73.9% of the total OIC countries output (Figure 2.4, left). In current prices, Indonesia has the highest share in OIC GDP (15.5%) followed by Turkey (12.9%), Saudi Arabia (10.4%), and Iran (6.6%). The overall economic performance of the group of OIC member countries remained highly dependent on the developments in these ten countries. As a matter of fact, fuel is the main source of export earnings for 4 out of these 10 OIC countries; namely Saudi Arabia, Iran, United Arab Emirates, and Nigeria.

Among the OIC countries, Qatar registered the highest GDP per capita in 2017 followed by United Arab Emirates and Brunei (Figure 2.4, right). The per capita GDP of Qatar was 5.5 times higher than the average of the OIC countries as a group, a situation that reflects a high level of income disparity among the OIC countries. Among the top 10 OIC countries by GDP per capita 7 are from the Middle East region. In 2017, Qatar was ranked 7th in the world in terms of per capita income levels.

- **GDP Growth:** Growth rates in OIC countries decelerated since 2013

The GDP growth of OIC countries has slowed down to 3.8% in real terms in 2017, as compared to 4.4% in 2013 (Figure 2.5). Nevertheless, prospects for growth in OIC countries are bright amid the global economic upswing, with a notable rebound in global trade and increase in oil prices. According to the estimates of the IMF (2018), oil prices are highest since 2015 and this rebound in oil prices will be further consolidated in 2018, with an expected price tag of $62.3 per barrel

Figure 2.4: Top 10 OIC Countries by GDP and GDP per capita (2017)

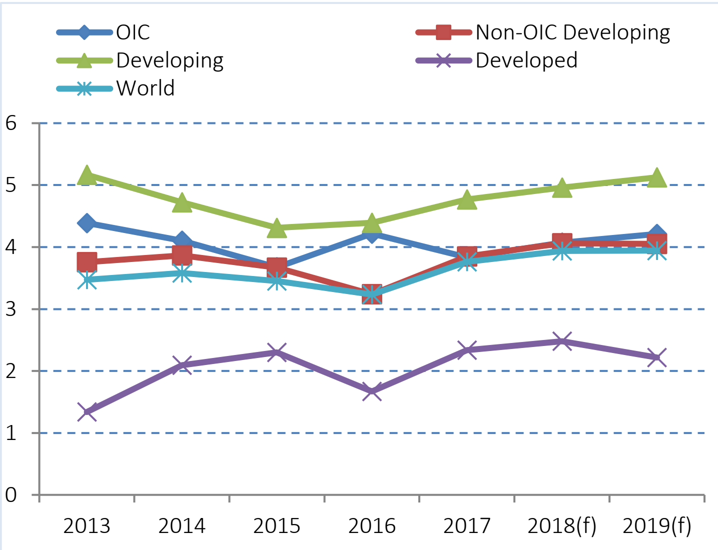


Source: IMF WEO Database April 2018 . The numbers in round (square) brackets on left (right) hand side indicate the share (ratio) of the related country's GDP (GDP per capita) in the overall GDP (to the average GDP per capita) of the OIC countries as a group.

(up from $52.8 in 2017). However, as the supply recovers, oil prices are expected to decline to $58.2 a barrel in 2019. While increase in oil prices are supporting recovery in domestic demand in oil exporting OIC countries, many of them are still under the influence of harsh austerity measures that were taken during the sharp decline in oil prices in 2014/15.

The economic performance of non-OIC developing countries, on the other hand, has so far been highly influenced by the pace of growth in emerging Asia and emerging Europe economies. However, the average real GDP growth rates in non-OIC developing countries were below the OIC average during the period 2013-2016. Moving forward, the average rate of growth in the OIC countries will likely to increase in 2018, with average growth rate forecasted to be around 4.1%. This increase is expected to be consolidated further in

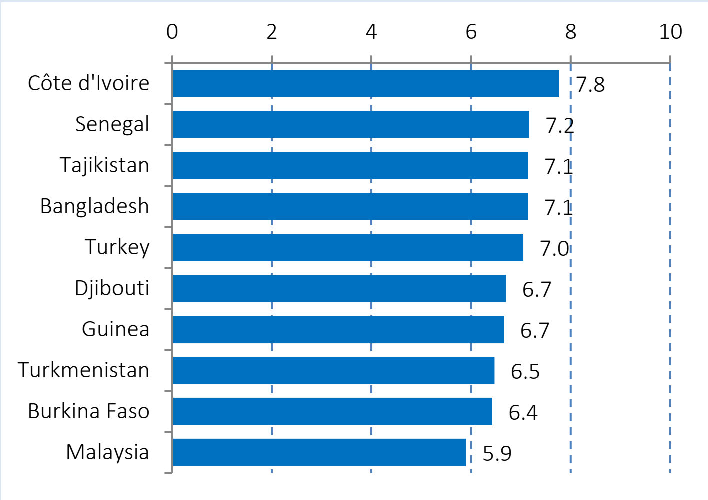
Figure 2.5: GDP Growth in the World



Source: SESRIC staff calculations based on IMF, World Economic Outlook, April 2018. Data Coverage: 55 OIC, 98 non-OIC , and 39 developed countries.

2019 with an expected growth rate of 4.2%. These figures are largely similar to those predicted for the group of non-OIC developing economies (4.1% for 2018 and 2019) (Figure 2.5).

Figure 2.6: Top 10 OIC Countries in terms of GDP Growth Rate (2017)



Source: IMF WEO Database April 2018 . Note: Libya reported growth rate of over 70% in 2017. But IMF has stated low reliability of data against the background of a civil war and weak capacities.

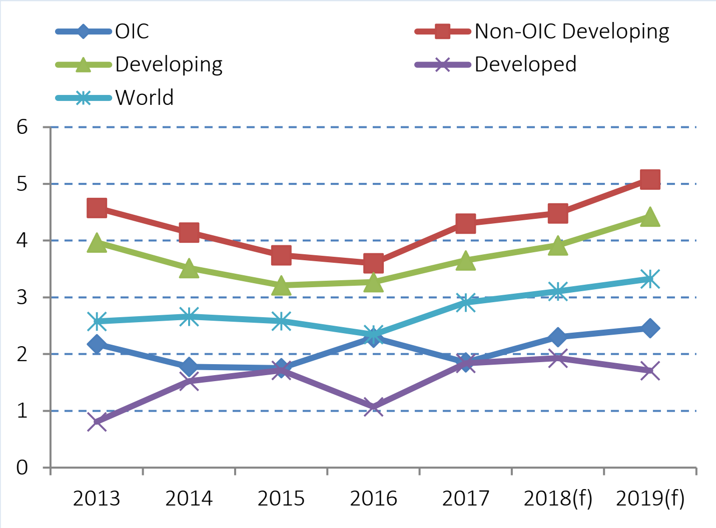
At the individual country level, Côte d'Ivoire, with a growth rate of 7.8% in 2017, was the fastest growing economy in the group of OIC countries, followed by Senegal (7.2%), Tajikistan (7.1%), Bangladesh (7.1%) and Turkey (7.0%). On the other hand, majority of the OIC top-10 fastest growing economies are from Sub-Saharan Africa (5), and Central Asia regions (3). Whereas four of the OIC LDCs were among the top 10 fastest growing OIC countries in 2017: Senegal, Bangladesh, Djibouti, and Burkina Faso with their real GDP growth rates ranging between 7.1 % and 6.4% (Figure 2.6).

- **GDP per Capita Growth:** Bangladesh, with a per capita GDP growth rate of 6.0% in 2017, was the fastest growing economy among OIC countries

The average growth rate of the real per capita GDP in the OIC countries has been positive during the period 2013-2017 (Figure 2.7). This implies that the real GDP in the OIC member countries has grown on average faster than the population. This can be interpreted as a real increase in standards of living in the OIC community. During the period under consideration, however, growth per capita GDP followed a mixed trend. After a short-lived recovery in the aftermath of the global financial crisis, the average real GDP per capita growth rate in OIC countries has started to decline in 2014 and was recorded at 1.8% in 2015, as compared to 2.2% in 2013. The average real GDP per capita growth rate increased to 2.3% in 2016 before declining to 1.9% in 2017. The growth in per capita is forecasted to recover to 2.3% in 2018 and before further consolidating to 2.5% in 2019. During the recent years, the pace of the real GDP per capita growth in the OIC member countries remained below the averages of world, and non-OIC developing countries.

At the individual country level, Bangladesh, with a per capita GDP growth rate of 6.0% in 2017, was the fastest growing economy in the group of OIC countries, followed by Turkey (5.7%), Turkmenistan (5.2%) and Côte d'Ivoire (5.0%). Bangladesh and turkey were the 8th and 11th fastest growing economies in the world. On the other hand, five of the OIC top-10 economies with the fastest growth of per capita GDP are from Europe and Central Asia and three from Sub-

Figure 2.7: Real GDP per capita Growth, Annual Percentage Change



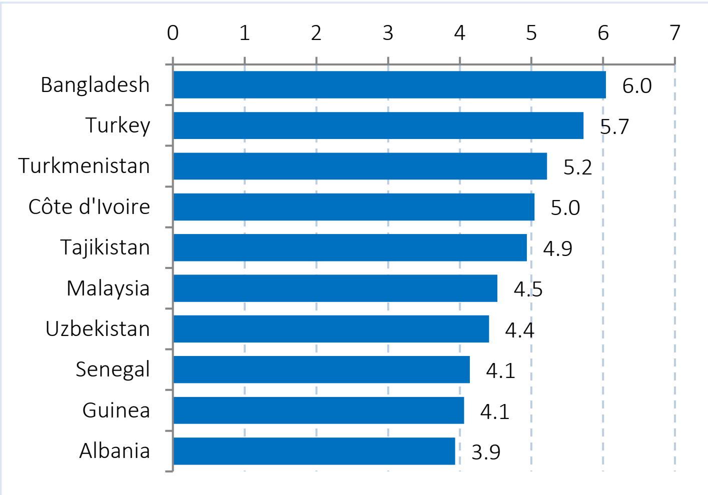
Source: SESRIC staff calculations based on IMF WEO Database April 2018.Data Coverage: 54 OIC, 98 non-OIC , and 39 developed countries.

Saharan Africa. Whereas, two of the OIC LDCs were among the top 10 OIC countries in 2016, namely: Bangladesh, Senegal and Guinea (Figure 2.8).

- **Structure of GDP:** Share of services in total GDP of OIC countries reached 52.7% in 2016

The analysis of value-added by major sectors in the total GDP of the OIC countries and non-OIC developing countries shows a similar structure. Although agriculture is widely known to be the primary economic activity and assumed to play a major role in the economies of developing countries, this feature does not stand firm in the case of OIC and non-OIC developing countries as groups. Indeed, the share of agriculture in the total GDP of OIC countries has gradually declined from 12.4% in 2000 to 11.6%% in 2016 (Figure 2.9). Coupled with the economic recovery and increase in the share of the non-manufacturing industry, the share of the agricultural sector witnessed a continuous downward trend. Between 2010 and 2014, a more stable trend was observed in non-OIC developing countries, where the average share of agriculture in the economy has for long remained about 9%.

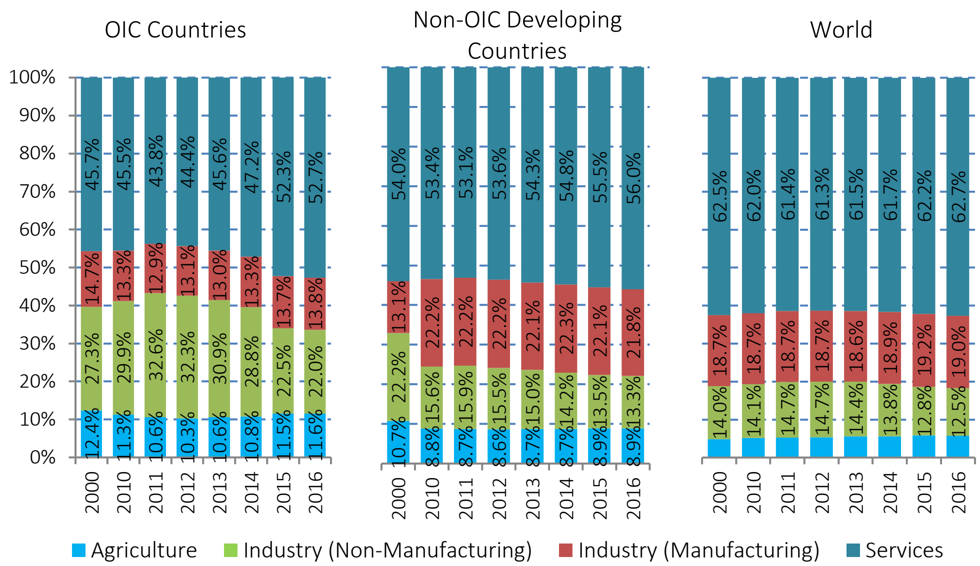
Figure 2.8: Top 10 OIC Countries in terms of GDP per capita Growth Rate (2017)



Source: IMF WEO Database April 2018. Note: Note: Libya reported growth rate of around 70% in 2017. But IMF has stated low reliability of data against the background of a civil war and weak capacities.

At the individual country level, in 2016, the agricultural sector accounted for more than 30% of the total value-added in eight OIC member countries; namely in Somalia, Sierra

Figure 2.9: Value-added by Major Sectors of the Economy (% of GDP)



Source: SESRIC staff calculations based on UNSD National Accounts Main Aggregates Database, September 2018. Data Coverage: 56 OIC, 116 non-OIC , and 38 developed countries.

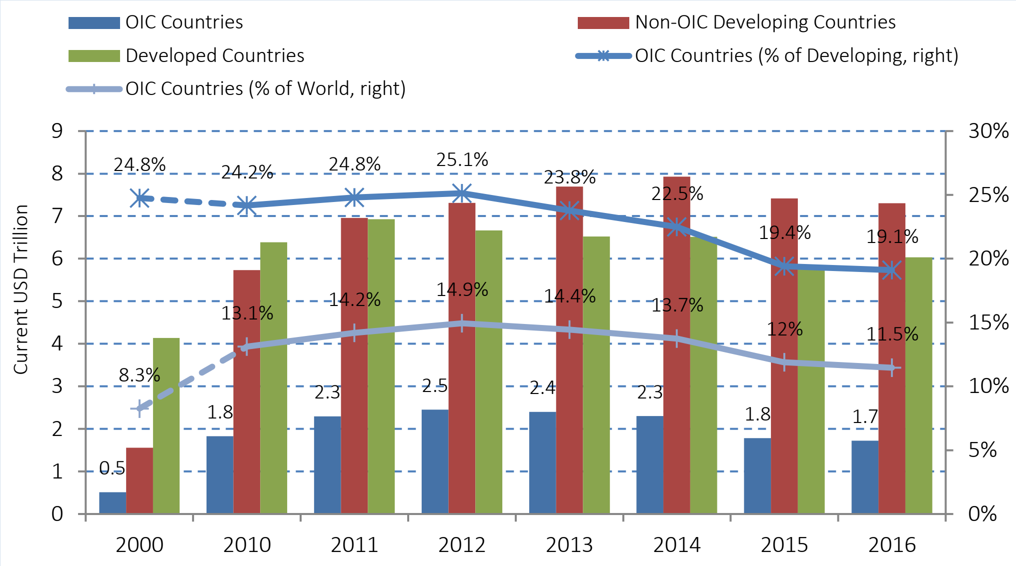
Leone, Guinea-Bissau, Comoros, Niger, Mali, Sudan and Burkina Faso – all of which were listed among the LDCs in the same year according to the UN classification. The share of agriculture in GDP varied substantially among the OIC countries, with the highest share of 60.2% in Somalia and the lowest shares below 1.0% in Qatar (0.2%), Bahrain (0.3%), Kuwait (0.4%), and United Arab Emirates (0.8%) and Libya (0.9%).

In contrast, the services sector continued to play a major role in the economies of many OIC countries as the most important source of income. After a contraction in 2011 and 2012, the average share of the service sector in total GDP of OIC countries increased since 2013. In 2016, the average share of the services sector in OIC economies was 52.7%. For non-OIC developing countries, the services sector continued to account for over half of the total GDP and its share was recorded at 56.0% in 2016 (Figure 2.9).

- **Industrial Production:** Increasing trend in the share of OIC countries in total world industrial production ceased since 2013

Industry sector – including manufacturing – accounted on average for 35.8% of the total GDP of the OIC member countries in 2016(Figure 2.10). Its share in 2011 and 2012 was higher than that of the services sector, however the situation started to reverse with the decline in global industrial activity since 2013 as the relative share of services in economic activity was quickly catching up. Compared to non-OIC developing countries where the industrial sector's contribution to the GDP averaged at 35.1% in 2016, the latter apparently constitutes a larger portion of the economic activity in the OIC member countries.

Figure 2.10: Industrial Production, Volume and Share (right)



Source: SESRIC staff calculations based on UNSD National Accounts Main Aggregates Database, September 2018. Data Coverage: 56 OIC, 116 non-OIC , and 38 developed countries

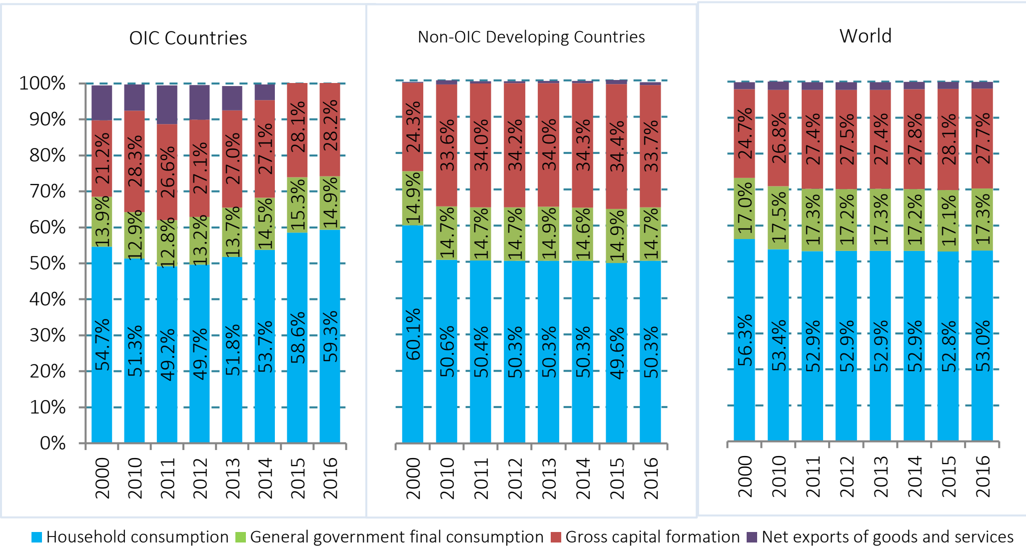
However, the share of industry in the GDP of a country, per se, does not reflect the actual industrialization level of its economy. Particularly in the case of OIC countries, the oil industry accounts for a significant portion of the total value-added of industry sector. Figure 2.9 reveals that, in year 2000, the share of manufacturing sector in total GDP of the OIC countries was 14.7%. In 2011, however, the share of the sector contracted to 12.9% before increasing slightly to 13.1% in 2012. Most recently, in 2016, the share of the manufacturing industry stands at 13.8%, which is still below the 14.7% level observed in year 2000. As compared to the OIC countries, the manufacturing sector in non-OIC developing countries contributes significantly larger share to their total GDP where its share was recorded at around 21.8% in 2016.

According to Figure 2.10, the share of the OIC countries as a group in the world total industrial production has reached 11.5% in 2016. This marks 3.2 percentage points increase since year 2000. Despite this upward trend, the share of the OIC countries in the total gross fixed capital formation of the developing countries has been on decline and contracted from 24.8% to 19.1% over the same period. This indicates the relatively poor performance shown by the OIC countries in industrial production, as compared to non-OIC developing countries.

- **GDP by Expenditure Items:** The share of household consumption in the total GDP of OIC countries peaked in 2016

The analysis of global GDP by major expenditure items reveals that the share of final consumption (both by household and government) continued to be the highest in the total GDP over the years. As shown in Figure 2.11, in 2016 household consumption in OIC countries accounted for the lion share of 59.3% followed by gross capital formation (28.2%) and general government final consumption (14.9%). The share of net exports in total world GDP was negligible. During the

Figure 2.11: GDP by Major Expenditure Items (% of GDP)



Source: SESRIC staff calculations based on UNSD National Accounts Main Aggregates Database, September 2018. Data Coverage: 56 OIC, 116 non-OIC , and 38 developed countries

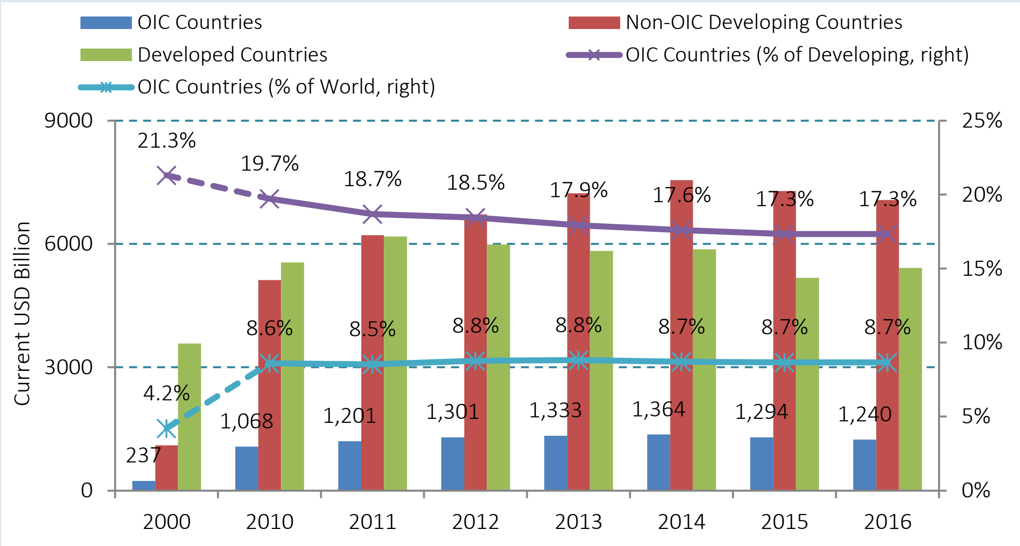
period 2000-2016, the share of gross capital formation in total GDP of non-OIC developing countries has increased by 9.4 percentage points whereas the share of household consumption declined by 9.8 percentage points.

The relative shares of the major expenditure items in the total GDP of OIC and non-OIC developing countries registered significant variation from the world. In 2016, final household and general government spending accounted for 74.2% of the total GDP of OIC countries. As constituents of the final consumption expenditure, expenditure by households and governments accounted for 59.3% and 14.9% of the GDP, respectively. These figures marked an increase in the shares of household consumption compared to the year 2000. However, the share of net exports in the total GDP of the OIC member countries has decreased by 9.8 percentage points since 2000 whereas the share of gross capital formation has increased by 7.0 percentage points over the same period. The decrease in the share of net exports was mainly accommodated by an expansion in the share of gross capital formation from 21.2% in 2000 to 28.2% in 2016. On the other hand, the share of final consumption in total GDP of non-OIC developing countries was recorded at 65.0% in 2016 and household consumption, with a 50.3% share in GDP, was again the main source of final consumption expenditure in these countries.

- **Gross Capital Formation:** In 2016, 28.2% of the total GDP generated in OIC countries was invested in productive assets

Gross capital formation measures the amount of savings in an economy which are transformed into investments in production. As the analysis of GDP by major expenditure items revealed in Figure 2.12, 28.2% of the total GDP generated in the OIC member countries was invested in productive assets in year 2016. In comparison, non-OIC developing countries on average

Figure 2.12: Gross Fixed Capital Formation, Volume and Share (right)



Source: SESRIC staff calculations based on UNSD National Accounts Main Aggregates Database, September 2018. Data Coverage: 56 OIC, 116 non-OIC , and 38 developed countries

channelled 33.7% of their GDP into productive investments. The share of gross capital formation in the GDP of OIC countries as a group has increased by 7.0 percentage points over its year 2000 level of 21.2%, while it increased by as much as 9.4 percentage points in the group of non-OIC developing countries over the same period. Yet, one can argue that gross capital formation, as an indicator, is flawed primarily by the significant fluctuations in inventories and, most of the time, non-availability of the industry-level inventory information. Gross fixed capital formation, on the other hand, is promoted as being a better indicator on the net additions of productive assets created during a specific year.

In view of the above argument, Figure 2.12 offers a look at the gross fixed capital formation trends in the OIC countries in comparison to non-OIC developing as well as developed countries. According to Figure 2.12, the share of the OIC countries as a whole in world total fixed capital formation reached 8.7% in 2016. This marks 4.5 percentage points increase since year 2000. Despite this upward trend, the share of the OIC countries in the total gross fixed capital formation of the developing countries has been on decline and contracted from 21.3% to 17.3% over the same period. This indicates the relatively poor performance shown by the OIC countries in accumulating investment capital, as compared to developing countries.

2.2 Employment and Prices

- **Labour Force Participation:** LFPR in OIC countries remained lower than other country groups in 2017

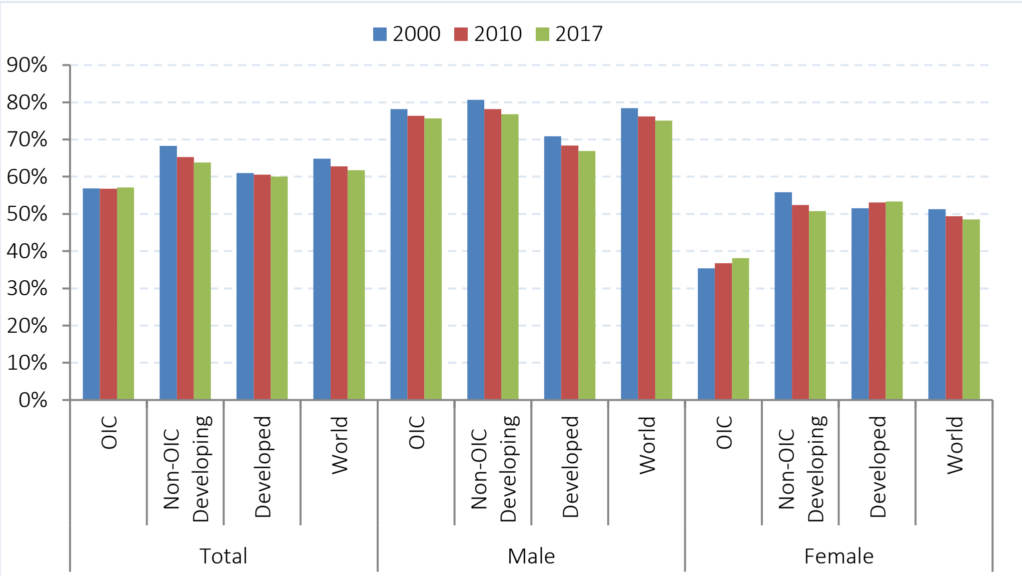
Although unemployment rate is accepted as one of the leading macroeconomic variables which commonly used to examine the performance of the economy, it may not accurately reflect the health of labour market as the definition focuses on people seeking employment for pay but not the magnitude of people who are not working actually. Due to this, it might be ideal to first consider the labour force participation rate (LFPR), which measures the proportion of people aged 15 and above that engages actively in the labour market, either by working or actively searching for a job. It provides an indication of the relative size of the supply of labour available to engage in the production of goods and services.

As shown in Figure 2.13, the average labour force participation rate in OIC member countries, contrary to other country groups, followed a slightly increasing trend, which stood at 57.1% in 2017 compared to 63.8% in non-OIC developing countries. In case of labour force participation rate for the male population, OIC member countries recorded a rate of 75.7% compared to 75.0% in the world, 76.8% in non-OIC developing countries. Although, OIC member countries registered globally comparable performance in terms of total and male labour force participation rates, their performance in case of female labour force participation rate remained significantly lower. Female labour force participation rate in OIC member countries was recorded at 38.2% in 2017, which is significantly lower than the world average of 48.5%, the average of 50.8% in non-OIC developing countries and the average of 53.4% in developed countries.

However, there is an increasing trend in labour force participation rates in OIC countries, particularly in female participation rates. Since 2000, female participation rate increased from 38.2% to 39.5% in 2016. While in non-OIC developing countries, female participation showed a declining trend and fell to 51.9% in 2016 from its level of 51.6% in 2000.

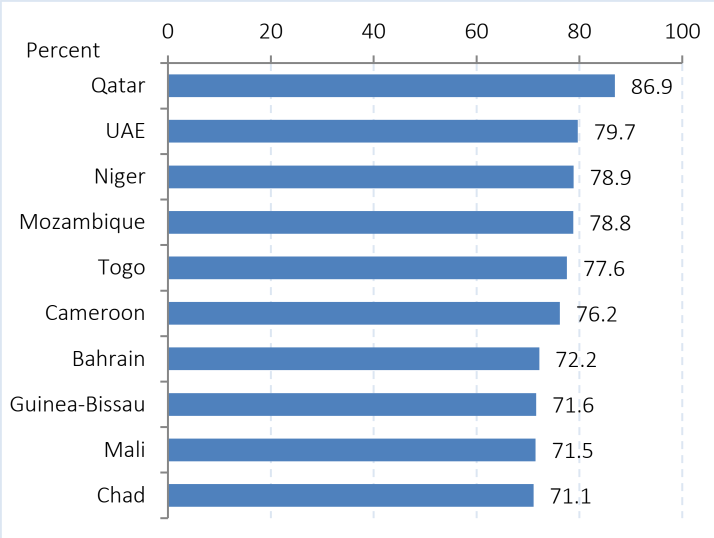
At the individual country level, Qatar registered the highest labour force participation rate in 2017 with a rate of 86.9%, followed by United Arab Emirates (79.7%), Niger (78.9%), Mozambique (78.8%), and Togo (77.6%). It is worth mentioning that, with the exception of Qatar, United Arab

Figure 2.13: Labour Force Participation Rates, 2000-2017



Source: SESRIC staff calculations based on modelled estimates. Data Coverage: 56 OIC , 94 non-OIC developing, and 38 developed countries

Figure 2.14: Top 10 OIC Member Countries by Labour Force Participation Rate, 2017



Source: ILO, modelled estimates.

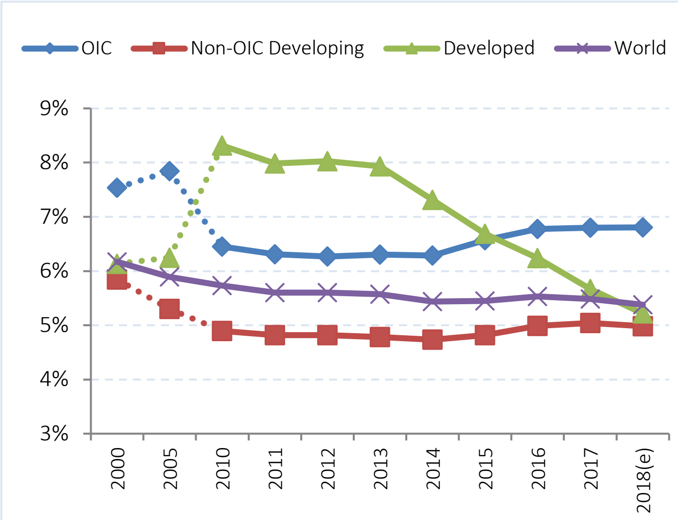
Emirates and Bahrain, all top-10 performing member countries belong to the least developed countries according to UN classification (Figure 2.14). On the other hand, lowest participation rate was recorded in Yemen with 37.9%. Jordan (39.1%), Syria (41.1%), Algeria (41.4%) and Comoros (43.1%) follow it. At the global level, with respect to labour force participation rate, Qatar is ranked at 1st United Arab Emirates at 12th and Niger at 13th position. It is also worth mentioning that 13 out of the world 20 countries with lowest participation rates in 2017 are OIC member countries.

- **Unemployment:** Average unemployment rate in OIC countries continue to remain stubbornly high at around 6.8%

Unemployment remained one of the most challenging issues across the globe. According to the ILO World Employment and Social Outlook 2018 report, the global unemployment rate is expected to fall slightly from 5.6% to 5.5% in 2018. Due to ongoing uncertainties about world economic developments, little improvement is expected in the global labour market in 2019, whereas the number of unemployed is projected to grow by 1.3 million. The number of unemployed persons globally in 2017 is estimated to stand at just over 190 million according to the ILO. This reflects the fact that employment is not expanding sufficiently fast to keep up with the growing labour force. Global uncertainty and the lack of decent jobs accordingly contribute to social unrest and migration in many parts of the world.

According the latest available data, OIC countries recorded significantly higher average unemployment rates compared to the world, developed and non-OIC developing countries during the period 2000-2018 (Figure 2.15). Since 2000, total unemployment rate in OIC countries fluctuated between 7.5% and 6.8% (these and other related statistics might differ from those reported at previous edition of Economic Outlook 2017 due to a change in the estimation of the ILO). The high unemployment rates in developed countries constituted the only exception, which exceeded the rate in OIC countries during 2010-2016. Since 2016, average unemployment rate in developed countries fell below the rates observed in OIC countries and reached 5.7% in 2017, compared to 6.8% in OIC countries. Average unemployment rate in non-OIC developing countries remained visibly lower (around 2%) than the OIC average throughout period under consideration, which is expected to remain at 5.0% in 2017.

Figure 2.15: Total Unemployment Rate (% of Total Labour Force)

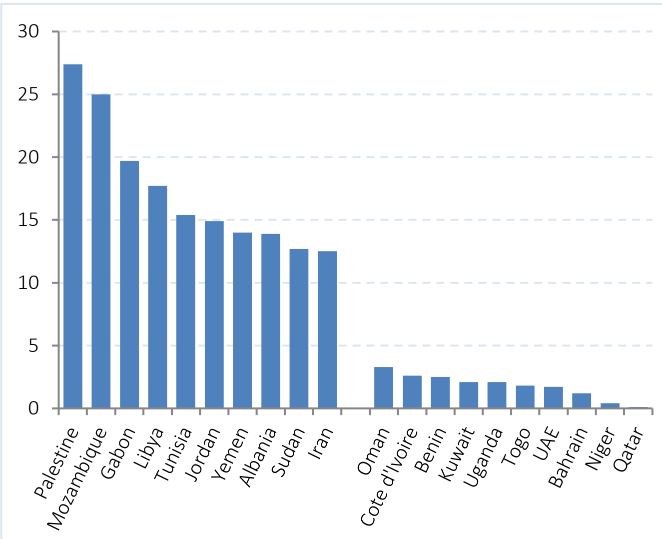


Source: SESRIC staff calculations based on ILO modelled estimates. Data Coverage: 56 OIC , 94 non-OIC developing, and 38 developed countries.

Unemployment rates for male labour force are typically lower than the rates for female in all country groups. Despite significant improvement since 2005, female unemployment in OIC countries remains highest with 9.3% in 2017. It is estimated at 5.4% in non-OIC developing countries and 6.2% in developed countries for the same year. Male unemployment in OIC countries is expected to decrease from 7.8% in 2005 to 6.6% in 2017 and from 5.2% to 5% in non-OIC developing countries during the same period. On the other hand, with 6.1% in 2017, male unemployment rates in developed countries reached to its same level in 2005 after surging up to 8.7% in 2010 due to the global financial crisis.

At the individual country level, unemployment rates greatly varied among OIC countries (Figure 2.16). The unemployed people in 2017 constituted less than one 1% of total labour force in Qatar (0.1%), which is also the lowest rate in the world. Niger (0.4%) and Bahrain (1.3%) are also among the ten countries in the world with lowest unemployment rates. However, unemployment is a serious concern in Palestine (27.4%), Mozambique (25.0%) and Gabon (19.7%).

Figure 2.16: OIC Countries with Lowest and Highest Unemployment Rates

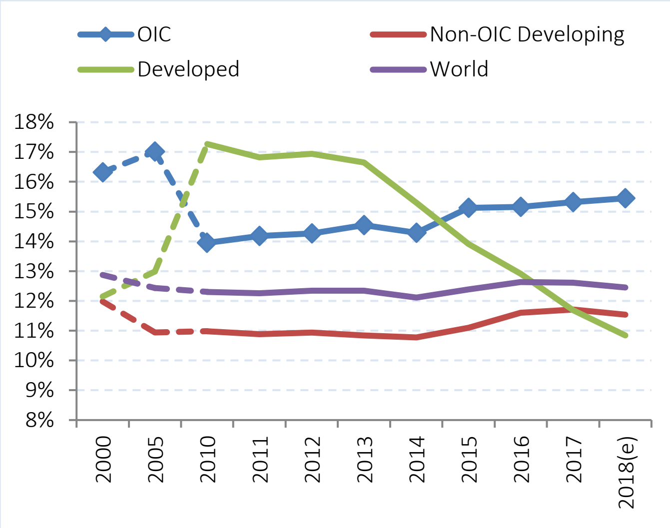


Source: ILO, modelled estimates.

- **Youth Unemployment:** With a rate of 15.3% in 2017, OIC countries have the highest youth unemployment

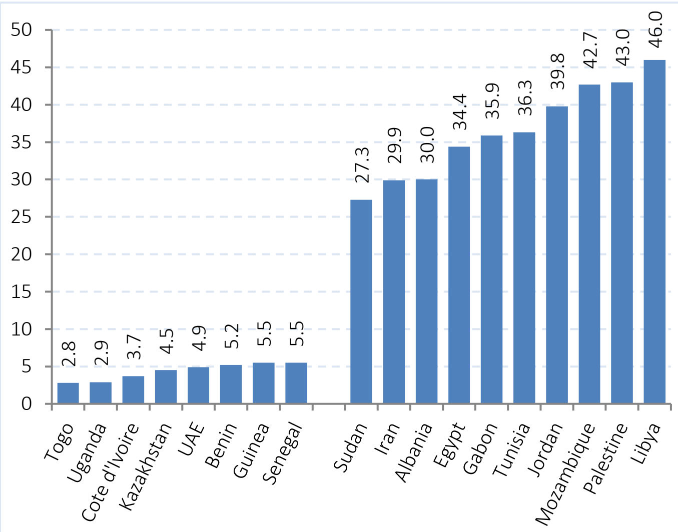
Youth (aged 15 to 24 years) continue to suffer from lack of decent job opportunities across the globe. According to the latest estimates, the number of unemployed youth globally will reach 64 million in 2018 (ILO, 2018). Accordingly, the global youth unemployment rate is on the rise after a number of years of improvement, and is expected to reach 12.5% in 2018 (from 12.3% in 2010). It is particularly high in the Northern Africa (34%) and the Arab States (25.6%).

Figure 2.17: Youth Unemployment Rate



Source: SESRIC staff calculations based on ILO modelled estimates. Data Coverage: 56 OIC , 94 non-OIC developing, and 38 developed countries

Figure 2.18: OIC Countries with Lowest and Highest Youth Unemployment Rates, 2017



Source: ILO, modelled estimates.

The figures on youth unemployment rates in OIC countries are not quite promising. The rate remained constantly above 14% and also well above the world and non-OIC developing averages since 2000. After the financial crisis that hit developed economies, the problem of youth unemployment in these countries became even more serious compared to that in OIC countries during the period in consideration (Figure 2.17). As of 2018, youth unemployment in OIC countries is expected to remain at 15.4%, while it will decline to 10.8% in developed countries and remain at 11.5% in non-OIC developing countries.

As in other major labour market indicators, despite some improvement since 2005, female unemployment among young people is highest in OIC countries. It is estimated to fall to 18.2% in 2017 from its level of 23.2% in 2005 (SESRIC, 2017). While female unemployment among youth has been decreasing in OIC developing countries during the period under consideration, it did not change significantly in other country groups. As of 2017, it is estimated that 11.7% of youth labour force in non-OIC developing countries and developed countries will remain unemployed. With respect to male unemployment among youth, it is estimated to increase to 15.1% in 2017 in OIC countries and 11.2% in non-OIC developing countries, but decrease to 14.1% in developed countries compared to the rate observed in 2010.

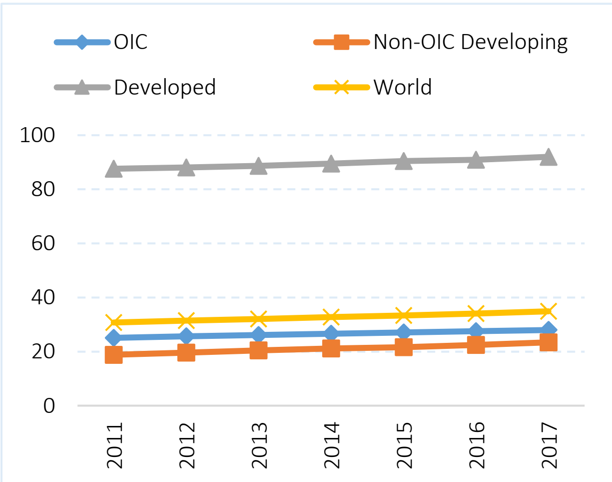
There are again wide discrepancies in youth unemployment rates across OIC countries. Togo (2.8%) and Uganda (2.9%) are the countries with lowest unemployment rates in 2017, which are also among top five countries in the world (Figure 2.18). In contrast, the highest youth unemployment rate was estimated in Libya (46.0%), followed by Palestine (43.0%), Mozambique (42.7%), Jordan (39.8%) and Tunisia (36.3%). In 2017, youth unemployment rate was above 20% in 16 OIC countries and above the world average of 12.6% in 32 OIC countries.

- **Labour Productivity:** Only four OIC countries recorded output per worker higher than developed countries' average

Productivity plays a pivotal role in the development of an economy. It helps to increase real income and improve living standards by catalysing the economic growth. Labour productivity is usually defined as the output per unit of labour input or output per hour worked. It helps to identify the contribution of labour to the GDP of a country and provides a base for cross country comparison and explanation of income disparities.

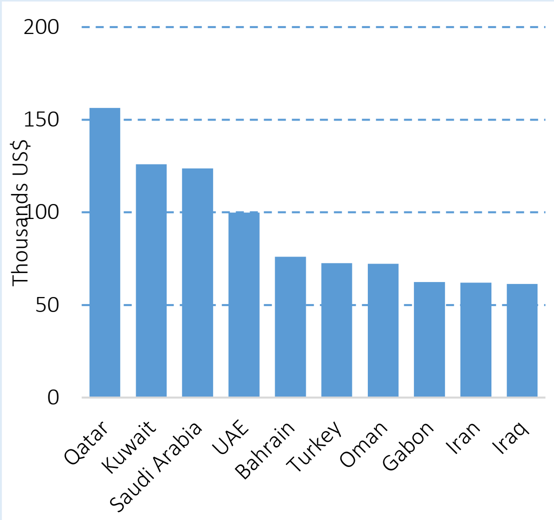
At the global level, labour productivity has witnessed an increasing trend during the period 2011-2017. As shown in Figure 2.19, output per worker in OIC countries has increased from US$ 25 thousands in 2011 to US$ 28 thousands in 2017, as measured in constant international prices based on purchasing power parity (PPP). This upward trend was not affected by slowdown in economic activity especially in oil exporting countries during the period under consideration. The labour productivity gap between the developed and developing countries remained substantial throughout this period as output per worker in the developed countries is estimated at US$ 91 thousands in 2017 compared to just US$ 22 thousands in non-OIC developing countries and US$ 28 thousands in

Figure 2.19: Labour Productivity (GDP per worker, thousands US$ PPP), 2011-2017



Source: SESRIC staff calculations based on ILO modelled estimates. Data Coverage: 56 OIC , 94 non-OIC developing, and 38 developed countries

Figure 2.20: Top 10 OIC Member Countries with the Highest Labour Productivity, 2017



Source: ILO modelled estimates.
Data Coverage: Out of 56 OIC countries.

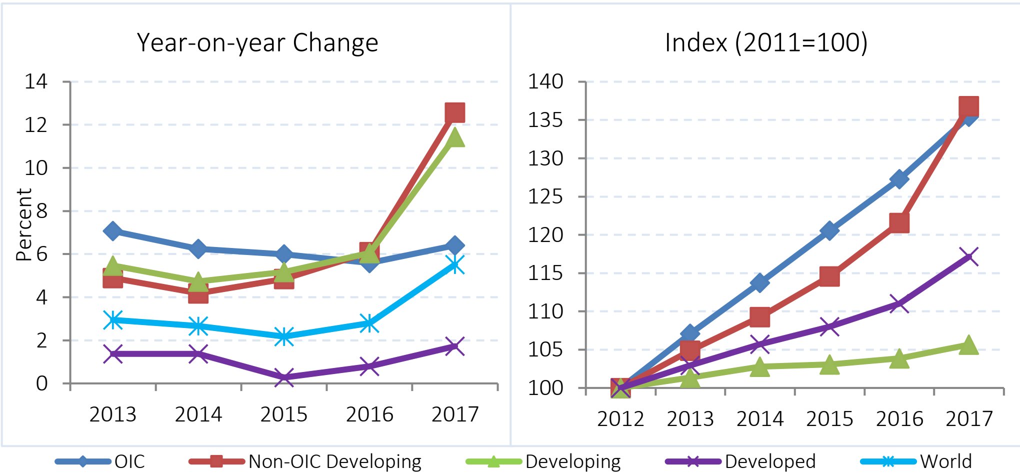
OIC countries. This means that an average worker in the group of non-OIC developing countries produces only 24.7% of the output produced by an average worker in the developed countries and an average worker in OIC countries produces only 30.3% of the output produced by an average worker in the developed countries.

At the individual country level, Qatar registered the highest output per worker (US$ 156 thousands) in 2017, followed by Kuwait (US$ 126 thousands), Saudi Arabia (US$ 124 thousands), and United Arab Emirates (US$ 100 thousands). Among the OIC member countries, the lowest labour productivity level was recorded in Niger (US$ 2,350) followed by Somalia (US$ 3,133), Togo (US$ 3,194) and Mozambique (US$ 3,489). Only four member countries recorded output per worker higher than the average of developed countries (Figure 2.20).

- **Inflation:** Inflation in OIC countries remained higher than the global average

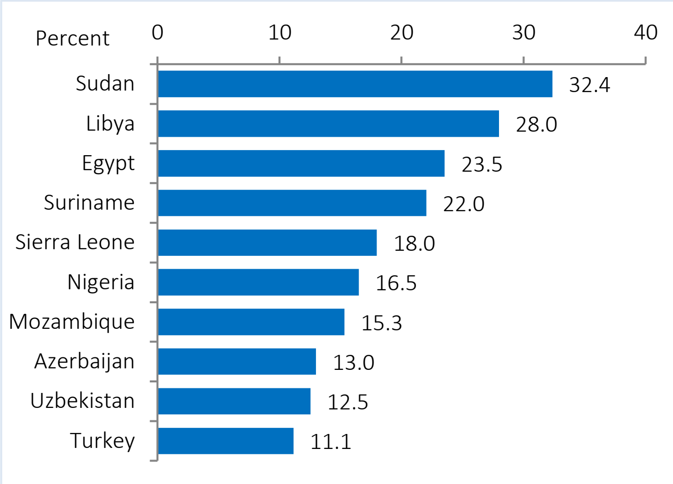
Inflation is on increase across the globe reflecting primarily the impact of increase in prices for oil and other commodities. The latest estimates show that global inflation rate has increased from 3.3% in 2012 to 5.5% in 2017; however it is expected to climb up to 19.0% in 2018.

Figure 2.21: Annual Average Inflation (Consumer Prices)



Source: IMF WEO Database April 2018 . Data Coverage: 55 OIC , 98 non-OIC developing, and 39 developed countries

Figure 2.22: Top 10 OIC Countries by Annual Average Inflation (2017)



Source: IMF WEO Database April 2018.

As seen in Figure 2.21, price volatility remained a major concern especially for the developing countries. In these countries, the inflation rate decreased from 5.6% in 2012 to 5.2% in 2015 before it started to increase in 2016 and reached 11.4% in 2017. The expected inflation for 2017 is over 45% for these countries.

In the OIC countries, average inflation rate for 2017 was higher than the world average. Unlike the global trends, inflation in the OIC countries remained stable around 6.5%. The average consumer price index marked an increase of 26.5% in the OIC countries during 2012-2017 (Figure 2.21, right). This is well below the average increase recorded in non-OIC developing countries (30.4%) and nearly double of the global increase of 13.8% during the same period.

In the short-term outlook, as elsewhere, inflationary pressures are projected to remain high for the OIC countries. The forecasts show that the growth in average consumer prices in the OIC countries will increase to 6.7% in 2018 (Figure 2.21, left panel).

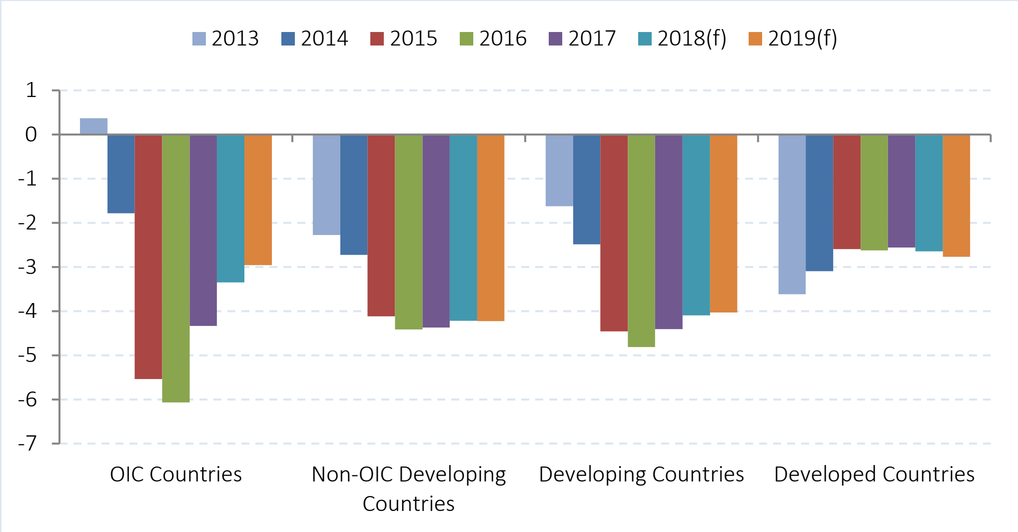
At the individual OIC country level, Sudan recorded the highest average consumer prices inflation rate of 32.4% in 2017 (Figure 2.22), which was also the 4th highest in the world, followed by Libya (ranked 6th in the world), Egypt (ranked 8th), Suriname (ranked 9th) and Sierra Leon (ranked 10th).

- **Fiscal Balance:** OIC countries recorded improvement in fiscal balance deficits in 2017

Latest statistics show that the fiscal tightening policies adopted in the after math of financial crisis have led to improvement in fiscal balances across the world. Nevertheless, sharp decline in commodity prices especially for oil in 2014/15 lead to increase in fiscal deficits in all major oil exporting countries in the developing world. As shown in Figure 2.23, developed countries witnessed improvement in their fiscal situation and their fiscal balance deficit as percent of GDP has declined from -3.6% in 2013 to -2.6% in 2017. This ratio is expected to remain stable in 2018 and increase slightly to -2.8%in 2018 for these countries. On the other hand, developing countries registered significant deterioration in their fiscal situation during the most of period under consideration. As their fiscal deficit increased from 1.6% to 4.4% in 2017, however it is expected to decrease to improve in 2018 and 2019.

During the period under consideration, the OIC member countries as a group witnessed sharp decline in their fiscal balance from a surplus of 0.4% 2013 to a deficit of 6.1% in 2016. In 2017,

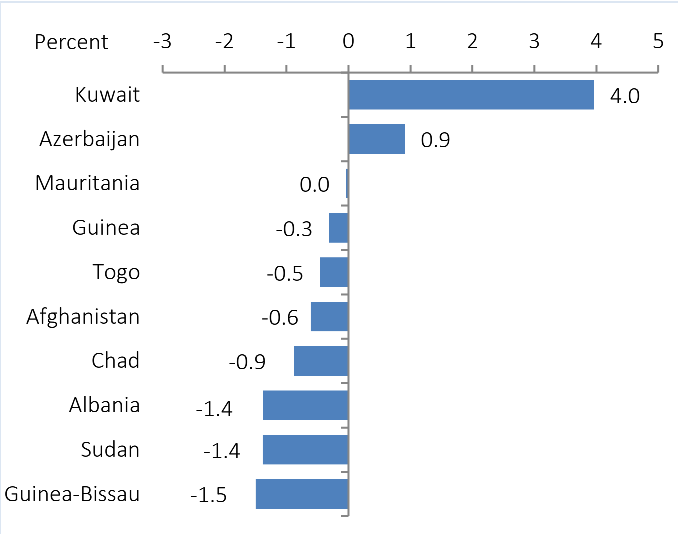
Figure 2.23: Fiscal Balances (% of GDP)



Source: IMF WEO Databse April 2018 . Data Coverage: 54 OIC , 98 non-OIC developing, and 39 developed countries

OIC countries recorded fiscal balance deficit of 4.3% of GDP. This improvement in fiscal deficit in OIC countries is largely triggered by increase in oil prices and consequently improving fiscal position of oil exporting OIC countries. The fiscal deficit is, expected to improve further to 3.3% and 3.0% in 2017 and 2018, respectively.

Figure 2.24: Top 10 OIC Countries by Fiscal Balance, % of GDP (2017)



Source: IMF WEO Database April 2018 .

At the individual country level, only two out of 54 OIC countries with available data have recorded fiscal balance surplus in 2017. Among the top-10 countries, only Kuwait and Azerbaijan recorded fiscal surplus of 4.0 and 0.9 % of GDP, respectively. During 2016-2017, many oil exporting OIC countries have witnessed some improvement in their fiscal balances amid the rebound in oil prices. On the opposite side of the scale, Libya recorded the largest fiscal balance deficit (43.2%) followed by Bahrain (15.1%), and Brunei (-12.4%).

CHAPTER THREE

Trade and Finance

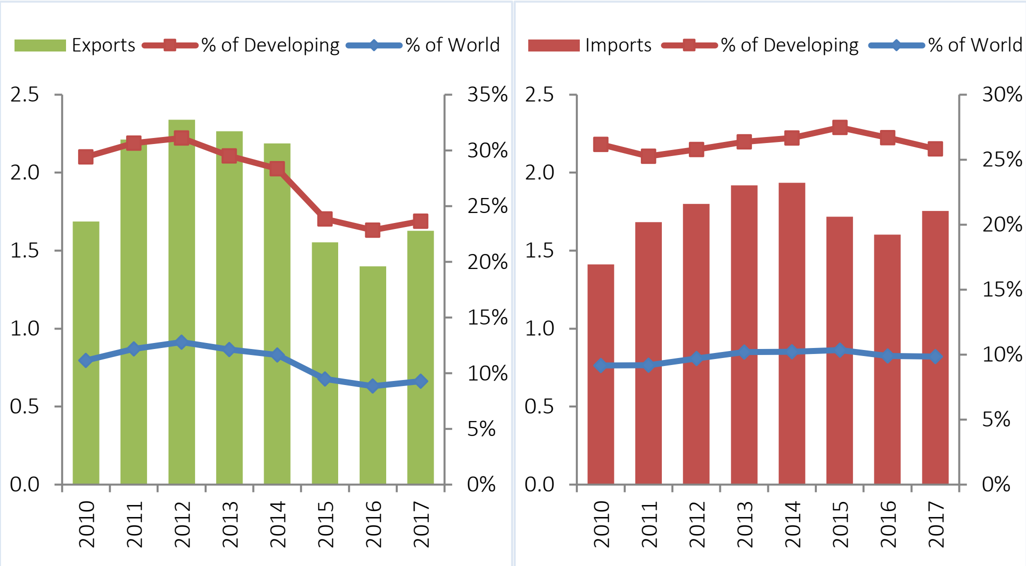
3.1 Trade in Goods and Services

- **Merchandise Trade:** Share of OIC countries in world's total exports slightly improved in 2017 after falling four consecutive years.

The total value of world merchandise exports, according to the IMF Directions of Trade Statistics (DOTS), was recorded at US$ 17.5 trillion in 2017, as compared to US$ 15.8 trillion in 2016. According to World Trade Organisation (WTO), however, world merchandise exports increased from US$ 16.0 trillion in 2016 to US$ 17.7 trillion in 2017. Despite small disparities in global trade estimations, it is clear that global exports increased around 10.6% in 2017. After falling two consecutive years since 2014, this strong improvement reflects improving global economic activity.

In line with this global trend, OIC countries have also witnessed an improvement in their total exports to world. After constantly falling since 2012 and reaching its lowest level since 2008, their aggregate exports increased to US$ 1.63 trillion in 2017, as reported by IMF DOTS (Figure 3.1). This corresponds to an increase by 16.3%. This upward trend was even stronger than those observed in non-OIC developing countries and the world as a whole, resulting in an increase in the shares of OIC countries in total developing country and world exports in 2017, which was also constantly falling since 2012. Accordingly, the share of OIC countries in total exports of developing countries bounced back to 23.7% in 2017, compared to 22.8% in 2016. OIC countries' collective share in total world merchandise exports also followed a similar trend between 2012 and 2016, and decreased to 8.8% in 2016, which is the lowest ratio observed since 2005 and largely to be explained by falling commodity prices, where OIC countries have significant concentration. However, this ratio increased to 9.3% in 2017, reflecting better economic

Figure 3.1: Merchandise Exports and Imports (US$ Trillion)

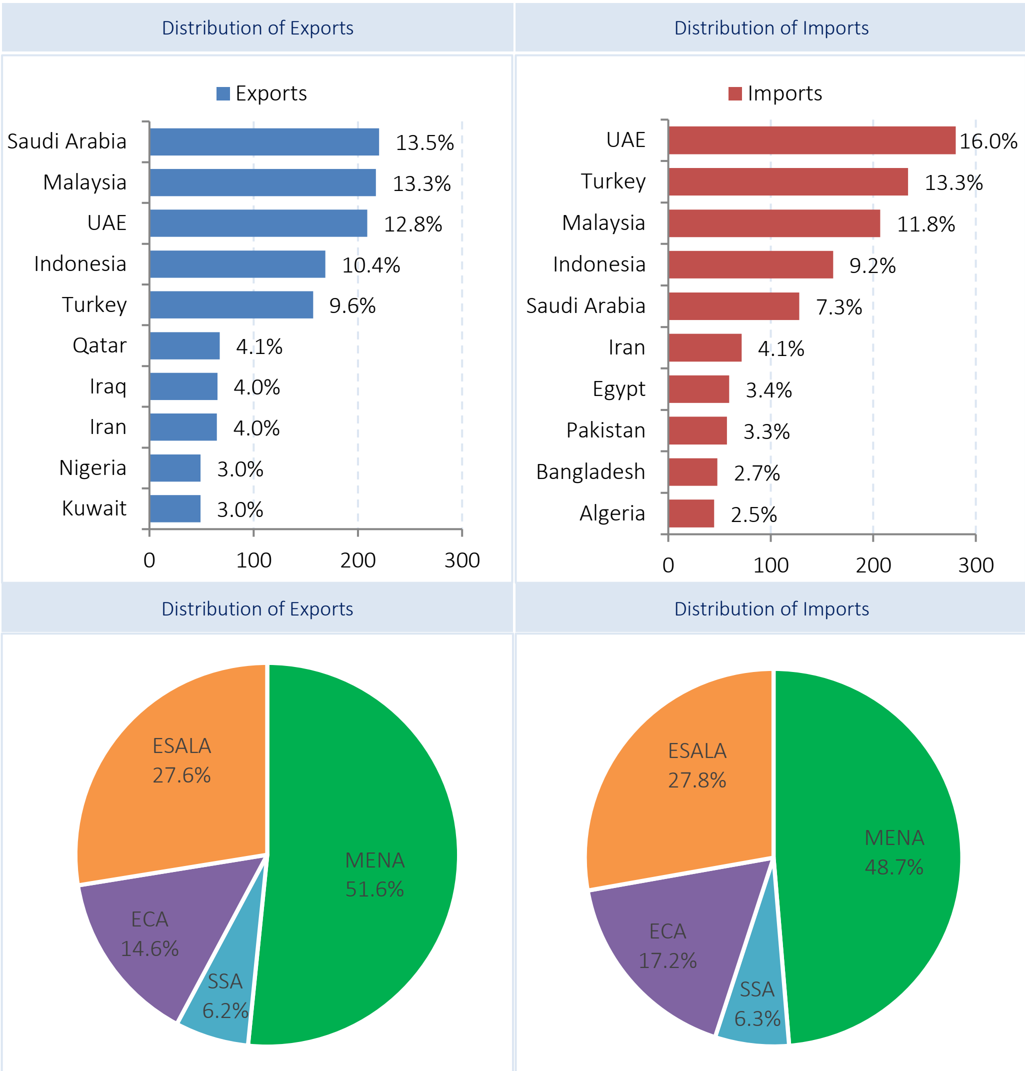


Source: IMF Directions of Trade Statistics (DOTS), August 2018. *Data coverage*: 56 OIC countries, 37 developed countries and 116 non-OIC developing countries.

performance of OIC countries compared to other country groups. Moving forward, to achieve long-term sustainable growth in merchandise trade and higher share in total world exports, OIC countries will apparently need more competitive economic sectors with significant diversification levels and higher technological intensity.

Similarly, total merchandise imports of OIC countries increased from US$ 1.6 trillion in 2016 to US$ 1.76 trillion in 2017 (Figure 3.1, right). Despite the increase in import volumes, the share of OIC countries in global merchandise imports remained stable at 9.9%, while its share in total imports of developing countries fell from 26.7% in 2016 to 25.8% in 2017.

Figure 3.2: Top OIC Merchandise Exporters and Importers and Distribution by OIC Regions (2017, US$ Billion)



Source: IMF Directions of Trade Statistics (DOTS), August 2018. *Data coverage:* 56 OIC countries. See Annex for regional classification of OIC countries.

In terms of the shares of the individual member countries in total merchandise exports from the OIC region, it has been observed that the bulk of total exports from the OIC countries continued to be concentrated in a few countries (Figure 3.2, left). In 2017, the top 5 largest OIC exporters accounted for 59.7% of total merchandise exports of all member countries whereas the top 10 countries accounted for 77.9%. Saudi Arabia, with over US$ 220 billion worth of merchandise exports and 13.5% share in total OIC exports, became the largest exporter in 2017 within the group of OIC. It was followed by Malaysia (US$ 217 billion, 13.3%), United Arab Emirates (US$ 209 billion, 12.8%), Indonesia (US$ 169 billion, 10.4%) and Turkey (US$ 157 billion, 9.6%). In general, increase in commodity prices raised the shares of commodity exporting countries compared to manufacturing goods exporters.

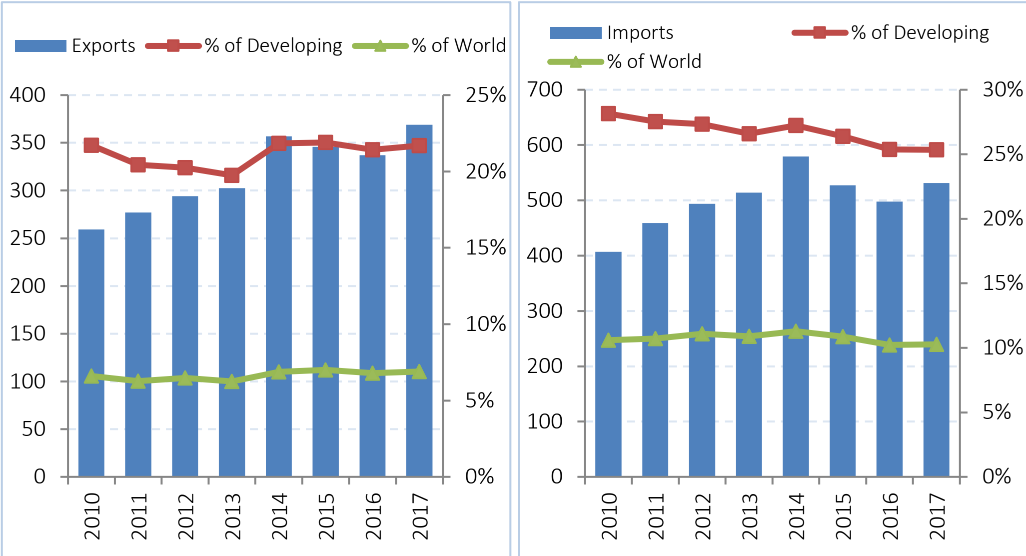
As in the case of exports, merchandise imports of OIC countries were also heavily concentrated in a few countries. As depicted in the right panel of Figure 3.2, with US$ 280 billion and US$ 234 billion of imports, United Arab Emirates and Turkey, respectively, took the lead in 2017 in terms of volume of merchandise imports and together accounted for 29.3% of total OIC merchandise imports. They were followed by Malaysia (US$ 207 billion, 11.8%), Indonesia (US$ 161 billion, 9.2%) and Saudi Arabia (US$ 128 billion, 7.3%), which collectively accounted for a further 28.2 % share in the OIC merchandise imports. Accordingly, the top 5 OIC importers accounted for 57.5% of total OIC merchandise imports, whereas the top 10 countries accounted for 73.5% in 2017.

To sustain long-term economic growth, OIC countries need to reduce the high reliance on exports of mineral fuels and non-fuel primary commodities, which involve the least technological intensity, and devise and implement specific policies for adopting more advanced manufacturing methods to increase the share of more technology intensive commodities in exports. This is also necessary for increasing competitiveness of tradable products in international export markets.

- **Services Trade:** Services exports of OIC countries reached its highest level in 2017, but they continue to account less than 7% of global services exports.

The services sector plays an increasingly important role in the global economy and the growth and development of countries. It is also a crucial component in poverty reduction and access to basic services, including education, water and health services. The services sector has emerged as the largest segment of the economy, contributing growing shares in gross domestic product (GDP), trade and employment. According to 2018 editions of the World Bank's World Development Indicators and United Nations' National Accounts Main Aggregates Databases the services sector accounted on average for 65%-66% of the global value-added during 2011-2016 and it is expanding more rapidly than the other two main sectors of the economy, namely, agriculture and the industry. The sector accounts for more than 50% of employment worldwide. Trade in services constitutes around 20% of world trade of goods and services, with two thirds of global foreign direct investment (FDI) flowing into the sector (UNCTAD, 2018).

Figure 3.3: Services Exports and Imports (US$ Billion)



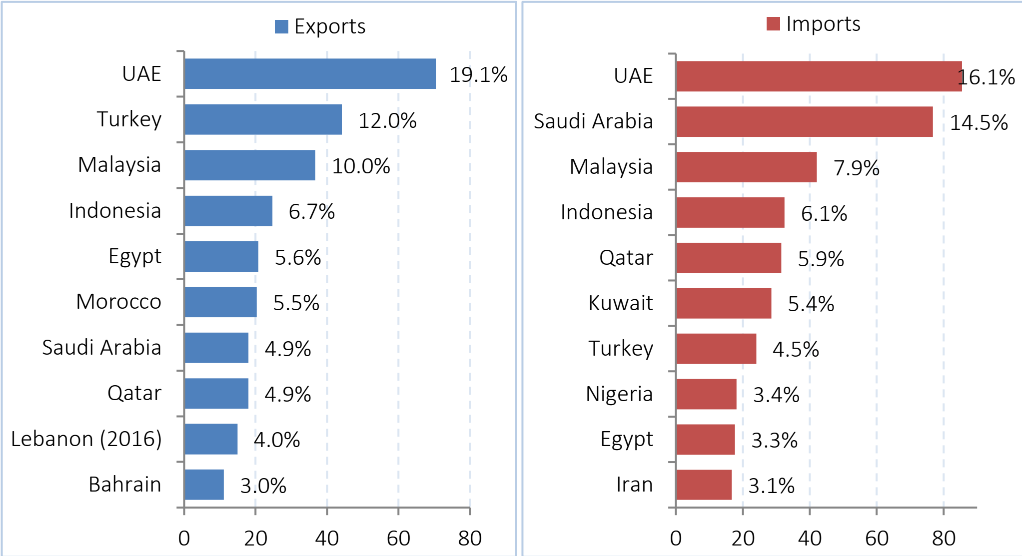
Source: UNCTAD STATS.August 2018. Data provided by UNCTAD as aggregate for the group of OIC countries.

Yet these figures do not translate into a strong presence in world trade. In 2017, world services exports totalled only US$ 5.3 trillion, compared to US$ 17.7 trillion of merchandise exports in the same year. According to UNCTAD statistics, OIC countries exported US$ 369 billion worth of services in 2017, which is the highest number recorded by the OIC (Figure 3.3, left). On the other hand, the total services imports of OIC services reached US$ 531 billion in the same year (Figure 3.3, right). The increase in services exports and imports of OIC countries came after a downward trend observed since 2014.

Accordingly, OIC countries could not account a good share of global services exports. The collective share of OIC countries in the total world services exports fluctuated between 6.3% and 7% during the period 2010-2017, while the share in global services imports fluctuated between 10.2% and 11.3% during the same period. As of 2017, OIC countries as a group account for 6.9% of global services exports and 10.3% of global services imports. On the other hand, the share of OIC member countries in services imports of developing countries have followed a downward trend during the period 2010-2017 and fell to 25.3% in 2017, while its share in services exports remained around 21.7% in the same year (Figure 3.3).

Figure 3.4 shows the top 10 OIC countries according to the sizes of their services exports and imports. United Arab Emirates, with US$ 70 billion exports and 19.1 % share in total OIC services exports, was the top exporter in services in 2017 (Figure 3. 4, left). It was followed by Turkey (US$ 44 billion, 12%), Malaysia (US$ 37 billion, 10%), Indonesia (US$ 25 billion, 6.7%) and Egypt (US$ 21 billion, 5.6%). In 2017, top 10 OIC countries accounted for 75.7% of total OIC services exports. As far as the service imports are concerned, the United Arab Emirates again registered the highest service imports with an amount of US$ 85 billion and 16.1% share in OIC total services imports. It was followed by Saudi Arabia (US$$ 77 billion, 14.5%), Malaysia (US$$ 42 billion, 7.9%),

Figure 3.4: Top 10 OIC Services Exporters and Importers (2017, US$ Billion)



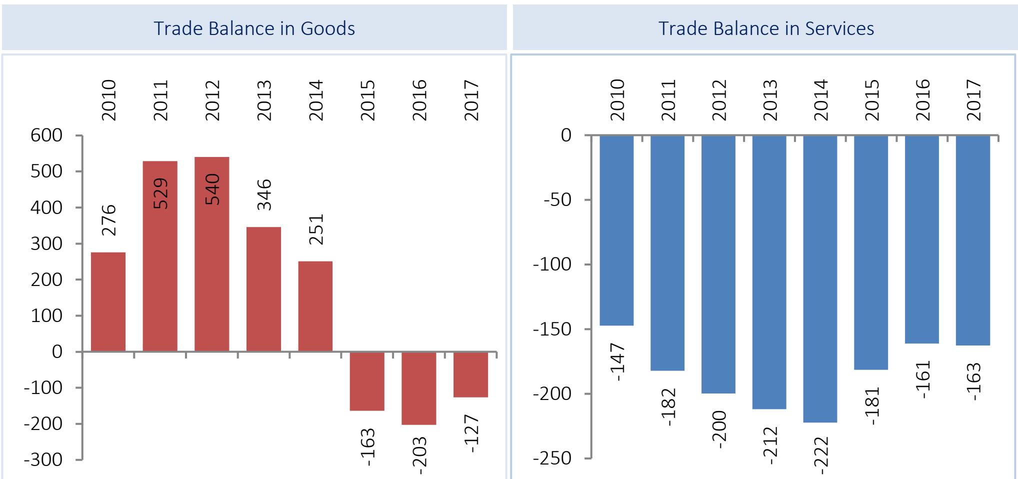
Source: WTO. *Data coverage:* Out of 51 OIC countries.

Indonesia (US$ 32 billion, 6.1%) and Qatar (US$ 31 billion, 5.9%). The top 10 OIC services importers collectively accounted for 70.3% of total services imports of OIC countries.

- **Trade Balance:** OIC countries remain net importers of both goods and services in 2017.

The analyses on merchandise trade and services above indicate that OIC countries are not taking sufficient role in global economic activities. Despite minor improvements observed in 2017, their contribution to global flow of goods and services remain below their potential. Inadequate level of capacity in manufacturing and services make them net importers of both goods and services.

Figure 3.5: Trade Balance of OIC Countries in Goods and Services (US$ Billion)



Source: IMF DOT and UNCTAD STATS. *Data coverage*: 56 OIC countries.

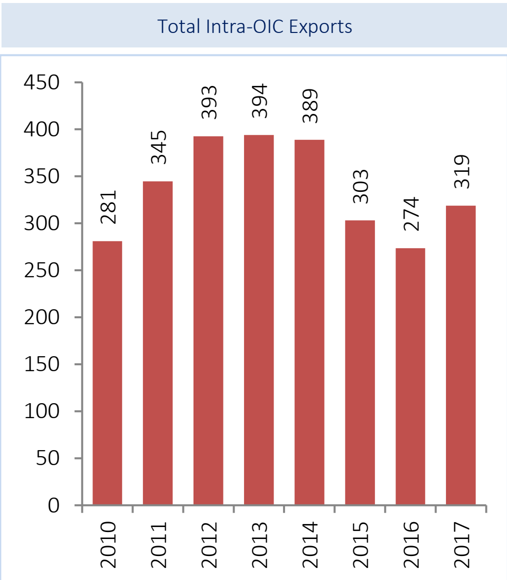
As shown in Figure 3.5 (left), OIC countries became a net importer of manufacturing products after 2014, which is again largely to be explained by falling commodity prices. In 2017, total deficit of OIC countries as a group recorded at US$ 127 billion. On the other hand, OIC countries remained constantly a net importer of services over the period under consideration. Despite the fall in trade deficit in services since 2014, they still collectively record a total of more than US$ 160 billion deficit in 2017.

Altogether, OIC countries recorded more than US$ 290 billion trade deficit in 2017. In order to become net exporter of goods and services, OIC countries need to upgrade their existing productive capacities to transform their economics towards more value added sectors and products.

- **Intra-OIC Trade:** Share of intra-OIC trade in total trade of OIC countries continue to expand in 2017.

After stabilizing around US$ 390 billion during 2012-2014, intra-OIC exports decreased to US$ 303 billion in 2015 and further declined to US$ 274 billion in 2016. In line with global expansion of trade, total intra-OIC exports reached US$ 319 billion in 2017 (Figure 3.6, left). Despite the fluctuations in intra-OIC trade, the share of intra-OIC trade in total trade of OIC countries constantly increased during the period 2011-2017 and reached 19.9% in 2017 compared to its level of 17.5% in 2011 (Figure 3.6, right). The continuation of this trend will facilitate to achieving the 25% target set in the OIC Ten-Year Programme of Action (OIC-2025), but further efforts should be made to keep the trend rising through bilateral and multilateral trade and investment agreements and partnerships among the OIC countries.

Figure 3.6: Intra-OIC Merchandise Trade (US$ Billion)

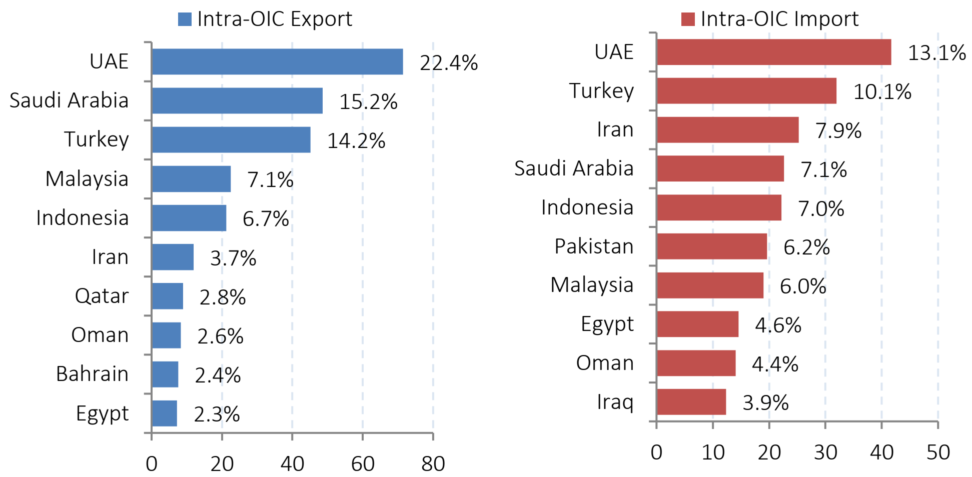


Source: IMF Directions of Trade Statistics (DOTS), August 2018. *Data coverage*: 56 OIC countries.

In order to increase the share of trade among them in their total merchandise trade even further, OIC countries should not only focus on operationalizing the OIC Trade Preferential System (TPS-OIC) with broader participation from the member countries, but also promote diversification and competitiveness of their tradable products taking into account their mutual needs and benefits from trade. Yet, the progress made in operationalization of the system is rather sluggish.

At the individual country level, Figure 3.7 (left) depicts the top 10 member countries in terms of the volume of their intra-OIC exports. In 2017, top 5 OIC intra-OIC exporters accounted for as much as 65.5% of total intra-OIC exports whereas the top 10 exporters for 79.3%. United Arab Emirates ranked first with US$ 71.4 billion and 22.4% of total intra-OIC exports, followed by Saudi Arabia (US$ 48.6 billion, 15.2%), Turkey (US$ 45.1 billion, 14.2 %), Malaysia (US$ 22.5 billion, 7.1%) and Indonesia (US$ 21.2 billion, 6.7%).

Figure 3.7: Intra-OIC Merchandise Exports and Imports (2017, US$ Billion)



Source: IMF Directions of Trade Statistics (DOTS), August 2018. *Data coverage*: Out of 56 OIC countries.

The top OIC countries in terms of intra-OIC imports are also depicted in Figure 3.7 (right). In 2017, United Arab Emirates, with US$ 41.7 billion total volume and 13.1% share in total, was the largest importer from OIC countries. It was followed by Turkey with US$ 32.0 billion and 10.1% share and Iran with US$ 25.3 billion and 7.9% share. Top 5 OIC countries accounted for 45.2% of total intra-OIC imports and top 10 countries accounted for 70.2% in 2017.

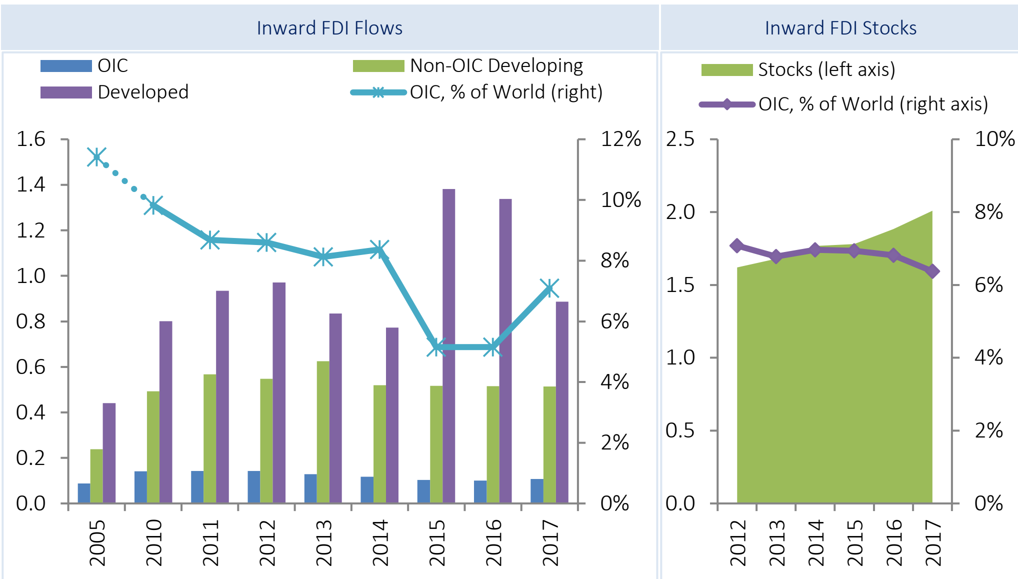
3.2 Investment and Finance

- **FDI Inflows:** Share of OIC countries in total world FDI inflows started to increase in 2017 after constantly falling over the recent years

World total foreign direct investment (FDI) inflows amounted to US$ 1.43 trillion in 2017, marking a decrease of more than US$ 430 billion over previous year's value of US$ 1.87 trillion and corresponding to 23% fall. It is the second year in row that the volume of global FDI inflows recorded a contraction. However, the fall in global FDI inflows was due to the fall in FDI inflows to developed countries, which contracted more than 33% over the last year. On the other hand, total FDI inflows to developing countries, including the OIC countries, remained rather stable over the last few years.

Figure 3.8 (left) depicts the total FDI flows to OIC countries in comparison to non-OIC developing and developed countries. It is observed from the Figure that, during the period under consideration, FDI flows to OIC countries generally remained lower than their potential. The total US$ value of FDI inflows to OIC member countries was recorded at as low as US$ 87.5 billion in 2005. After reaching US$ 143 billion in 2011, it constantly fell until 2016 to reach only US$ 100.6 billion. In 2017, the total value of FDI flows to OIC countries increased for the first time since 2011, which was recorded at US$ 106.9 billion, corresponding to 6.3% increase compared to the previous year. The share of OIC countries in global FDI inflows, on the other hand, has been on decline during the under period consideration and reached its lowest value in 2016 with 5.2%. However, due to fall in global FDI inflows and increase in inflows to OIC countries, the share of OIC countries in global FDI inflows increased to 7.1% in 2017.

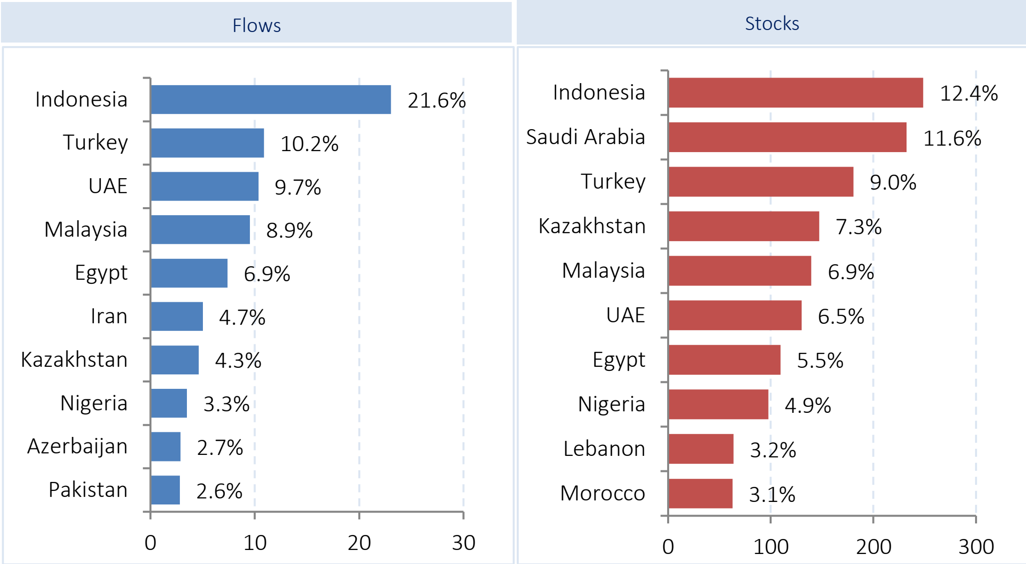
Figure 3.8: Inward FDI Flows and Stocks in OIC Countries (US$ Billion)



Source: UNCTAD STAT.Data coverage [LEFT]: 56 OIC countries, 37 developed countries and 111 non-OIC developing countries; [RIGHT]: 56 OIC countries.

Global inward FDI stock reached US$ 31.5 trillion in 2017. OIC countries, on the other hand, collectively hosted 6.4% of the global FDI stock, which marked a 0.7 percentage point fall compared to the value observed in 2012 (Figure 3.8, right). Furthermore, the bulk of the inward FDI stock was hosted by developed countries, which collectively recorded a 74.2% share in global inward FDI stock in 2017.

Figure 3.9: Top 10 Hosts of Inward FDI Flows and Stocks (2017, US$ Billion)



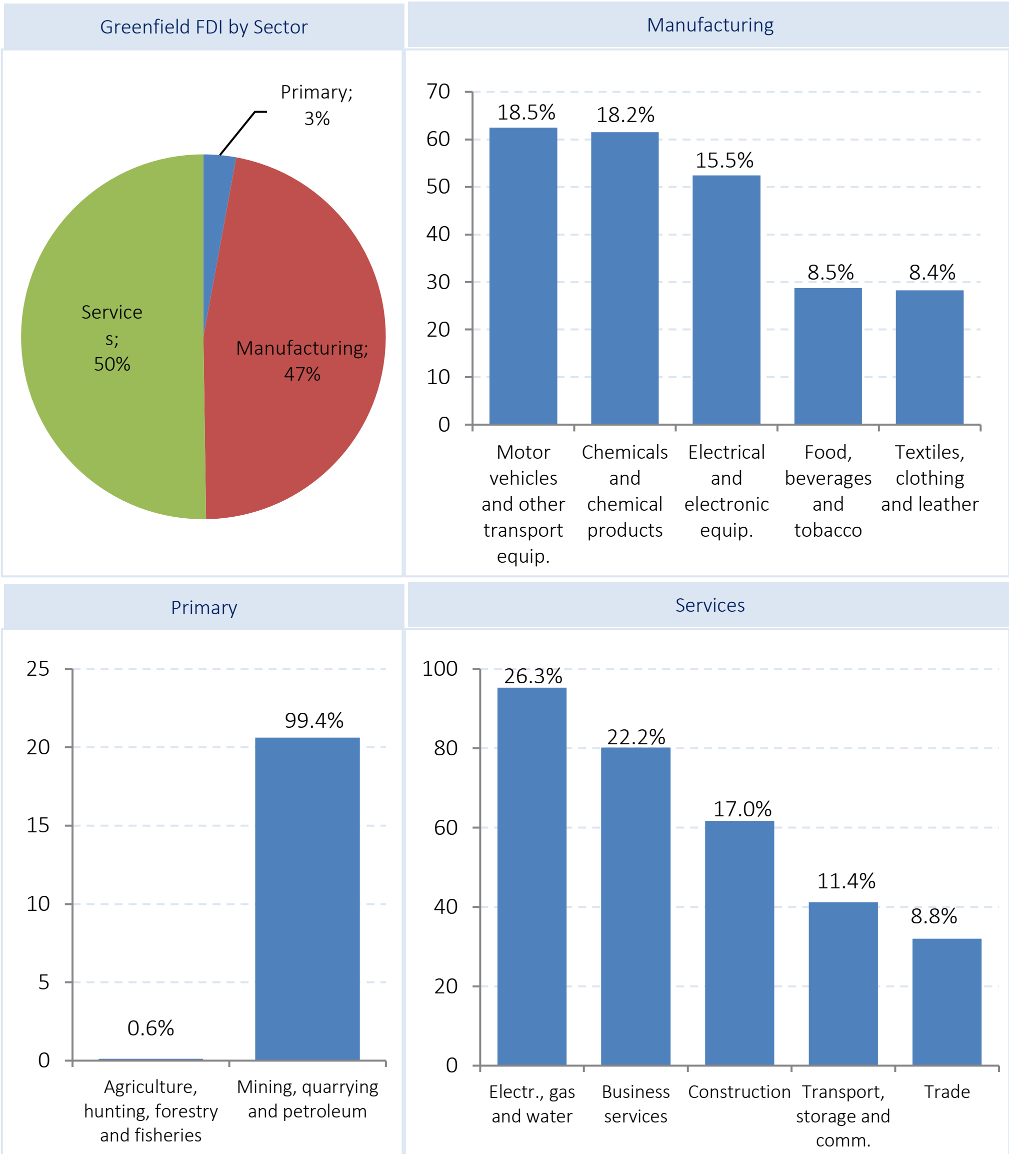
Source: UNCTAD STAT, August 2018. Data coverage: Out of 56 OIC countries.

Like in the case of other major macroeconomic aggregates of the OIC group, FDI flows to OIC countries also exhibited a high level of concentration, with bulk of it persistently being directed to a few of them. The top 5 OIC countries with largest inward FDI flows together accounted for 57.2% of total FDI flows to OIC countries, whereas the top 10 countries accounted for 74.8% (Figure 3.9, left). In 2017, Indonesia took the lead in FDI inflows with US$ 23 billion of inward FDI flow, and a 21.6% share in total FDI flows to OIC countries. It was followed by Turkey (US$ 10.9 billion, 10.2%), United Arab Emirates (US$ 10.4 billion, 9.7%), Malaysia (US$ 9.5 billion, 8.9%) and Egypt (US$ 7.4 billion, 6.9%).

A similar picture is observed in the case of inward FDI stock as well: top 5 countries hosted 47.2% of total OIC inward FDI stocks whereas the top 10 countries 70.2%. With US$ 248 billion of inward FDI stocks (12.4% of the OIC total), Indonesia ranked first among the list of OIC countries with largest inward FDI stock in 2017. Indonesia was followed by Saudi Arabia (US$ 232.2 billion, 11.6%), Turkey (US$ 180.7 billion, 9.0%), Kazakhstan (US$ 147.1 billion, 7.3%) and Malaysia (US$ 139.5 billion, 6.9%).

Overall, this state of affairs suggests that a significant majority of the OIC countries are still not able to set up favourable economic frameworks and to provide the foreign businesses with adequate regulatory as well as physical infrastructure to attract more FDI flows. Consequently, OIC countries, in general, need to take swift measures to foster an environment conductive to attracting more foreign investments. To achieve this goal, reforms are needed to improve the business climate and to introduce investment incentives tailored to the needs of both domestic and foreign investors. This, in turn, requires building adequate infrastructure as well as investing in modern technologies to enhance their productive capacities, which is still a significant challenge to majority of them.

Figure 3.10: Distribution of Greenfield Investment across the World, by Sector (2017, US$ Billion)



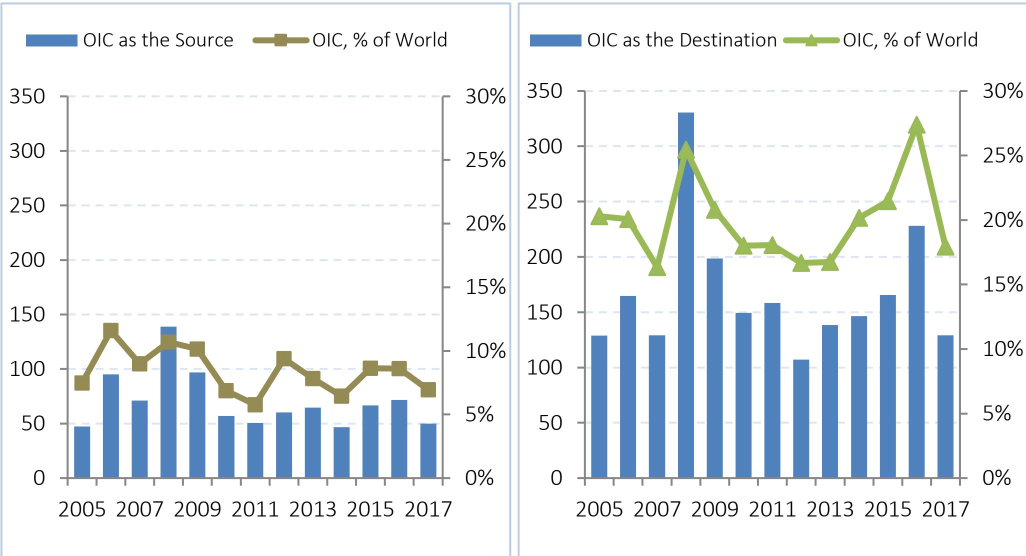
Source: UNCTAD STAT, August 2018. Data reported as aggregate.

An important indicator for assessing future trends is the value of greenfield investments. Its distribution also gives important information in which sectors and sub-sectors investors are willing to invest more. Global distribution of announced greenfield investments indicate that only 3% will go to primary sectors (Figure 3.10, upper left), while almost all these investments to be allocated for mining, quarrying and petroleum industries (Figure 3.10, lower left). Manufacturing sector is expected to receive 47% of future investments, where transport equipment, chemical products and electronic equipment are the top industries that are expected to receive investment globally (Figure 3.10, upper right). On the other hand, half of the investments will flow into the services sector, with electricity, gas and water, and business services expected to receive the largest share in investment flows to services sector (Figure 3.10, lower right). This distribution of investments across sectors will have also implications for industrial development.

Figure 3.11 shows the value of announced greenfield investments since 2005. OIC countries, on average, are the source of global investment flows at around 5% (left). On the other hand, around 20% of global investment flows were announced to flow into OIC countries during the period under consideration (right). Accordingly, it is observed that OIC countries are receiving much more investment that they made abroad, according to the announced greenfield investment statistics. However, the share of OIC countries in announced greenfield investment fell from 27.4% in 2016 to 17.9% in 2017, which may imply that the share of OIC countries in global FDI inflows will not substantially increase in year 2018.

Evidently, investment flows into OIC countries are not at desired levels and announced investments offer limited prospects for improvements. In this respect, more policy-interventions are needed to reduce investment barriers and improve business climate to promote investment inflows to OIC countries. It is also important to promote intra-OIC investment flows. The success on reaching the potential in intra-OIC FDI are closely linked to the determination of policy-makers of OIC countries to adopt some concrete policy measures for reducing trade and investment barriers, abolishing/easing visa regimes, and facilitating capital transfers among OIC member countries.

Figure 3.11: Greenfield Investments in OIC Countries (US$ Billion)



Source: UNCTAD STATS. Data provided by UNCTAD as aggregate for the group of OIC countries.

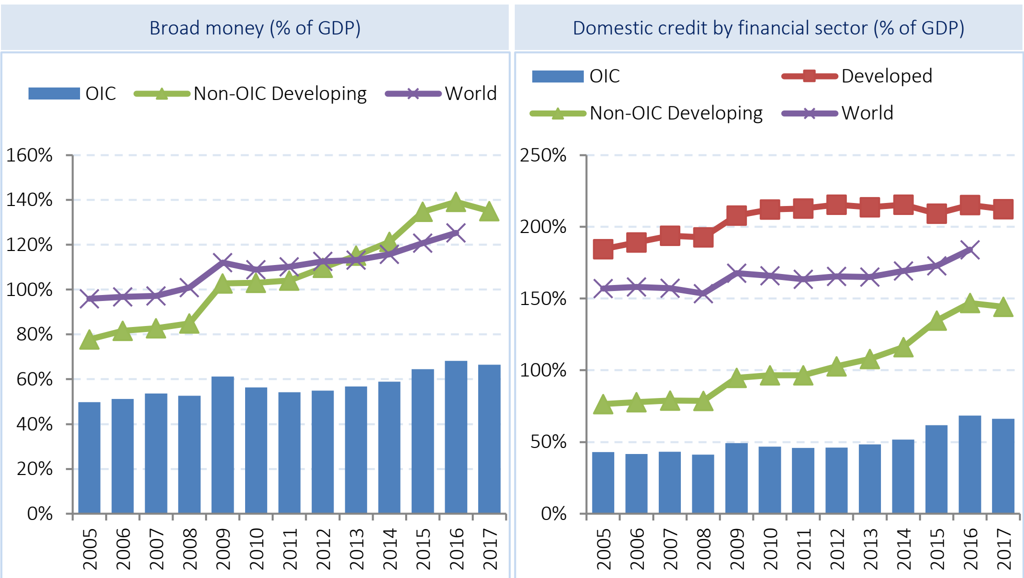
- **Financial Sector Development:** Degree of financial deepening in OIC countries remained unsatisfactory

A well-functioning financial system can pave the way for rapid economic development through, inter alia, the efficient allocation of domestic savings into productive economic activities. The importance of this role has indeed gained much attention in terms of its impacts on economic growth, and a strong consensus has emerged in the literature that well-functioning financial intermediaries have a significant impact on economic growth (Levine, 2004).

A commonly used indicator for determining the degree of financial deepening is the ratio of broad money to GDP. A higher ratio is generally associated with greater financial liquidity and depth. As shown in Figure 3.12 (left), the average volume of broad money relative to the GDP of OIC countries was recorded at 66.5% in 2017, compared to as much as 135% in non-OIC developing countries and 125% of the world average. Apparently, the financial sector in the member countries lag behind in the provision of sufficient liquidity and better investment opportunities to the economy at lower cost. This state of affairs partially manifests itself in low levels of credit provided by the financial sector as % of GDP. In 2017, the financial sector on average provided credit to the domestic economy as much as 66.1% of the GDP in OIC countries whereas, in non-OIC developing countries, this figure was 144.3% (Figure 3.12, right). In the same year, the average of developed countries was recorded at 212.3% that significantly exceeded the average of both OIC countries and non-OIC developing countries.

The degree of financial development varies substantially across the OIC countries. While some member countries have relatively more advanced financial systems including vibrant banking,

Figure 3.12: Financial Sector Development



Source: World Bank WDI. *Data coverage [LEFT]*: 51 OIC countries and 84 non-OIC developing countries; *[RIGHT]*: 50 OIC countries, 32 developed countries and 85 non-OIC developing countries. World averages are not available for 2017.

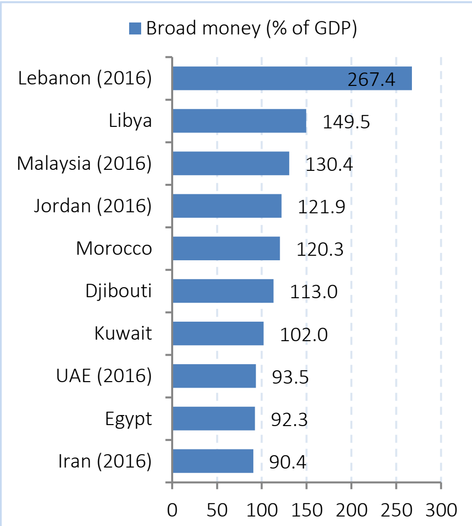
insurance and other financial institutions, and effective financial regulatory and supervisory regimes; many others lag behind in terms of their stages of financial development. This, in turn, offers a significant room for improvement of financial systems in OIC countries.

Taking into account the widely accepted view that the financial deepening confers important stability benefits to the economy, albeit with caveats, many OIC countries are apparently deprived of these stability benefits. Yet, there are some exceptions to this, such as Lebanon, Libya and Malaysia, where financial depth, as measured by the volume of broad money relative to GDP, is above the average world level. In Lebanon, for instance, the total size of broad money which includes, inter alia, all narrow money and deposits, was more than twice the size of the GDP (267.4%), as shown in Figure 3.13. In Jordan, Morocco, Djibouti and Kuwait the relative size of broad money to GDP also exceeded 100% threshold.

A report by IMF argues that financial deepening, through an increase in financial transaction volumes, can enhance the capacity of the financial system of a country to intermediate capital flows without large swings in asset prices and exchange rates (IMF, 2011). Deeper financial markets are argued to provide alternative sources of funding domestic financial market during times of international stress, limiting adverse spill-overs, as evidenced in the recent global financial crisis. Figure 3.14, in this regard, supports this argument for OIC countries by depicting the strength of relationship between broad money and availability of credit in 2017.

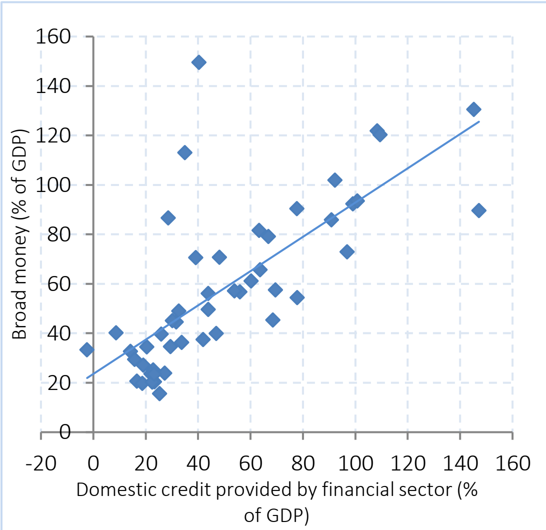
Yet, the evidence suggests that deeper financial markets can also attract volatile capital inflows, complicating macroeconomic management of the country's economy. Moreover, financial deepening can occur too quickly, leading to credit booms and subsequent busts. At the systemic

Figure 3.13: Financial Sector Development, Top OIC Countries (2017)



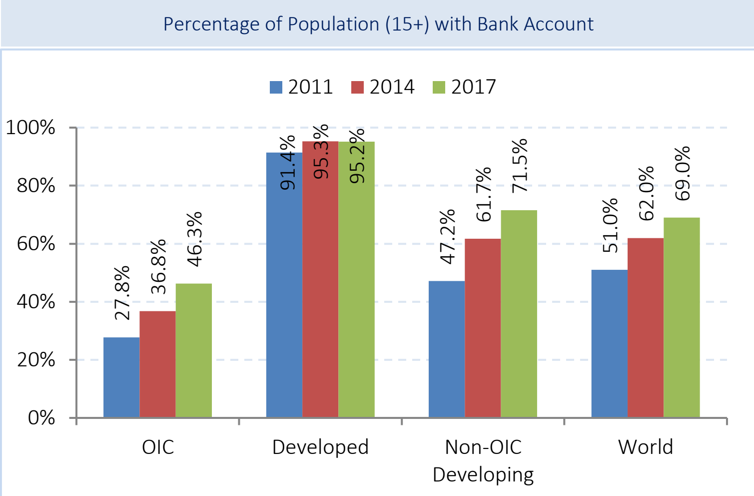
Source: World Bank WDI. *Data coverage:* Out of 49 OIC countries.

Figure 3.14: Liquidity versus domestic credit (2017)



Source: World Bank WDI. *Data coverage:* 49 OIC countries.

Figure 3.15: Access to Finance



Source: World Bank Global Findex Database 2018. *Data coverage*: 37 OIC countries, 32 developed countries and 56 non-OIC developing countries.

level, all these factors, if properly managed, can attenuate the need to accumulate foreign assets, and, at the global level, promote global adjustment (Maziad et al., 2011).

Finally, there is also a widening efforts to improve the access to finance in developing countries, including the OIC countries. A recent publication by the World Banks presents key findings from the Global Findex database, with detailed insight into how adults in more than 140 economies access accounts, make payments, save, borrow, and manage risk. According to this database, access to finance in OIC countries improves significantly over the years, which increased from 27.8% in 2011 to 46.3% in 2017. However, when compared with other country groups, they remain far behind the averages of those country groups (Figure 3.15).

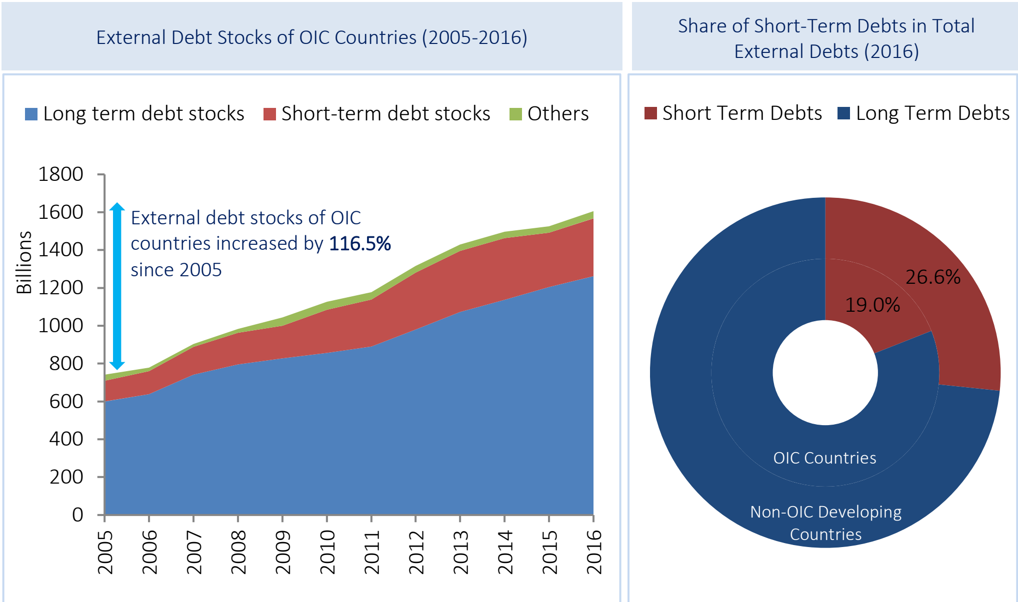
- **External Debt:** External debt stocks of OIC countries increased by 116.5% since 2005, while long terms debts accounting for more than 80% of total debts in 2016.

The total external debt stock of OIC countries showed an increasing trend during the period under consideration. In 2016, the total external debt of OIC countries grew by 5.3% compared to previous year and reached US$ 1.6 trillion. On the other hand, 21 OIC countries still continue to be classified as Heavily Indebted Poor Countries (HIPC) by the World Bank. In line with the increasing amount of debt in absolute terms, Figure 3.16 (left) illustrates that both the size of the total debts of OIC countries and its distribution over the years. External debt stocks of OIC countries increased by 116.5% since 2005.

In terms of maturity structure of the external debt, although the share of short-term debts remained low compared to non-OIC developing countries, but its share in OIC countries increased over time. As of 2016, short term debts accounted for 19% of total external debts of OIC countries, while 26.6% of total debts of non-OIC developing countries were short term debts (Figure 3.16, right).

At individual country level, Turkey remains the most indebted OIC member country in 2016 (Figure 3.17, left). The country held US$ 406 billion in debt, which made up around 25% of total

Figure 3.16: External Debt Stocks

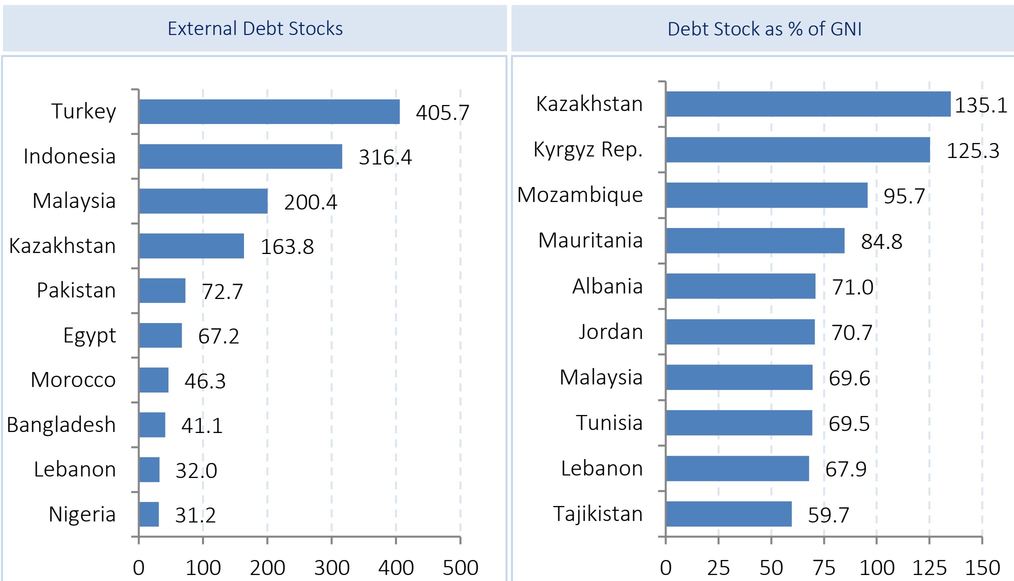


Source: World Bank WDI. *Data coverage: [LEFT]* 30 OIC countries; *[RIGHT]* 30 OIC countries, 50 non-OIC countries

external debt the OIC countries for which data are available. Turkey was followed by Indonesia, Malaysia, Kazakhstan and Pakistan.

However, given the size of a country's economic output, looking at the absolute size of debt stock might be misleading. Debt-to-GNI ratio, in that sense, is argued to give a more accurate view of

Figure 3.17: Top Indebted OIC Countries (2016)



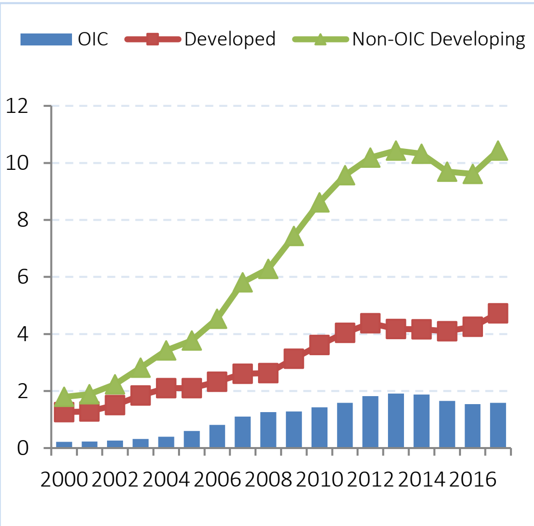
Source: World Bank WDI. *Data coverage:* 45 OIC countries.

a country's indebtedness, adjusting it for the size of gross national income. In terms of relative size of external debt to GNI, Kazakhstan, with a 135.1% debt-to-GNI, was the most indebted OIC country in 2016 (Figure 3.17, right). It was followed by Kyrgyz Republic, Albania, Jordan, and Mozambique, with debt-to-GNI ratios ranging between 125.3% and 71.0%.

- **Reserves:** After falling four consecutive years, total reserves of OIC countries increased in 2017.

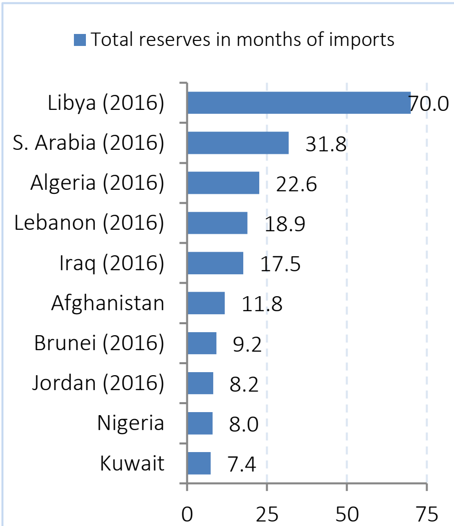
Reserves are usually considered as an important instrument to safeguard the economy against abrupt external shocks. World total monetary reserves – including gold – have been falling since 2013 from its value of US$ 12.3 trillion to US$ 11.2 trillion in 2016, but it increased to US$ 12.0 trillion in 2017. Of this amount, US$ 4.7 trillion are possessed by developed countries while the remaining US$ 6.9 trillion was owned by developing countries (Figure 3.18). Total reserves of OIC countries followed a similar trend with the world aggregate, which fell during the period between 2013 and 2016 from US$ 1.9 trillion to US$ 1.5 trillion. However, it increased to US$ 1.6 trillion in 2017. The share of OIC countries in global reserves further declined from 13.8% in 2016 to 13.2% in 2017. As of 2017, developing countries possessed 60.7% of the world total reserves. Growing share of developing countries in global reserves can largely be explained by the increasing trade flows from, and the resulting trade surpluses of, some emerging economies such as China, other newly industrialized countries in Asia, as well as oil exporting countries in the Middle East. Financial reform efforts in some developing countries (mainly, those with chronic current account deficits) to improve their reserves position also played a role. Capital account liberalization in some developing countries has apparently brought about the need for

Figure 3.18: Reserves including Gold (US$ Trillion)



Source: World Bank WDI. Data coverage: 40 OIC countries, 34 developed countries and 89 non-OIC developing countries.

Figure 3.19: Top 10 OIC Countries by Total Reserves in Months of Imports (2017)



Source: World Bank WDI. Data coverage: 38 OIC countries.

accumulating reserves as an insurance against financial volatilities including sudden stops/reversals of capital influx.

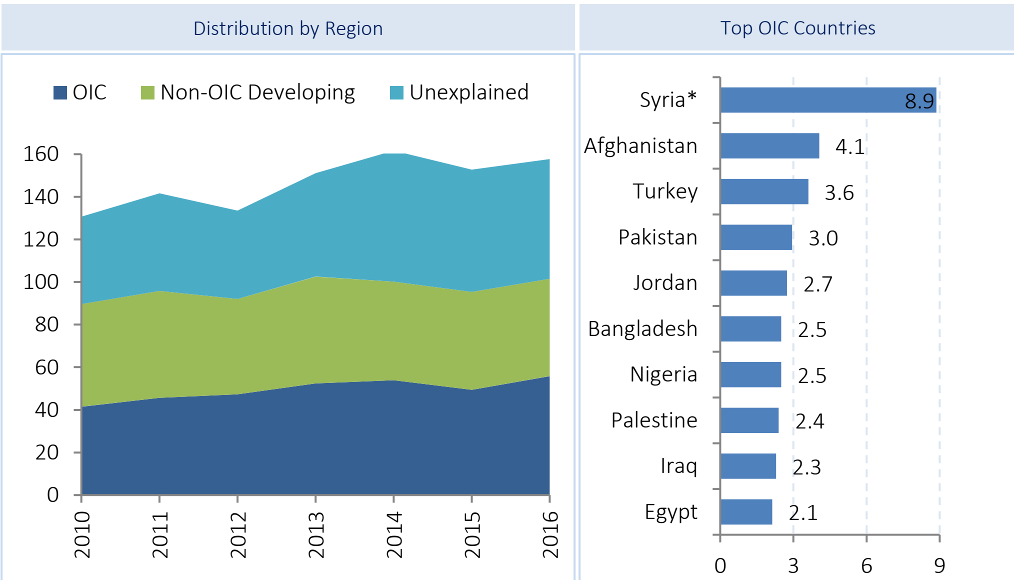
Figure 3.19 displays the top 10 OIC countries by volume of reserves in months of imports during the period 2016-2017. Libya, with reserves equivalent to 70 months of imports, topped the list, whereas Saudi Arabia followed it with reserves equivalent to 31.8 months of imports. Together with Algeria, Lebanon and Iraq, only in five OIC member countries, the reserves were equivalent to more than 12 months of their imports.

- **ODA and Remittances:** Both the official development assistance and personal remittance flows to OIC countries increased over the last year.

Official development assistance (ODA) continues to be an important source of financing for many developing countries, including OIC countries. In 2016, net global ODA flows reached US$ 157.7 billion compared to US$ 133.5 billion in 2012 (Figure 3.20, left). However, statistics do not show where all these money flowed, as data shows that individual countries account for 65% of global ODA flows. Accordingly, 35% of ODA flows remain unexplained. Out of US$ 101.6 billion ODA flows, for which individual country data exists, 54.9% flowed to OIC countries in 2016. This is also the highest share observed since 2010.

ODA inflows to OIC countries show similar characteristics, when their concentration level is concerned. In 2016, the top 5 countries received 39.9% of total ODA flows to OIC region whereas the top 10 received 61.0% of them (Figure 3.20, right). Syria, with total inflows of US$ 8.9 billion

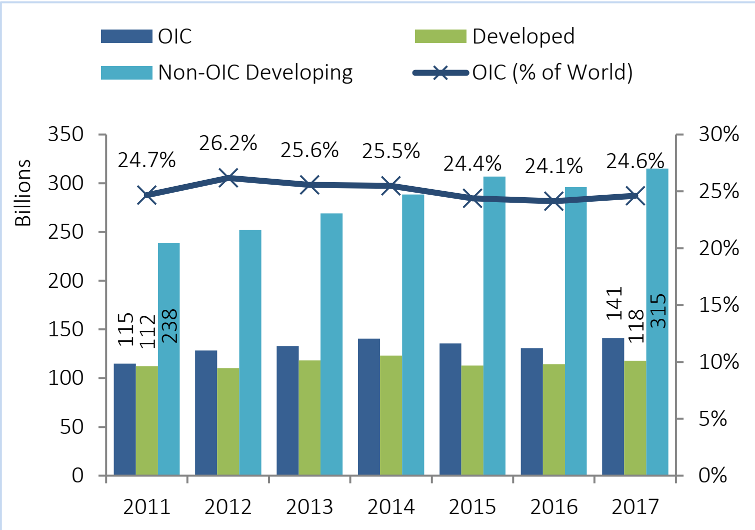
Figure 3.20: Official Development Assistance, Received, US$ Billion



Source: World Bank WDI. Data coverage: 50 OIC countries and 89 non-OIC developing countries. Note: Around 35% of global statistics are not reported at country level. (*) Membership to OIC is currently suspended.

and 15.9% of OIC total, ranked first. It was followed by Afghanistan (US$ 4.1 billion, 7.3%), Turkey (US$ 3.6 billion, 6.5%), Pakistan (US$ 3.0 billion, 5.3%) and Jordan (US$ 2.7 billion, 4.9%).

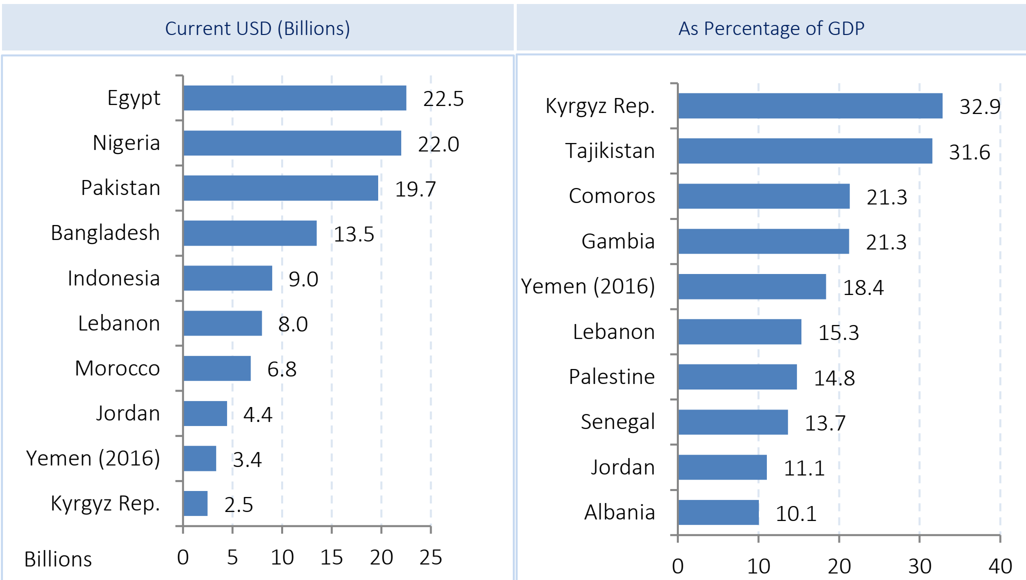
Figure 3.21: Personal Remittances, US$ Billion



Source: World Bank WDI. Data coverage: 51 OIC countries, 35 developed countries and 93 non-OIC developing countries.

Figure 3.21, on the other hand, shows that the inflows of personal remittances to OIC member countries increased from US$ 115 billion in 2011 to US$ 141 billion in 2017. Share of OIC countries in world total remittance flows have fallen during the period 2012-2016 from 26.2% to 24.1%, but it slightly increased to 24.6% in 2017. Remittance flows to non-OIC developing countries continued to improve since 2011 and increased from US$ 238 billion in 2011 to US$ 315 billion in 2017.

Figure 3.22: Personal Remittances (2017), Received, US$ Billion



Source: World Bank WDI. Data coverage: 50 OIC countries.

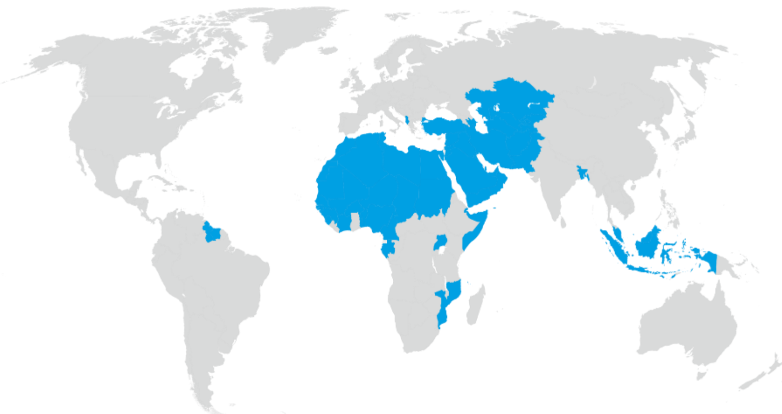
At the individual country level, it is observed that even a more significant portion of inward remittance flows to OIC countries concentrate on a few members during 2016-2017. In the list of top remittance receivers in the OIC region, Egypt took the first place with US$ 22.5 billion of remittances inflows (Figure 3.22, left). It was followed by Nigeria (US$ 22.0 billion), Pakistan (US$ 19.7 billion), Bangladesh (US$ 13.5 billion) and Indonesia (US$ 9.0 billion). These five countries collectively accounted for 61% of total remittance inflows to OIC countries, while top ten countries accounted for 79% of total inflows.

In order to assess the relative importance of remittance flows at individual country level, the share of remittance inflows in total GDP would be a good indicator. As shown in Figure 3.22 (right), personal remittance flows reached 32.9% of total GDP of Kyrgyz Republic in 2017, followed by Tajikistan (31.6%), Comoros (21.3%), Gambia (21.3%) and Yemen (18.4%).

PART III: CHALLENGES AND OPPORTUNITIES TOWARDS ACHIEVING OIC-2025

CHAPTER FOUR

Efforts towards Strengthening Intra-OIC Cooperation and the Importance of the OIC-2025



OIC countries constitute a substantial part of the developing world and reflect high levels of heterogeneity and divergence in terms of socio-economic development. This heterogeneity in development profiles could also be seen in their performance in various socio-economic indicators. On the other hand, such heterogeneity and divergence offer a window of opportunity to enhance and deepen cooperation among them as each member country has certain best practices, success stories and strengths in different areas.

Since the establishment of the OIC, it is aimed to improve intra-OIC cooperation in economic areas such as trade, investment, tourism and enhance solidarity among OIC countries. In order to achieve these objectives, the OIC has taken concrete steps by organizing regular sectoral level ministerial meetings in various areas to exchange views and review progress recorded. Apart from sectoral level ministerial meetings, in line with the adopted resolutions, expert-level meetings, workshops and seminars have been organized in various topics from poverty eradication to trade facilitation to address specific technical issues and improve capacities of OIC countries. In order to achieve these objectives as well as to facilitate the implementation of various resolutions and recommendations adopted at the OIC level foras, a number of subsidiary specialized and affiliated institutions were established and mandated with specific tasks from development of trade to financing infrastructure.

Against this background, this chapter first provides an overview of the OIC Ten Year Programme of Action (2005-2015) and then focuses on the OIC 2025. The chapter looks at the link between OIC 2025 and SDGs, and elaborates on the importance of the OIC 2025 for achieving economic development in OIC countries. The final section presents the concluding remarks.

4.1 Ten Year Programme of Action (TYPOA)

The global developments such as the adoption of Millennium Development Goals (MDGs) and growing socio-economic challenges from poverty to communicable diseases faced by millions of people living in OIC countries inspired the OIC community to think of preparation of a strategic vision and action plan. In this regard, it was decided at the OIC level to embark on a process to come up with comprehensive action plan with a time line to set goals for OIC countries in achieving sustainable development in broad terms.

The underlying vision of the TYPOA has been to make the OIC more reflective of the realities of the 21st century and to reform and expand its activities and programme, to become more relevant to the challenges facing the Member States. The essential prerequisites for translating any vision into reality, inter alia, include (i) mobilization of necessary political will (ii) allocation of requisite financial resources (iii) elaboration of a clear roadmap and (iv) implementation mechanism with clearly defined responsibilities for various stakeholders.

In 2005, during the third Extraordinary Session of the Islamic Summit Conference (Makkah Al Mukarramah), this forward-looking strategic vision document was adopted with a view to addressing the diverse challenges facing the Ummah in the 21st Century. The TYPOA was an unprecedented and historic initiative, which witnessed the flowering of a genuine partnership touching on almost all areas including in the intellectual, cultural, political, economic, social and developmental fields. The Ten Year Programme of Action (2005-2015) was the first systematic attempt to elaborate and pursue a multi-dimensional agenda of this nature at the OIC platform.

While its preparation and implementation process was regarded as less than perfect, yet it had contributed significantly in promoting Joint Islamic Action in various domains. Some of the programs and activities initiated under the framework of TYPOA in the field of higher education, mother and child health, food security, disaster relief, human rights, and trade promotion enhanced OIC's visibility and outreach in its member countries and beyond.

On the economic front, the TYPOA called upon OIC countries to take measures with a view to strengthening economic cooperation among OIC countries through signing and ratifying all existing OIC trade and economic agreements, following up and implementing resolutions adopted during COMCEC sessions, and supporting relevant OIC institutions active in the domain of economic affairs including the Islamic Development Bank. Some progress has been recorded in this direction between 2005 and 2015, where intra-OIC trade, tourism, investment figures improved.

Overall, the period 2005-2015 marked a crucial phase in the history of the OIC for various reasons. In particular, the period saw the consolidation of various initiatives conceived over the years and their integration into the comprehensive TYPOA framework on the economic front. Moreover, the Organization's scope of work expanded from the predominantly political domain, to include many new areas of immediate concern such as education, socio-economic empowerment, good governance, and food security.

4.2 OIC-2025

OIC countries had recorded significant progress on improving the living standards and implementing the MDGs (1990-2015) as well as OIC TYPO (2005-2015) over the past quarter of a century. However, despite having improvements, the progress remained highly uneven within and between OIC countries.

As the TYPOA concluded its term in 2015, the OIC is poised to embark on the next phase 2016-2025 with a renewed commitment to working together for a better tomorrow. The experience gained in the context of the TYPOA (2005-2015) revealed the importance of having a strategic document that can provide guidance and serve as a benchmark for a certain period. With the involvement of relevant OIC institutions and member countries, the new roadmap document (the OIC 2025) was developed by taking lessons learned during the implementation of the TYPOA and emerging regional and international trends into consideration.

The goals and targets for the OIC-2025 focus on areas, which could not be achieved fully during the last decade, and address issues emerging out of political and economic developments in the world. The Resolution 1/41-TYPOA adopted by the 41st session of the Council of Foreign Ministers (Jeddah, 18-19 June, 2014) set out the contours of the OIC-2025. It recognized the need for the new programme to identify priority sectors for cooperation as well as specific goals and actions with key performance indicators and an implementation and monitoring mechanism.

The development of the OIC-2025 passed through a series of intense rounds of negotiations at intergovernmental experts level as well as informal consultations to ensure professional propriety of the entire process. A detailed review of the strengths and weaknesses of OIC countries and discussion on the rationale for selection of the priority areas contributed to a well-informed and realistic goal setting in the OIC 2025.

The OIC-2025 is anchored in the provisions of the OIC Charter and focuses on 18 priority areas with 107 goals. It also keeps in full view issues on which the work is in progress and those emerging out of political and economic developments in the world. The priority areas include, (1) Palestine and Al-Quds, (2) Counter-Terrorism, Extremism, Violent Extremism, Radicalization, Sectarianism, and Islamophobia, (3) Moderation, Cultural and Inter-faith Harmony, (4) Peace and Security, (5) Environment, Climate Change and Sustainability, (6) Poverty Alleviation, (7) Trade, Investment and Finance, (8) Agriculture and Food Security, (9) Employment, Infrastructure and Industrialization, (10) Science, Technology and Innovation, (11) Education, (12) Health, (13) Advancement and Empowerment of Women, Family Welfare and Social Security, (14) Joint Islamic Humanitarian Action, (15) Human Rights, Good Governance and Accountability, (16) Media and Public Diplomacy, (17) ICT and Digital Information Structure, and (18) OIC Institutional Reforms.

The OIC-2025 is a comprehensive agenda for cooperation and partnership. The Joint Islamic Action remains an essential element of the OIC's framework of cooperation and development. Its strategic vision recognizes the centrality of cooperation and partnership at all levels involving all stakeholders. It stresses the importance of political ownership and mainstreaming of OIC projects by Member States in their national priorities for effective implementation of the Programme.

Its adoption by the OIC leaders at the 13th Session of the Islamic Summit Conference (Istanbul, 14-15 April 2016) signifies the commitment at the highest political level to working together for a shared future. The OIC-2025 also acknowledges the need to fully utilize the existing programmes and frameworks for cooperation in various domains and declares that it will be implemented in harmony with the existing multilateral agreements/strategies/ and MOUs between the Member States and the OIC institutions including those of the OIC Standing Committees and other framework documents between the Member States.

Following its adoption by the 13th Islamic Summit (Istanbul, 14-15 April 2016), the OIC-2025 has entered the phase of implementation. The Implementation Plan of the OIC 2025 elaborates on 107 goals identified under 18 priority areas into programmes and activities while clearly determining implementing partners and suggested timelines.

4.2.1 OIC 2025 and SDGs

The 2030 Agenda for Sustainable Development or so-called SDGs build directly on the MDGs which are regarded as the first ever targets established by the world collectively to improve the living standards in the developing world by targeting the eradication of poverty and achieving sustainable development. In contrast to the MDGs, the SDGs are more ambitious in scope and universal in coverage. There are multiple interrelations between these goals underlining the broad scope for horizontal and vertical policy interventions across several areas.

The transition from MDGs to SDGs is a complex matter for all countries. In this regard, OIC countries need to build on the lessons learned from their experience in implementing the MDGs and OIC TYPOA to address the new demands and opportunities offered by the SDGs. Furthermore, the adoption of the OIC-2025 Programme of Action provides a strategic vision for the intra-OIC cooperation and joint Islamic action on specific priorities addressing 18 sectors encompassing a wide range of social, economic, environmental and security issues can also spearhead and complement efforts towards realization of SDGs in the Islamic world. In other words, there is complementarity between the OIC 2025 and SDGs.

The OIC-2025 recognizes the significance of the SDGs and shares the promise that it holds for all people. The UN-2030 Agenda aims at balancing the three dimensions of sustainable development. The scope of OIC-2025, however, goes beyond the three dimensions of sustainable development and includes many specific areas of peace and security, issues of cultural and inter-faith harmony, Islamophobia, combating extremism and terrorism and alike. The areas being pursued in the OIC-2025 and the SDGs are reflective of the shared perceptions of the OIC and UN on various key issues.

The number of member countries makes OIC the second largest intergovernmental organisation after the United Nations. In this regard, efforts towards implementation of the OIC-2025 can play an important role in promoting global partnership and intensive global engagement for the success of both the OIC 2025 and SDGs.

The implementation of the TYPO (2005-2015) has led to significant development progress related especially with policy coherence and technical cooperation across OIC countries. It also contributed to achieve some targets of MDGs in certain OIC countries. However, challenges on economic growth, pressure on financial resources, weak institutional capacity, and fragile peace and security situation remain as challenges for OIC countries and constitute barriers in achieving several goals and targets stated both in the OIC 2025 and in SDGs, especially on the economic front. In this regard, addressing such challenges would allow OIC countries to reap economic benefits in achieving goals and targets stated in both programmes.

4.2.2 Importance of the OIC-2025 for Achieving Economic Development in OIC Countries

OIC countries altogether have recorded a significant progress since the 1980 in terms of economic development. Since the beginning, the OIC agenda includes many areas of immediate concern relating to human development, quality of life and well-being of the people. The OIC vision puts the people first and aims to develop human capital and achieve inclusive growth. The 18 priority areas identified in the OIC 2025 can be grouped under five broad clusters: (1) Sustainable Economic Development, (2) Science, Technology and Innovation, (3) Human Rights and Good Governance, (4) Peace and Security, (5) Culture, Dialogue, Family and Social Security, Humanitarian Action. In fact, these clusters highlight the spirit of the development paradigm being pursued in the OIC 2025.

On the economic front, the OIC 2025 has identified the following priority areas: (i) poverty alleviation; (ii) trade, investment and finance; (iii) employment, infrastructure and industrialization; and (iv) agriculture and food security. These four priority areas are directly linked with the sustainable economic development and list 43 goals in total. Nevertheless, there are some other priority areas namely environment, climate change, and sustainability; education; science, technology and innovation that are indirectly linked with the sustainable economic development of OIC countries. Therefore, the OIC 2025 covers almost all dimensions of sustainable economic development and sets specific goals for OIC countries. In this context, the OIC 2025 provides a concrete roadmap for OIC countries to monitor and track their level of development in the economic front, presents ways and means to enhance intra-OIC cooperation in all economic areas from trade to tourism.

This report will review the targets set by the OIC-2025 that are directly related to economic cooperation areas as well as some other targets that are linked to achieving economic development in OIC countries.

4.3 What's Next

By exerting efforts towards achieving goals stated in the OIC 2025, OIC countries can achieve sustainable development and strengthen their economies. In this context, identified priority areas and specific goals provide a concrete roadmap for policy-makers in OIC countries on how to improve socio-economic well-being of people. Given the dynamic population, rich natural resources, and abundant human capital, OIC countries need to implement well-articulated national level policies to achieve goals stated in the OIC 2025.

Intra-OIC initiatives could play a catalyst role, as the intra-OIC cooperation has a potential to enhance development in several ways. The efforts of a number of OIC institutions could provide some guidance and assistance to OIC countries in achieving the objectives stated in the OIC 2025. For instance, promotion of women's SMEs is one of the goals of the OIC 2025 (Goal#2.9.19) as enhancing women entrepreneurship is an effective way to empower women and could generate certain economic benefits both for women and economies of OIC countries.

In this regard, the Islamic Development Bank (IsDB) could develop and utilize special programs targeting women entrepreneurs and SMEs led by women in OIC countries such as Islamic Microfinance programs. In a similar vein, the programs of the Islamic Chamber of Commerce, Industry, and Agriculture (ICCIA) could be utilized to cater to the needs of women entrepreneurs as ICCIA has various programs for gender development, promotion and development of Small and Medium Enterprises, utilization of microfinance, developing entrepreneurship through IT. The Islamic Center for the Development of Trade (ICDT) could develop dedicated fairs and exhibitions to showcase products of women-led SMEs in different parts of the OIC region or allocate certain quotas for such SMEs in its planned fairs and exhibitions. OIC countries could also benefit from the Standing Committee for Economic and Commercial Cooperation of the Organisation of Islamic Cooperation (COMCEC) project funding mechanism to develop capacities of their national public institutions that are active in SME support and programming. It is also possible for OIC countries to benefit from training and capacity building programmes of the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC) that could be designed and implemented to upgrade institutional capacities and national skills base for policy makers working in this field.

In conclusion, during the implementation of the OIC 2025, it is essential to establish and strengthen cooperation between OIC countries and relevant OIC institutions. It is also vital to fully activate intra-OIC cooperation by promoting exchange of best-practices, lessons learned and success stories among OIC countries. In this regard, existing OIC mechanisms such as the COMCEC and relevant OIC foras (e.g. expert-group meetings, workshops etc.) altogether constitute a strong platform where OIC countries could benefit in achieving sustainable economic development.

Chapter Five

OIC-2025: Poverty Alleviation

Poverty is a multi-dimensional phenomenon and the result of a complex socio-economic and political structure of a particular country often with both internal and external causality connections. It is strongly related with hunger, malnutrition, diseases, illiteracy, and low quality of life across the developing world. Hence, there is a need for formulating a comprehensive multi-dimensional approach, including the targeted government policies and actions, and contribution of other financial means.

The OIC-2025 development agenda envisages realizing five goals in the domain of poverty alleviation:

Goals 2.6.1 - 2.6.5:

[2.6.1] Implement nationally appropriate social protection systems and measures for all and by 2025 achieve substantial coverage of the poor and the vulnerable.

[2.6.2] Decrease by two-thirds the prevalence of extreme poverty in the Member States, currently measured as people living on less than US$1.25 a day.

[2.6.3] Reduce at least by one-third the proportion of population of all ages living in poverty in all its dimensions.

[2.6.4] Promote equitable share to economic resources for men and women, particularly the poor and the vulnerable, as well as access to basic services, ownership, and control over land and other forms of property, inheritance, natural resources, appropriate new technology, and financial services including microfinance.

[2.6.5] Create sound policy frameworks, at national, regional and international levels, based on pro-poor and gender-sensitive development strategies to support accelerated investments in poverty eradication actions.

Rationale

High incidence of poverty is one of the most critical challenges facing the world. Over years, many initiatives have been taken at both national and international levels to eradicate poverty. However, despite some progress, the number of poor and destitute people is still on rise across the developing world. Considering the fact that the majority of the OIC member countries are located in these regions and constitute a substantial part of the developing countries, it is quite evident that a significant portion of those poor and destitute people resides in these countries, particularly in the Least-developed and low-income members.

Like elsewhere, poverty in OIC member countries is a multi-dimensional phenomena and a result of a complex socio-economic and political structure of a particular country. It is associated with poor economies, poor human resources, poor social services provision, and poor policies to tackle the challenges facing human and socio-economic development. Therefore, the status, the determinants, and the policy measures required to eradicate poverty would, by definition, vary from one country to another.

If these countries are to reduce poverty, as directed by the OIC-2025, they need to learn more about their poor (who the poor are; where they live; what assets they command; what their education, health and housing conditions are) to make necessary interventions. It is not possible to imagine sustainable socio-economic development in these countries without a significant rise in the standard of living of the neediest segments of the population in terms of consumption, health, housing, and education. Investing in people must, therefore, be the highest priority for these countries as long as human capital limitations restrain growth or keep people in absolute poverty.

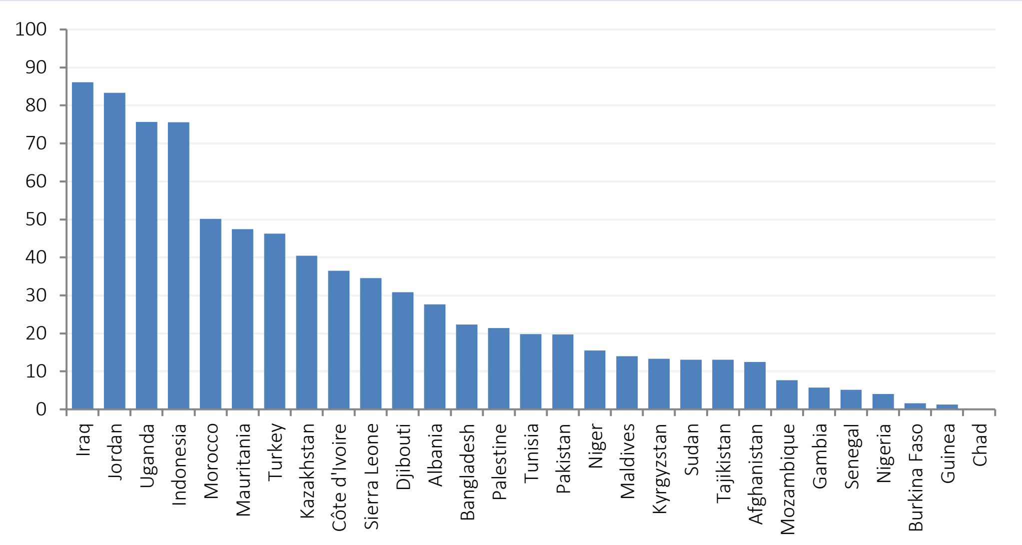
Current State and Progress towards Realization of the Goals

Social Protection Systems for Poor (Goal: 2.6.1)

First goal under this category advocates implementation of nationally appropriate social protection systems and measures for all with substantial coverage of the poor and the vulnerable by the end of 2025. Social protection refers to policies, programmes and schemes, which are designed and implemented with the aim of enhancing the capacities of the poor and vulnerable groups in the society to help them lift out of poverty and better manage risks and shocks. It supports human capital development, expanding the capabilities of poor and vulnerable individuals and helping to break the inter-generational transmission of poverty.

According to the latest available estimates for the 29 OIC member countries, implementation and coverage of social protection systems varies greatly across the member countries. As shown in Figure 5.1, social assistance program coverage for the poorest segments of the society in OIC members ranges from 0.09% to 86%. During the period 2010-2015, more than one third of poor were covered by social assistance programs in twelve OIC member countries. Among these

Figure 5.1: Poorest Quintile Covered by Social Assistance Programs (%), 2010-2015*



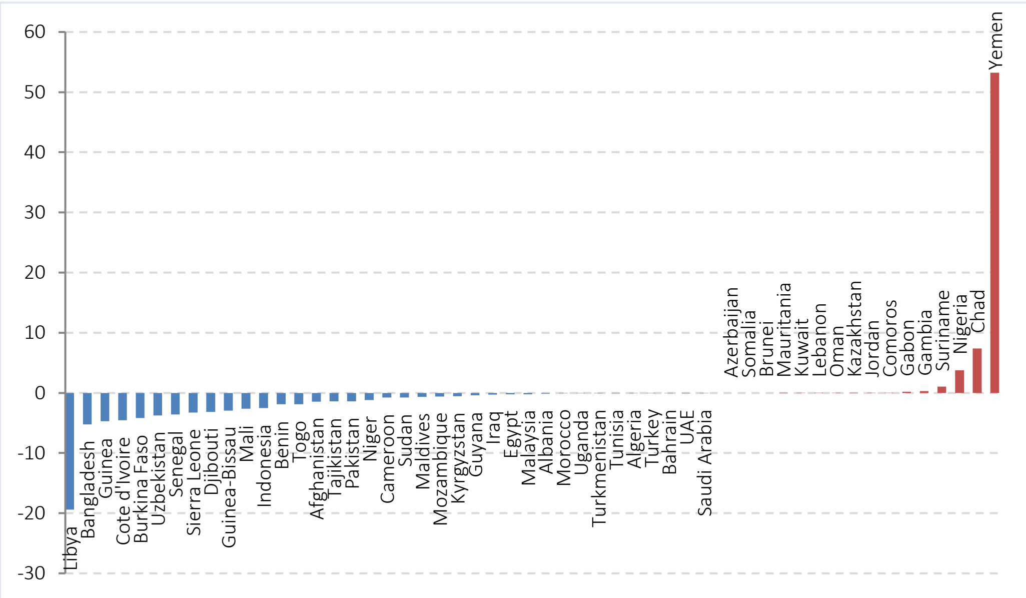
Source: World Bank, WDI.* latest year available countries Iraq recorded the highest coverage rate of 86% followed by Jordan (83.3%), Uganda (75.7%) and Indonesia (75.6%). On the other hand, coverage was below 15% in 12 OIC members. Notably, Chad recorded the lowest coverage rate (0.09%) followed by Guinea (1.3%), and Burkina Faso (1.6%).

Prevalence of Extreme Poverty (Goal 2.6.2)

The OIC-2025 plan of action stipulates targets for 2025 to decrease by two-thirds the prevalence of extreme poverty in the member countries, currently measured as people living on less than US$1.25 a day. During the period 2015-2017, 37 out 54 OIC member countries with data have recorded decrease in the share of people living in extreme poverty (Figure 5.2). Among these countries, Libya reduced the prevalence of extreme poverty by 19.4 percentage points (pp) followed by Bangladesh (5.2 pp), Guinea (4.7 pp), Cote d'Ivoire (4.6 pp) and Burkina Faso (4.2 pp).

On the opposite side of the scale, 16 OIC member countries reported an increase in prevalence of extreme poverty. Notably, Yemen recorded the highest increase of 53.2 percentage points followed by Chad (7.4 pp), Nigeria (3.7 pp) and Suriname (1.0 pp). The increase in prevalence of extreme poverty remained negligible in 12 members where difference between 2015 and 2017 rates remained below 0.5 percentage points. In general, prevalence of extreme poverty in 2017 remained well below the mark of five percent in 25 member countries, including 18 member countries with less than one percent population below the international poverty line. On the other hand, this ratio was above 33% mark in 13 member countries, 11 of them located in the Sub-Saharan Africa region.

Figure 5.2: Change in Incidence of Extreme Poverty, 2015 vs 2017



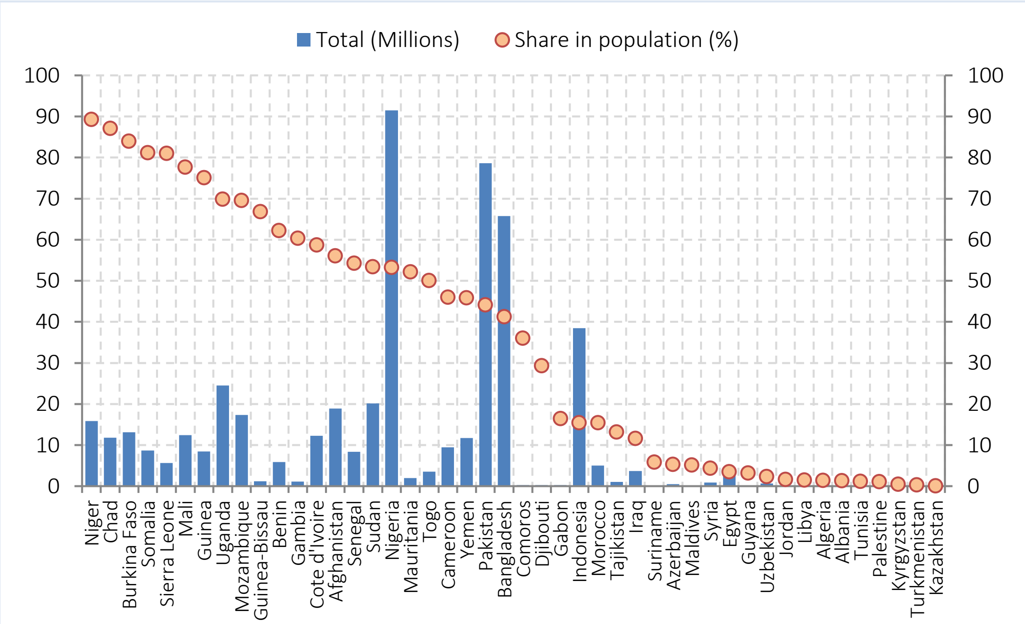
Source: SDSN (2018), SDG Index and Dashboards Report 2018, The Sustainable Development Solutions Network

Multidimensional Poverty (Goal: 2.6.3)

The OIC-2025 goal on eradication of poverty in its entire dimensions targets to attain reduction of at least one-third by the end of 2025. Undoubtedly, poverty is a complicated phenomenon that goes beyond the monetary terms. It arises not only when people have inadequate income, but also when they lack key capabilities or education, have poor health or insecurity, or when they experience the absence of rights. Multidimensional Poverty Index (MPI) developed by Oxford Poverty and Human Development Initiative (OPHI) and United Nations Development Programme (UNDP) seeks to capture these wider deprivations.

According to the MPI for 2017, over 500 million people in 48 OIC members with data are multidimensional poor, corresponding to 35.3% of their total population. Multidimensional poverty in OIC countries is highly concentrated in lower middle and low income countries, mostly located in Sub-Saharan Africa and South Asia regions. At the individual country level, more than one-thirds of population is multidimensional poor in 24 member countries, 20 of them from SSA (Figure 5.3). Among these countries, Niger reported the highest prevalence of multidimensional poverty with a staggering share of 89% followed by Chad (87%), Burkina Faso (84%), Somalia (81%) and Sierra Leone (81%). On the opposite side of the spectrum, the incidence of multidimensional poverty was recorded below the 6% of total population in 16 member countries. Among these countries, this ratio was even below 2% mark in 9 countries. The majority of member countries with lowest incidence of multidimensional poverty are from the Europe and Central Asia (6) and Middle East and North Africa (7) region. Notably, Kazakhstan reported the lowest prevalence of multidimensional poverty (0.07%), followed Kyrgyzstan (0.33%) and

Figure 5.3: Multidimensional Poverty, 2017



Source: SESRIC staff calculations based on OPHI, 2017

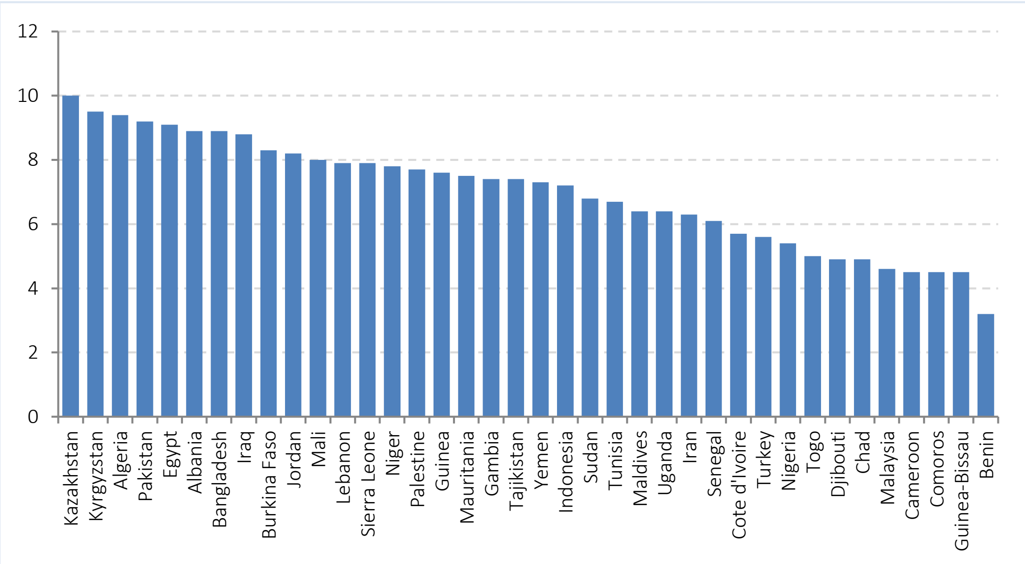
Turkmenistan (0.5%). In terms of absolute numbers, the most populous OIC members are home for the largest number of multidimensional poor population, namely: Nigeria, Pakistan, Bangladesh and Indonesia.

Distribution of Income and Asset Ownership (Gola: 2.6.4)

Under this theme, among others, Goal 2.6.4 aims to promote equitable share to economic resources and asset ownership for the poor and the vulnerable. According to the latest statistics, the share of income held by the poorest households in OIC members ranges from 3.2% in Benin to 10% in Kazakhstan. As shown in Figure 5.4, share of income held by the poorest households was 8% or above in 13 out of 38 members with data during 2010-2015. On the other hand in 18 OIC countries among the 31 OIC countries for which data are available. In general, economic resources are more inequitably distributed in those OIC countries which are usually plagued by high incidence of poverty.

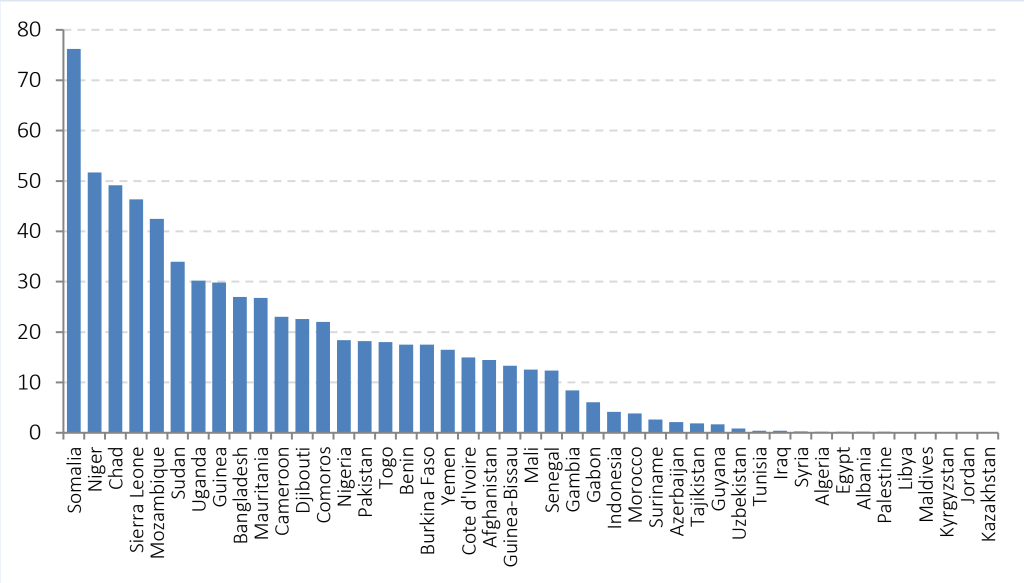
Asset ownership is considered as an important mean for the poor people to move out of poverty. As it helps them to have a better social status and also make more appropriate choices regarding their decision to access critical services like education and health. This in turn helps the poor to climb out of poverty. Nevertheless, like elsewhere, asset ownership among poor segments of society remained very low across the OIC member countries. According to the latest estimates, more than one-fifth of multidimensional poor are deprived of asset ownership in 13 high burden countries (Figure 5.5). Among these countries, Somalia is ranked at the top with a staggering 76.2% of poor deprived of asset ownership followed by Niger (51.7%), Chad (49.1%) and Sierra Leone (46.3%). On the positive side of the scale, less than 5% of multidimensional poor are actually deprived of asset ownership in 19 OIC countries. In fact, this ratio is even below one percent mark in 13 of these members.

Figure 5.4: Income Share Held by Lowest 20%, 2010-2015*



Source: World Bank, WDI.* latest year available

Figure 5.5: Multidimensional Poor Deprived of Asset Ownership (%), 2017



Source: OPHI, 2017.

Issues and Challenges in Achieving the Goals

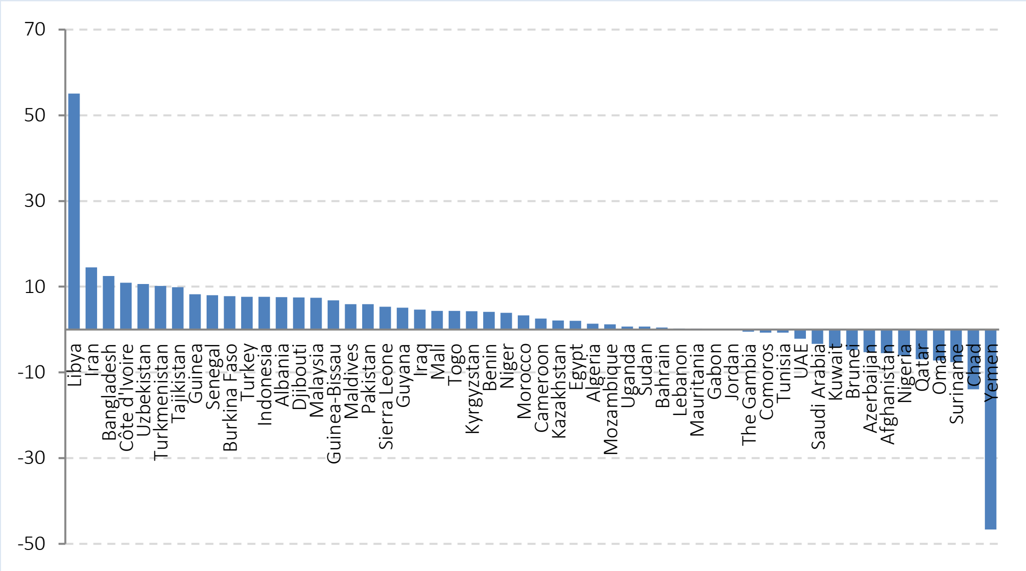
As an unacceptable deprivation in human well-being, poverty can emerge as a result of uncontrolled or mismanaged demographic, economic, environmental, social as well as political factors. This section attempts to highlight some of these factors and how they can lead to poverty and deprivation, with particular focus on OIC member countries

Economic Growth and Unemployment

In general, OIC member countries are well-endowed with potential economic resources such as agriculture and arable land, energy and mining, human resources, and they form a large strategic trade region. Yet, this inherent potential does not manifest itself in the form of reasonable levels of economic and human development in many OIC member countries and in the OIC member countries as a group. Among the OIC member countries, widespread disparities exist in terms of economic activity and growth. In 2017, GDP per capita in Niger was 107 times lower than the Qatar. In general, GDP per capita in low and lower middle income countries remained significantly lower than the others with a moderate growth rate over the years (Figure 5.6). In fact, some OIC member countries with highest incidence of poverty are ranked among the member countries with lowest GDP per capita in 2017. Among these countries Yemen recorded an overall negative GDP per capita growth rate of 45%, Guinea (11.3%), and Nigeria (3.1%).

According to the latest available data, total unemployment rate in OIC member countries was recorded at 6.7% in 2017 (see Section 2). In the same year, unemployment rate remained 10% or above in 17 member countries. Among these countries, Palestine recorded the highest unemployment rate (27.4%) followed by Mozambique (25%), Gabon (20%) and Libya (19%). On the other hand, unemployment rate remained below 5% in 21 OIC members. These member countries

Figure 5.6: GDP per Capita Growth 2015-2017



Source: IMF, World economic Outlook Database, April 2018

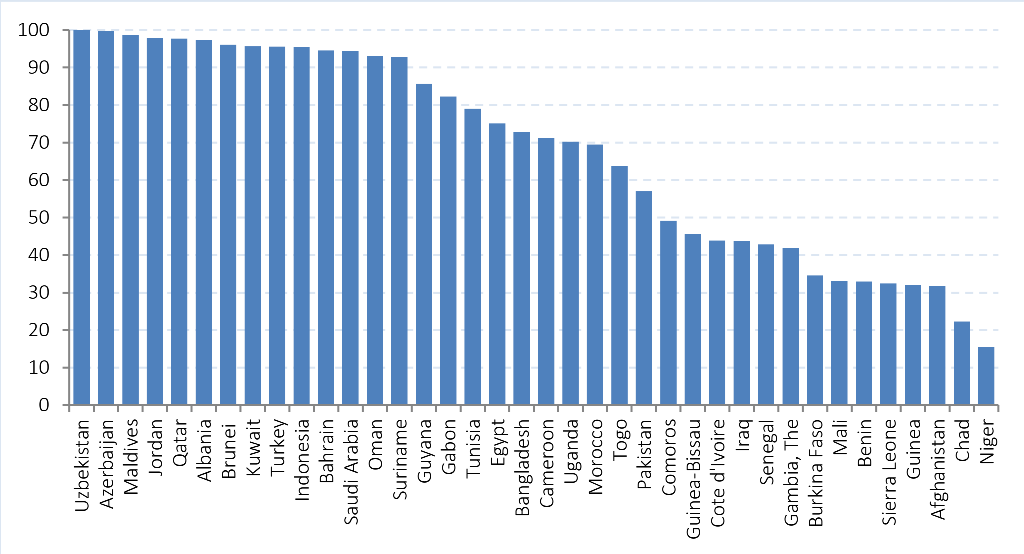
include Qatar, Niger, Bahrain and United Arab Emirates. Although, many OIC countries with high prevalence of poverty recorded lower unemployment rate, it should be bear in mind that a significant portion of employed population in these countries is engaged in farming related low income activities. Furthermore, the incidence of vulnerable employment is also very high especially in member countries located in Sub-Saharan Africa region, where majority of OIC poor are living.

Education and Health

Literacy rate is one of the major indicators of development. In less-developed countries literacy rates are low. Overall, literacy rate is a factor that can be used to assess the roots of the poverty in societies. A lower literacy rate implies a society with less-skilled labour force that leads to less productive labour. Therefore, such societies can generate an output level below their potential and experience a higher incidence of poverty and/or lower levels of per capita income.

The adult literacy rates in OIC member countries are not impressive. With an average adult literacy rate of around 70% in 2010-2016, OIC member countries as a group lagged well behind the global average. There is also a large disparity in terms of literacy rates across the OIC member countries. In general, member countries with high incidence of poverty are also characterised with low literacy rate (Figure 5.7). The member countries with the lowest adult literacy rates are found in the Sub-Saharan Africa such as Niger (15.5%), Chad (22.3%), and Guinea (32.0%) whereas the member countries with the highest adult literacy rates are situated in the Central Asia like Uzbekistan (100%), Azerbaijan (99.8%), and Albania (97.2%). In OIC member countries, lack of education and therefore required skills make it especially difficult for youth in finding jobs in the labour market. In addition to its impact on economic development and productive capacity, long-term unemployment among the young people may trigger some major social problems within the affected communities.

Figure 5.7: Literacy Rate (% of people ages 15 and above), 2010-2016*



Source: World Bank, WDI.* latest year available

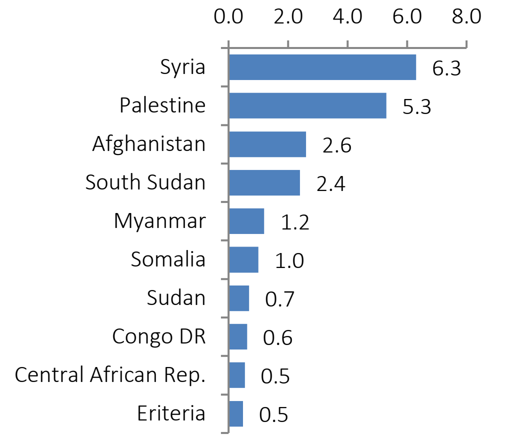
It is widely recognized that poverty is an important social determinant of health as it restricts strongly the access to some basic human needs like food, clean water, improved sanitation, housing and health care services and hence increases the risk of illness and mortality. Whereas, poor health situation in turn traps people in poverty by deteriorating the economic and social conditions in which they are living. It depreciates the quality of human resources and hence reduces the economic growth and limits the availability of financial resources at both individual and government level for investment in health. Therefore, it is right to say that efforts to improve health are essential in order to win the fight against poverty across the developing world.

Access to basic health services varies greatly across the OIC member countries. Childhood immunization is one of the most basic indicators to assess the performance of health systems and accessibility of healthcare to general public. According to the latest estimates, more than a quarter of children are missed out to get immunization in 13 OIC members. Majority of these countries are also grappling with the high incidence of poverty and unemployment. Global statistics show that lowest immunization coverage is recorded in war-torn Syria and Somalia (42%) followed by Chad (46%), Nigeria (49%) and Guinea (54%). On the opposite side of the scale, 95% or more infants were immunized with at least two WHO recommended vaccines in 23 OIC countries. Most of these countries are located in MENA and Central Asia regions.

Deteriorating Peace and Security Situation

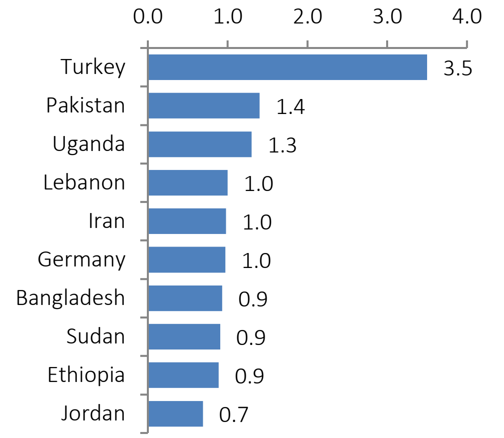
Civil conflicts and wars remained the major factors in the endurance of poverty in many OIC member countries. Over the years, frequency, duration and impacts of humanitarian crises, mainly driven by natural disasters and conflicts, continue to increase, particularly in OIC countries. While the global figures on the number of people affected from natural disasters and conflicts are constantly rising, OIC member countries are affected more than any other parts of

Figure 5.8: Top-10 Countries of Origin of Refugees, Millions



Source: UNHCR Global Trends Report, 2017 & UNRWA

Figure 5.9: Top-10 Refugee Hosting Countries, Millions*



Source: UNHCR Global Trends Report, 2017 & UNRWA. * excluding refugees registered by UNRWA

the world by large-scale humanitarian crises and disasters, and the trend is unfortunately on the rise.

Combined threats of instability, conflict and violence, often coupled with and accelerated by other factors, including natural disasters and climate change pose significant humanitarian and development challenges. Around 83% of all new internal displacement in the world during the recent past took place in OIC countries. By the end of 2017 there were a total 24.8 million refugees in the world of which 19.5 million under UNHCR mandate and 5.3 million refugees registered by the United Nations Relief and Works Agency for Palestine Refugees (UNRWA). The majority of the refugees originated from OIC countries, to be precise, 75% off all the refugees' originated from OIC countries. Again, the list of the top 10 countries of origin of refugees is also dominated by OIC countries (Figure 5.8). Furthermore, three OIC countries (Syria, Palestine, and Afghanistan) alone account for 57.3% of all the refugees in the world.

On the other hand, of the 24.8 million refugees in the world almost 16 million are hosted in OIC countries, corresponding to a percentage of 64% of all refugees in the world. The top 10 list of refugees hosting countries is dominated by OIC members who occupy eight spots on the list (Figure 5.9).

Policy Suggestions

In terms of poverty alleviation, many OIC member countries have made significant progress over the years. Despite these positive trends, OIC member countries are still lagging behind the world and developing countries averages. The state of poverty, both in terms of income poverty and multidimensional poverty remained alarmingly high especially in OIC member countries located in South Asia and Sub-Saharan Africa region. Majority of these countries are characterized by a complex mix of uncontrolled or mismanaged demographic, economic, environmental, social as well as political issues.

The nature and magnitude of these key issues faced by the many OIC member countries require a greater commitment from the governments to put poverty alleviation higher on the national development agendas and invest in required infrastructure, institutions and workforce. In this context, following policy actions are suggested to spearhead the progress towards achievement of goals under this domain.

One of the main principle routes out of poverty is productive work. It helps to increase real income and improve living standards by catalysing the economic growth. The impact of productivity on poverty incidence in developing countries has been studied for many years and there is sufficient evidence suggesting it as an effective tool to target poverty alleviation. However, there are various impediments to increasing productivity, one of which is informal employment. If the working conditions of employees are not adequately observed, it will be hard to devise policies to increase productivity. Informal unemployment in most of the OIC LDC's is unfortunately not falling. To remedy this, as a first crucial step, formal job creation should be accelerated and transfer from informal to formal employment should be facilitated. Special labour market policies should be developed to improve productivity through vocational training and education, micro and small enterprise development and access to credit.

Social safety net programmes could be expanded to ensure their effectiveness in targeting not only the poverty but also inequality. Health and education financing systems need to be reformed to enable wider access by increasing investment and public spending, reducing out-of-pocket spending and increasing pre-payment and risk-pooling mechanisms like social security schemes offering health insurance and free schooling. Furthermore, collaboration with NGOs and international bodies should be strengthened to train and deploy health and education workers at community level to provide especially basic health and education services to poor living in remote areas.

Lack of peace and security remained the single most detrimental risk factor for the realisation of OIC-2025 plan of action. It is commonly argued that many of the drivers of conflict are rooted in development deficits. This suggests that there are many opportunities for development actors to contribute to breaking cycles of armed violence and creating virtuous cycles of peace and development. Efforts should be guided by greater emphasis on building resilience to shocks and vulnerability through more effective and inclusive governance systems and collaborative efforts to address the complex causes of violence, prevention, as well as early recovery. Proper emergency response mechanisms should be developed and implemented and intra-OIC cooperation should be enhanced to minimize the impacts of climate change-related natural disasters like floods, droughts and cyclones which are causing severe damage to infrastructure and posing severe threats to the very survival of millions of people especially the poor across the member countries.

Last but not the least, special programmes should be initiated and strengthened for supporting self-employment through establishment and expansion of small enterprise sectors by increasing the availability of credit, including microcredit, minimising interest rates, improving infrastructure and the equity of access to productive inputs such as land and sites for enterprises, and increasing the accessibility of information and advisory services.

CHAPTER SIX

OIC-2025: Trade, Investment and Finance

Greater cooperation in the trade, investment and finance sectors is essential for promoting sustainable development and improving economic wellbeing of people in the OIC Member States. Yet, the progress in intra-OIC trade cooperation remains insufficient. If the level of trade cooperation is to reach desired levels, there is a need for quick operationalization of trade facilitation schemes. The investment flows into OIC countries also remain below its potential. Islamic financial sector has the potential to contribute to the achievement of sustainable economic development in OIC countries.

This thematic area is directly linked with the economic growth and development dimension and covers two main categories. These are: (i) Intra-OIC Trade and Investment and (ii) Islamic Finance Development.

6.1 Intra-OIC Trade and Investment

Goals 2.7.1 - 2.7.9:

[2.7.1] Promote trade exchanges among the OIC Member States.

[2.7.2] Promote and establish free trade and export processing zones in OIC Member States, and facilitate intra-OIC investments, including inward FDI flows by the public and private sectors.

[2.7.3] Enhance partnership among public and private companies within and among OIC countries.

[2.7.4] Develop partnerships between the productive sectors of the Member States in order to strengthen the competitiveness of the production and exporting entities.

[2.7.5] Increase production and competitiveness of products in the Member States.

[2.7.6] Further increase intra-OIC trade by 6% up from the current percentage in 2015.

[2.7.7] Implement the Trade Preferential System of the OIC (TPS-OIC), and encourage OIC Member States in other Regional Trade Agreements (RTA) areas to join TPS-OIC and intensify efforts to ensure its success.

[2.7.8] Implement vigorously the General Agreement on Economic, Technical and Commercial Cooperation among the OIC Member States and similar multilateral instruments on trade and investment.

[2.7.9] Continue implementing the COMCEC Strategy for Building an Interdependent Islamic World, in its entire sectors towards increasing the intra-OIC trade and investment with a view to be overarching goal of enhancing the economic and commercial cooperation among the Member States.

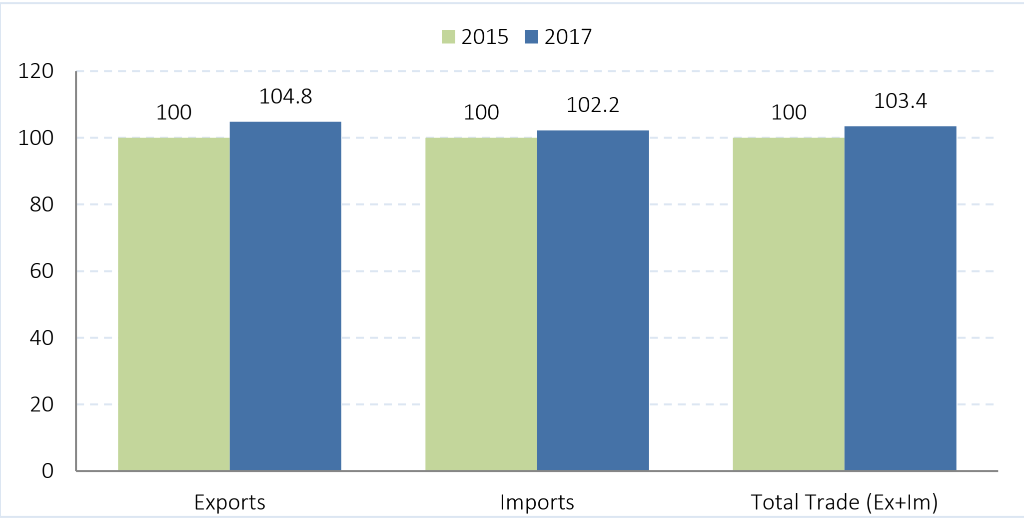
Rationale

International trade fosters development as it triggers economic growth through increased aggregate demand, commercial opportunities, investment, as well as broadening the productive base through private sector development. International trade activities tend to increase competitiveness among local firms. In particular, developing countries invest into productivity, acquire finance through investments, increase the value added of their products as they move up in the global value chains. Trade openness expands business opportunities for local companies by opening up new markets, removing unnecessary barriers and making it easier for them to export. International trade activities also create employment opportunities by boosting economic sectors that helps improving livelihoods.

On the other hand, thanks to increased competition in the global markets, international trade plays a role in the improvement of quality, labour and environmental standards. It also fosters the exchange of best practices between trade partners, building capacity in industry and product standards. International trade strengthens ties between nations by bringing people together in peaceful and mutually beneficial exchanges and as such contributes to peace and stability. This is particularly important for OIC countries that intra-OIC trade has the potential to generate significant economic benefits as well as to enhance cooperation among OIC countries. Intra-OIC trade activities tend to foster the development of the SMEs and the private sector in OIC countries by improving their competitiveness. As a result, SMEs and the private sector effectively specialize on products and services where they have a comparative advantage. Intra-OIC trade activities also help to reduce unemployment by creating new job opportunities due to increased market size and reduced inefficiencies. Improving trade ties among OIC countries contributes to the development of commercial cooperation in the OIC region as well as supports sustainable development.

Foreign direct investment (FDI) is an important enabler for growth. It triggers technology spill overs, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment, and enhances enterprise development. In particular, developing countries including many OIC countries are in need to capital flows due to insufficient amount of savings. As FDI tends to generate long-term positive developmental

Figure 6.1: Total Exports, Imports and International Trade Volumes in OIC Countries (right), 2015 vs 2017 (2005=100)



Source: IMF DOTS. *Data coverage:* 56 OIC countries.

impacts on host economies, many OIC countries aim to attract more investors to finance their investments, support domestic business environment and create jobs. Strengthening their international investment position and presenting attractive opportunities for investment in domestic economy are among priority areas of several OIC countries. In particular, many OIC countries have been working towards creating a business environment where investors are willing to upscale their investments. Nevertheless, improving the business environment would not be sufficient alone. In this context, removing trade and investment barriers among OIC countries is essential. And facilitation of intra-OIC investment through promoting free trade and export processing zones could make a significant contribution to the development of commercial cooperation among OIC countries. This requires ensuring an effective cooperation among the public and private sector in OIC countries. In this regard, the OIC has been paying a special attention to improve commercial cooperation among member countries through developing policies that promote cooperation among the public and private sector.

Without well-functioning and strong financial markets, it is almost impossible to develop international trade ties and benefit from the positive spillover effects of trade activities. In this regard, OIC countries have started to work towards empowering financial markets, innovate new financial instruments and deepen the market base. As having greater cooperation in the trade, investment and finance sectors is essential for promoting sustainable development and improving economic wellbeing of people in OIC countries, the OIC 2025 included the intra-OIC trade and investment dimension as a priority area with nine specific goals.

Current State and Progress towards Realization of the Goals

International trade volumes of OIC countries, as a group, are on the rise since 2015. If the volumes of exports, imports and total trade volume (exports plus imports) are indexed to 100, in all three dimensions a progress has been recorded. The exports trade volume index went up from 100 in 2015 to 104.8 and imports volume index climbed up from 100 in 2015 to 102.2 in 2017 (Figure 6.1). As a result, the total international trade volume index of OIC countries increased from 100 in 2015 to 103.4 in 2017.

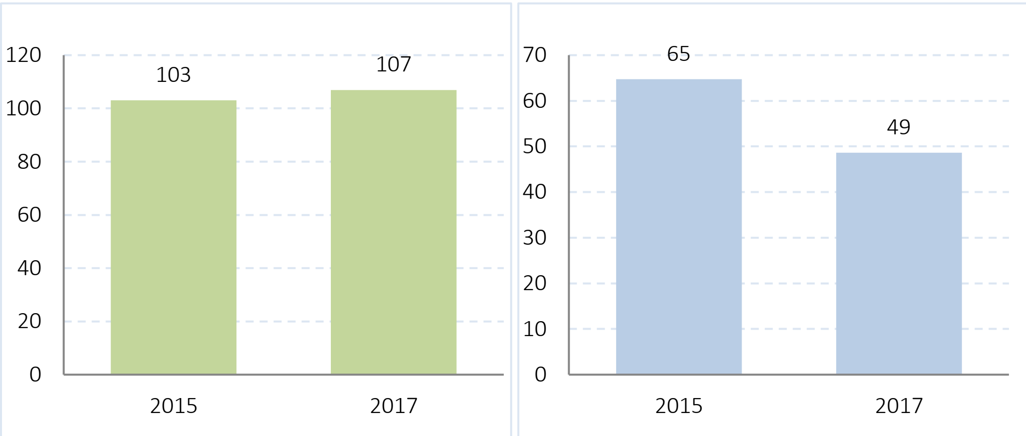
In the area of trade, the share of intra-OIC trade in total OIC trade is the most commonly used measure for assessing the level of intra-OIC economic integration and cooperation. In the same period, intra-OIC trade also improved both in terms of exports and imports. As discussed in Section 3, the share of intra-OIC exports in total OIC exports went up from 19.9% in 2015 to 20.0% in 2017. In a similar vein, the share of intra-OIC imports in total OIC imports went up from 18.5% in 2015 to 19.8% in 2017. The share of total intra-OIC trade in the total trade volume of OIC countries also saw an increase that climbed up from 19.2% in 2015 to 19.9% in 2017. Yet, based on the data for the year 2017, the progress in intra-OIC trade cooperation remains insufficient when the goals specified in the OIC 2025 are taken into consideration.

In addition to international trade figures, FDI figures of OIC countries reflect the state of commercial development of OIC countries and the level of their engagement with the global economy. Inward FDI flows recorded in OIC countries increased from USD 103 billion in 2015 to USD 107 billion in 2017. This implies that OIC countries, on average, slightly improved their business environment and achieved to attract more foreign investors. On the other hand, the total amount of outward FDI flows of OIC countries went down from USD 65 billion in 2015 to USD 49 billion in 2017 (Figure 6.3). In terms of inward FDI stock, OIC countries recorded an increase from USD 1781 billion in 2015 to USD 2010 billion in 2017. This mainly stems from increased inward FDI flows and re-investments made by foreign investors hosted in OIC countries. OIC countries, as a group, also achieved to see an improvement in total outward FDI stock figures that climbed up USD 580 billion in 2015 to USD 676 billion in 2017 (Figure 6.4).

Issues and Challenges in Achieving the Goals

In a nutshell, both trade and investment figures of OIC countries imply that the OIC group has become more integrated with the global economy in recent years. OIC countries exported, imported and attracted investments to a higher extent in 2017 when compared to 2015. International trade activities of OIC countries have been moving into the right direction and trade-ties among OIC countries have been strengthening (i.e. intra-OIC cooperation).

Figure 6.3: Inward FDI Flows (left) and Outward FDI Flows (left) in OIC Countries (right), Billions USD, 2015 vs 2017

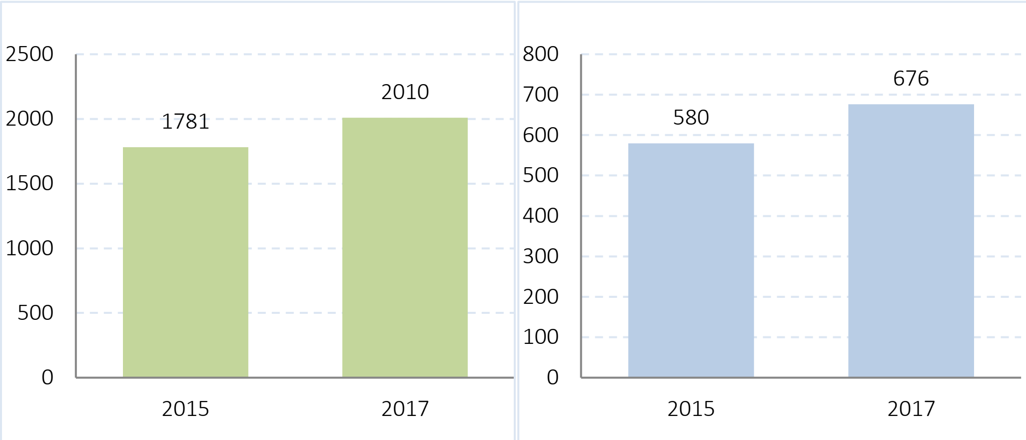


Source: UNCTAD. *Data coverage:* 56 OIC countries.

Nevertheless, the international trade volume levels recorded, as of 2017, still stay well-below the potentials of OIC countries. In other words, intra-OIC trade volumes and international trade activities of OIC countries with the rest of the world remain under potential due to a number of reasons. Limited economic cooperation and existing trade barriers affect exports and imports among OIC countries in a negative way. Underutilization of this potential also does not encourage the private sector to become more competitive through investing into efficiency and productivity. As a result, the development of the private sector stays relatively limited. The lack of effective cooperation between the private and public sector in some OIC countries constitute another bottleneck that limits the growth of international trade activities.

A similar picture can be observed in terms FDI figures. OIC countries, as a group, have become more attractive in the eye of foreign investors thanks to the growing market size, relatively young population and abundant resources. The improvements in the business environment also helped

Figure 6.4: Inward FDI Stock (left) and Outward FDI Stock (left) in OIC Countries (right), Billions USD, 2015 vs 2017



Source: UNCTAD. *Data coverage:* 56 OIC countries.

OIC countries to host more foreign investors. Nevertheless, OIC countries still have a long way to go to improve both international trade and investment figures.

Trade and investment barriers in OIC countries have not been completely eradicated. In many OIC countries, engaging into international trade is not an easy task. The number of required procedures to complete custom formalities stays as challenge both for exporters and importers. Relatively high tariff rates and trade-related taxes hit the competitiveness of OIC countries in terms of international trade. High-cost of transportation and long-waiting times in customs remain as a barrier for many businesses. Also, intra-OIC trade has been affected by such arrangements. A good number of OIC countries continue to apply high tariff rates to each other. The lack of OIC-wide harmonized or uniform quality standards for goods and services constitute another major challenge both for exporters and importers. In other words, if the level of trade cooperation among OIC countries is to reach desired levels, there is a need for quick operationalization of trade facilitation schemes such as the OIC Trade Preferential System (OIC-TPS), export credit and investment insurance as well as recognition of standards, technical regulation and conformity assessment procedures. Establishment of export processing and free trade zones also could contribute to the development of intra-OIC trade.

The challenges seen in the business environment (e.g. high level of bureaucracy in customs, time-consuming procedures, costly transportation arrangements etc.) not only limit the growth of international trade but also make OIC countries, as a group, relatively less attractive in the eye of foreign investors. As a result, OIC countries attract relatively limited volume of FDI flows that is far below their potentials. In this regard, OIC countries need to exert more efforts to create a more conducive business environment where businesses can easily engage into international trade. In particular, for foreign investors procedures to start their businesses need to be simplified. In such an environment, more foreign investors would direct their investments into OIC countries that contribute to the development of OIC countries. In this context, it would be beneficial for OIC countries to work towards reducing trade and investment barriers by establishing expert-level working groups at the OIC-level.

OIC countries also need to take the existing OIC-level strategies and agreements into account with a view to implementing them effectively on trade and investment related issues. The General Agreement on Economic, Technical and Commercial Cooperation among the OIC Member States and the COMCEC Strategy for Building an Interdependent Islamic World are two comprehensive documents that could constitute roadmaps for OIC countries in improving intra-OIC economic and commercial cooperation.

6.2 Islamic Finance Development

Goals 2.7.10 - 2.7.13:

[2.7.10] Develop sound and well-regulated Islamic financial system and related prudent institutions to ensure orderly development of Islamic finance.

[2.7.11] Facilitate the flow of financial resources and direct foreign and portfolio investment flows among the OIC Member States.

[2.7.12] Develop and promote Islamic financial products to advance socio-economic development in OIC Member States.

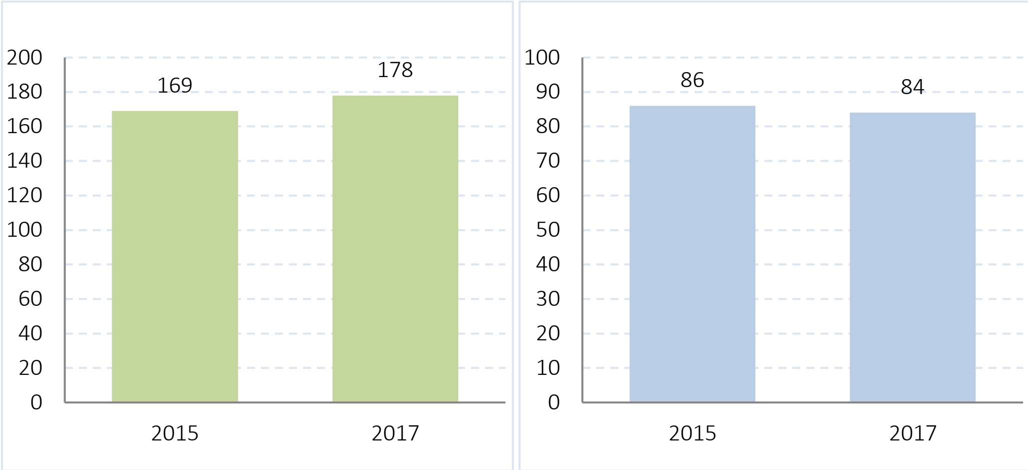
[2.7.13] Promote cooperation in Islamic Banking and Finance such as regulations, adoption of standards, sharia governance mechanism and product development.

Rationale

The principles of Islamic finance support socially inclusive and development promoting activities. The Islamic financial sector has the potential to contribute to the achievement of sustainable economic development in many ways. It can play a catalyst role in financing development projects of OIC countries, improving access to finance, being a tool in reducing poverty, and empowering financial institutions as well capital markets. Inherent strengths of Islamic finance offer significant benefits in term of stability, development, inclusiveness and sustainability in economies where it is practiced. In other words, Islamic finance has the power to promote strong growth, enhance financial inclusion as well as reduce vulnerability of the poor. Its growth remains uninterrupted (on average around 20% per annum). OIC countries hold a predominant share, which is in excess of 95%, in the global assets of Islamic finance.

The development of Islamic financial sector helps to eradicate poverty such as by providing credits to SMEs and entrepreneurs without any interest rate. This improves access to credit in OIC countries. Also microfinance helps a lot of people to start and run their small businesses that they can start generating income. Islamic financial products and instruments support the development of international trade activities by allowing producers to access to Shariah-complaint financial services. The development of Islamic financial sector also tends to promote investment in OIC countries by encouraging saving and promoting to use them in line with the principles of Islam.

Figure 6.5: Number of Islamic Banks in OIC Countries (left) and Number of Conventional Banks with Islamic Windows (right), 2015 vs 2017



Source: IFSB. *Data coverage:* 56 OIC countries.

On the financial front, Islamic finance offers a window of opportunity in OIC countries that could be used in bridging the gap in financing for development. Islamic finance, including Zakat, is estimated to be valued at around USD 2 trillion in 2015, which is expected to climb to USD 3 trillion by 2020. For instance, making Zakat contributions through formal institutions can ensure it reaches more people and reaching those in greatest need and therefore could help achieving sustainable development. In this regard, development of Islamic financial systems in OIC countries has a critical role in improving financial institutions as well as banks.

However, the development of Islamic financial sector, products and services are closely linked with the existing institutional and regulatory framework. Without prudent institutions and strong regulatory framework, it is unlikely that OIC countries could achieve development in Islamic finance.

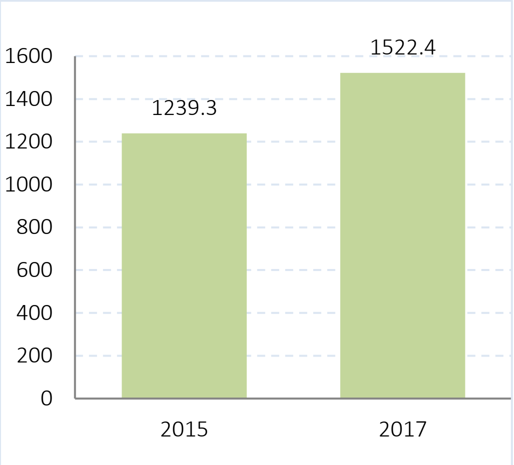
Against this background, the OIC 2025 included the Islamic finance development as a priority are and identified four specific goals in this context.

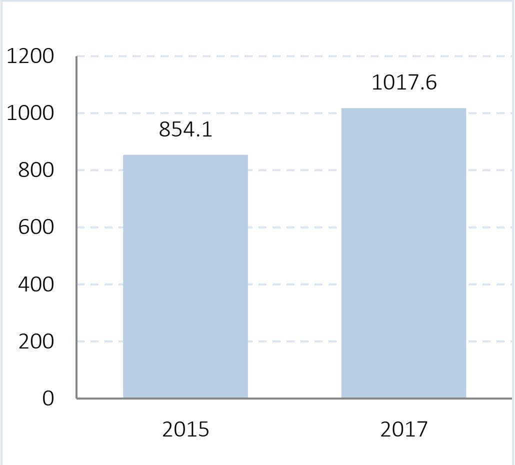
Current State and Progress towards Realization of the Goals

The state of Islamic finance development in OIC countries can be monitored through looking at the number of Islamic banks and assets of such banks. This can provide a broad idea about the direction of development in this important area. According to Figure 6.5, the number of Islamic banks in OIC countries increased from 169 in 2015 to 178 in 2017. Only Bahrain and Indonesia recorded an increase in the number of Islamic banks over the period 2015-2017. However, in 41 OIC countries there was no any Islamic bank as of 2017. On the other hand, the number of conventional banks with Islamic windows went down from 86 in 2015 to 84 in 2017.

Two other indicators on the state of Islamic Finance development are reported in Figure 6.6. Total funding to liabilities ratio in Islamic banks climbed up from USD 1239 billion in 2015 to 1522 billion in 2017. This implies that the growth in funding exceeded the growth in liabilities. A similar

Figure 6.6: Total funding/liabilities in Islamic Banks in OIC Countries (left) and Total Shariah-compliant financing (right), Billions USD, 2015 vs 2017





Source: IFSB. *Data coverage:* 56 OIC countries.

increase was seen in the total amount of Shariah-compliant financing that went up from 854 billion in 2015 to 1017 billion in 2017. Although there is a growth in terms of funds distributed by Islamic financial institutions, the Islamic finance industry went on staying under its potential the OIC group that concentrated in a number of OIC countries mostly located in the MENA region.

Issues and Challenges in Achieving the Goals

As one of the fastest growing segments in the global financial services industry, Islamic finance has become important for OIC countries and can play a catalyst role in financing development and empowering economies of OIC countries. Despite having a great importance for the development of OIC countries, Islamic financial institutions go on staying under developed both in terms of their numbers as well as operational capacities in many OIC countries. This limits the potential benefits expected from Islamic finance such as poverty alleviation and supporting financial stability.

Building a well-functioning Islamic finance infrastructure is imperative for providing the industry with a level playing field. Moreover, regulators and standard-setters in OIC countries should ensure that the supervisory and legal infrastructure for Islamic finance remain relevant to the rapidly changing Islamic financial landscape and global developments. Infrastructure development efforts should interface with the global financial reform agenda. Furthermore, greater convergence and harmonization of regulations and products among OIC countries is needed to facilitate an efficient and sustainable growth of the industry.

The lack of harmonized information and statistics in the area of Islamic finance across OIC countries remains as a challenge that limit the understanding of analysts as well as policy-makers regarding the developments in the sector. In this regard, it would be essential to develop an OIC-level Islamic finance database where all countries could report their data in a standardized way.

This would not only help to monitor the developments in the sector but also to generate policy-responses in timely manner.

Approximation of policies and actions across different jurisdictions and markets in the group of OIC countries is a necessity, and OIC emerges as an important platform to achieve this target. It is essential to encourage cooperation among Islamic financial institutions in the field of infrastructure by promoting appropriate Islamic financial products such as Sukuk, innovating new products, and cooperating with the regional and international development organizations.

Developing the industry and improving its competition skills will require, inter alia, the establishment of large, well-managed, and operationally efficient Islamic financial institutions that can compete in the global arena; better accounting, auditing and disclosure standards; development of a macro-prudential surveillance framework; improvement of rating process and transparency; as well as capacity building. Above all, addressing these challenges will require that the stakeholders of Islamic finance in OIC countries conjoin their efforts in developing the needed human capital and broadening the skills base of the industry. Therefore, education and capacity building programmes have a critical role in development of Islamic finance in OIC countries. Organization of awareness raising programmes for the private sector, policy-makers and society is also critical for the development of Islamic finance as the lack of proper information, misbeliefs and prejudices could limit the development of Islamic finance in some OIC countries.

Chapter Seven

OIC-2025: Agriculture and Food Security

The agriculture sector has critical importance for many Member States, especially for the least developed ones, as agricultural development is among the various prerequisites for economic development and provides livelihood for major part of the OIC population. Without enough and adequate food, it is not possible to climb the ladder of development. It is important to note that effective and sustainable agricultural management and policymaking could play a pivotal role in enhancing the development efforts of the Member States. There is also an obvious need to increase the development of water and sanitation infrastructure, and utilisation of modern technology to address the challenges of maximizing the productive use of water and minimizing its destructive impacts.

The OIC-2025 development agenda envisages realizing the six goals in the domain of agriculture and food security:

Goals 2.8.1 - 2.8.6:

2.8.1 Increase agricultural productivity and profitability of farming systems to achieve sustainable food and nutrition security in the OIC Member States.

2.8.2 Develop food production systems based on agricultural diversification, conservation of water, and efficient use of land.

2.8.3 Improve the policy environment and regulatory framework to develop agricultural sector and food production.

2.8.4 Promote the optimization of utilization of land and other natural resources for agricultural sector and food production.

2.8.5 Promote and support intra-OIC investment in agricultural sector and food production.

2.8.6 Consolidate the structures of the Islamic Organization for Food Security to achieve its objectives of coordinating intra-OIC food security operations.

Rationale

Agriculture development could play an important role in enhancing economic growth and achieving food security in OIC member countries. These countries are dispersed over a large geographical area in different climatic regions over four continents and, as a group, they are well-endowed with potential agricultural resources such as water, arable land, and human resources. As a group, OIC countries account for a significant share of world total agricultural land area and agricultural production. Meanwhile, more than two-thirds of their working population associated with agriculture activities. In fact, this ratio even exceeds above 50% in around two-thirds of OIC members, most of which are located in Sub-Saharan Africa. Therefore, agriculture is very important and crucial economic sector for many OIC countries with high potential to significantly improve their socio-economic situation.

Nevertheless, agriculture sector is underperforming in many OIC countries due to various constraints including negative impacts of the economic transformation, increasing migration of agriculture labour force from rural to urban areas, scarcity of water resources, inadequate agricultural investment and infrastructure, low level of mechanisation, fluctuations in world agricultural commodity prices and trade difficulties that many of these countries are still facing in the international commodity markets.

In this context, OIC-2025 plan of action rightly put emphasize on agriculture sector development to attain food security and enhance growth and prosperity across the Islamic world. Undoubtedly, all efforts towards the realization of goals under this category will play a critical role in enabling OIC countries not only to exploit their true potential in agriculture sector but also to play a critical role in spearheading the OIC-wide drive for social and economic development and progress.

Current State and Progress towards Realization of the Goals

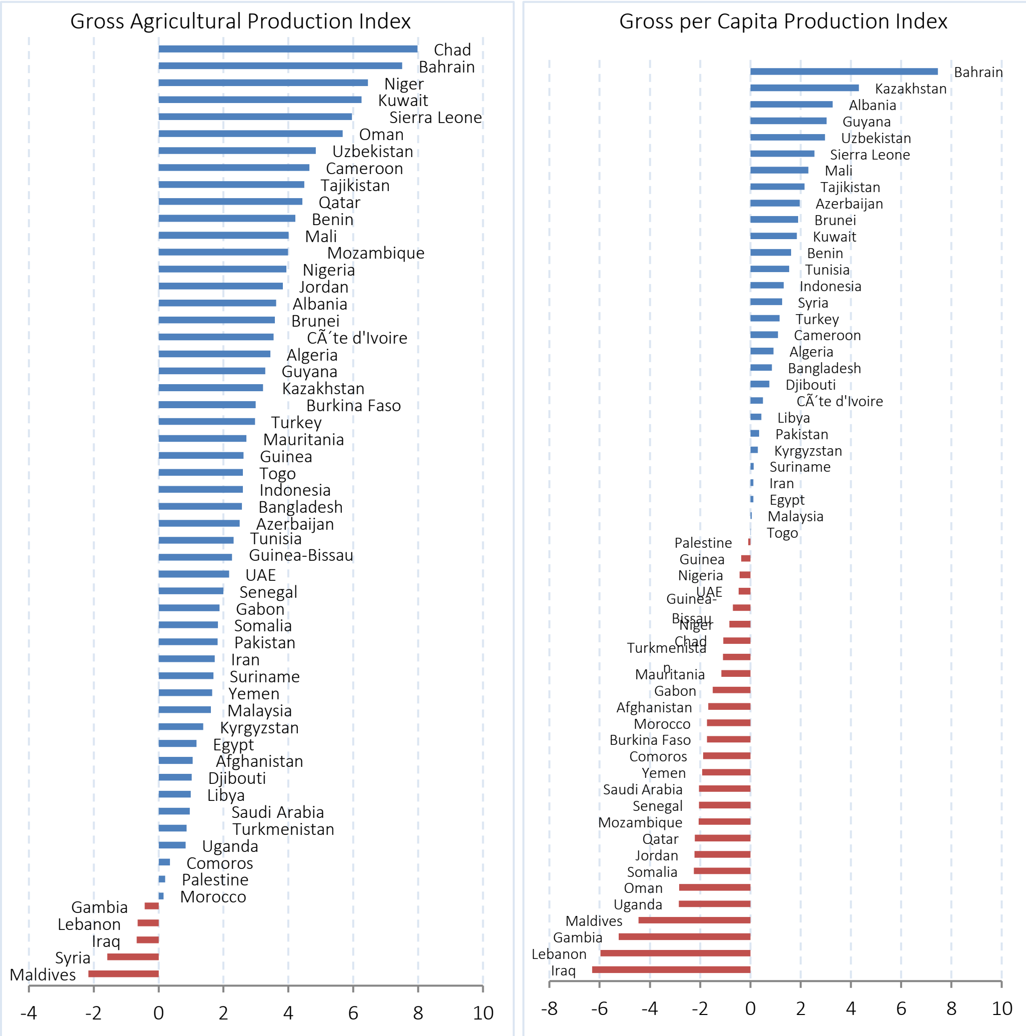
Agricultural Productivity and Food Security (Goal: 2.8.1)

Agricultural Production: Agricultural production is growing steadily across the majority of OIC member countries. As shown in Figure 7.1, gross agricultural production index on average has recorded positive annual growth rate in 51 out of 56 member countries during the period 2010-2016. Among these countries, Chad recoded the highest average annual growth rate of 8.0% followed by Bahrain (7.5%), Niger (6.5%), Sierra Leon (6.0%) and Oman (5.7%). On the other hand, five member countries reported negative growth in agricultural production. Among these countries, Maldives recorded the highest decline of 2.2% followed by Syria (1.6%), Iraq (0.7%), Lebanon (0.6%) and Gambia (0.4%).

The performance of OIC countries in terms of their per capita food production index indicates that a majority of these countries has insufficient food production capacity to meet the domestic demand for their growing populations and, therefore, have to rely heavily on food imports. As shown in Figure 7.1, AAGR in per capita agricultural production index was negative in 27 out of 56 OIC countries with data during the period under consideration. It is worth highlighting that 23 of these members are from Sub-Saharan Africa (13) and Middle East and North Africa (10). The decline in per capita production is highest in Iraq with an AAGR of 6.3% followed by Lebanon (6.0%), Gambia (5.2%), and Maldives (4.5%). On the positive side of the scale, Bahrain recorded the highest increase in per capita agricultural production with an AAGR of 7.5% followed by Kazakhstan (4.3%), Albania (3.3%), Guyana (3.0%) and Uzbekistan (3.0%).

Notwithstanding the low level of agricultural development and relatively low per capita availability agricultural products, 26 member countries are ranked among the top-20 producers of major agricultural commodities worldwide (see Table 7.1). These commodities vary from cereals such as wheat, barley, rice and maize to tropical/temperate zone commodities such as palm oil, cocoa, coffee, rubber and sugar. However, for many of these countries, particularly those in which the bulk of their exports concentrate on a few of such agricultural commodities, price fluctuations in the international commodity markets may pose additional risks and challenges. In addition, exporting these primary commodities with low or no value added mainly due to inappropriate processing facilities is another challenge related to the competitiveness of their commodities in the international trade markets.

Figure 7.1: Agricultural Production (Annual Average Growth Rate, 2010-2016)



Source: FAO STAT Online Database

Land and Labour Productivity: One of the major issues constraining sustainable agricultural development in many OIC countries relates to low land and labour productivity, which is of paramount importance in the process of agricultural development. Although average agricultural production per hectare in OIC member countries displayed improvement in the last decade, increasing from 1267 in 2000 to 1843 US$ per hectare in 2015, it was still much lower than the world and other countries averages of over 2000 US$ per hectares. Poor land productivity in many OIC member countries can be attributed to the use of outdated farming methods and techniques including misuse or insufficient use of fertilizers and mechanization. During the recent years, land productivity has not only increased across the majority of OIC countries (Figure 7.2) but also it was higher than the developed countries average of 2900 US$ per hectare in 14 member countries. Among these countries, Brunei is ranked at the top followed by Malaysia, Palestine, Qatar, and Lebanon. On the opposite side of the scale, 10 member countries recorded decline in land productivity during the period under consideration.

Table 7.1: OIC Countries among Top-20 Largest Producers of Major Agriculture Commodities Worldwide, 2016

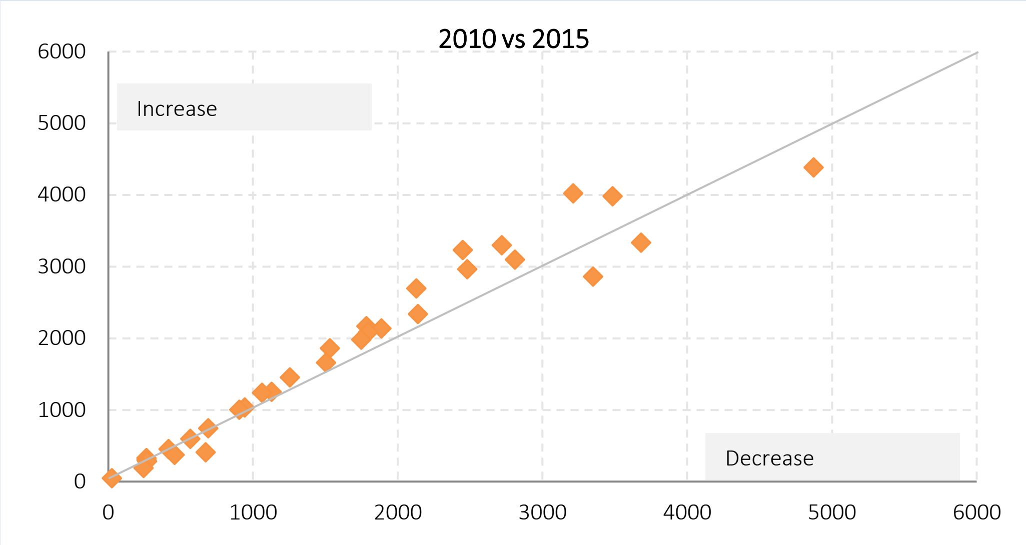
Commodity	Country (World Rank)
Barley	Turkey **(8)**, Morocco **(14)**, Iran **(15)**.
Cassava	Nigeria **(1)**, Indonesia **(4)**, Mozambique **(10)**, Cameroon **(12)**, Sierra Leone **(14)**, Benin **(17)**, Côte d'Ivoire **(19)**.
Cocoa Beans	Côte d'Ivoire **(1)**, Indonesia **(3)**, Cameroon **(4)**, Nigeria **(5)**, Togo **(11)**, Uganda **(14)**, Sierra Leone **(17)**, Guinea **(18)**.
Coffee	Indonesia **(4)**, Uganda **(10)**, Côte d'Ivoire **(15)**.
Maize	Indonesia **(8)**, Nigeria **(13)**, Egypt **(14).**
Millet	Niger **(2)**, Mali **(4)**, Nigeria **(5)**, Sudan **(6)**, Burkina Faso (7), Chad **(9)**, Senegal **(11)**, Pakistan **(12)**, Uganda **(17)**, Guinea **(18).**
Natural Rubber	Indonesia **(2)**, Malaysia **(6)**, Côte d'Ivoire **(9)**, Nigeria **(12)**, Cameroon **(16)**, Gabon **(17)**, Guinea **(20).**
Palm Oil	Indonesia **(1)**, Malaysia **(2)**, Nigeria **(5)**, Côte d'Ivoire **(12)**, Cameroon **(14)**, Benin **(15)**, Guinea **(18)**, Togo **(19)**.
Rice	Indonesia **(3)**, Bangladesh **(4)**, Pakistan **(10)**, Egypt **(14)**, Nigeria **(15)**
Sorghum	Nigeria **(2)**, Sudan **(3)**, Niger **(9)**, Burkina Faso **(11)**, Mali **(12)**, Cameroon **(13)**, Chad **(15)**, Egypt **(19)**, Yemen **(20).**
Soybeans	Indonesia **(13)**, Nigeria **(15)**.
Sugar	Pakistan **(5)**, Indonesia **(11)**, Egypt **(16).**
Tea	Turkey **(5)**, Indonesia **(7)**, Iran **(11)**, Bangladesh **(12)**, Uganda **(13)**, Mozambique **(18).**
Wheat	Pakistan **(8)**, Turkey **(11)**, Kazakhstan **(13)**, Iran **(15)**, Egypt **(17)**, Uzbekistan **(20).**

Source: FAOSTAT Online Database, SESRIC Staff analysis

In terms of labour productivity, measured as gross agricultural production value per economically active population in agriculture, OIC countries once again lag well behind the world and other group's averages. As of 2013, an economically active person in agriculture in OIC countries, on average, could produce less than US$ 5,500 worth of agricultural production compared to US$ 6,147 in other developing countries (SESRIC, 2016). Among the 10 OIC countries with data, labour productivity has witnessed improvement over the years.

Food Security: Over the years, many OIC member countries have made impressive progress towards achieving the food security. As shown in figure 7.4, prevalence of undernourishment is on decline across the majority of OIC members. Nevertheless, level of undernourishment remained still very high in several member countries like Chad, Tajikistan, and Mozambique. On the other hand, 13 member countries witnessed increase in prevalence of undernourishment

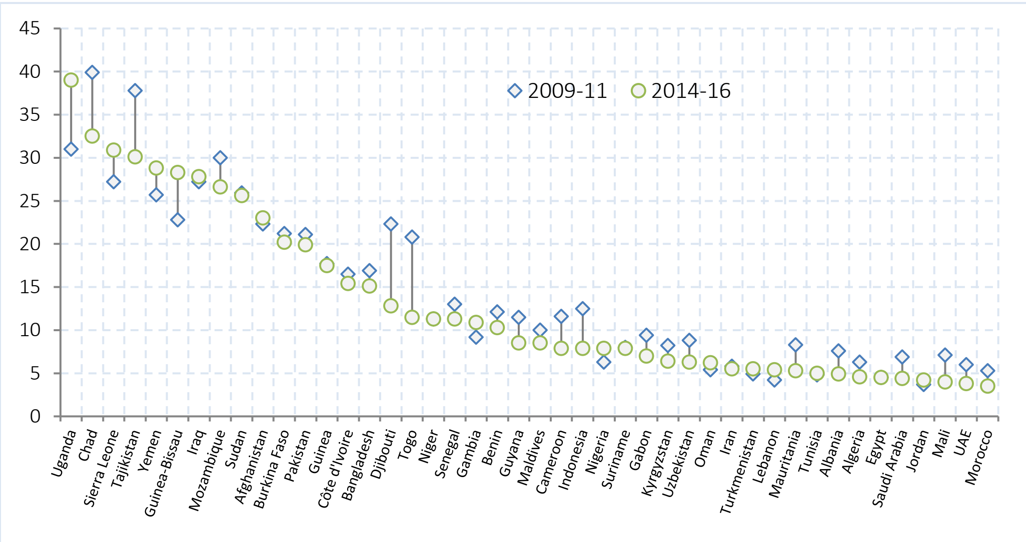
Figure 7.2: Land Productivity (value of agriculture production per hectare of arable land in constant 2004-2006 US$)



Source: FAO STAT Online Database

during the period under consideration. Among these countries, the highest increase was recorded in Uganda followed by Guinea Bissau, Sierra Leon and Yemen (Figure 7.3). While it is self-evident that undernourishment is a function of poverty as it is widely accepted that higher rates of undernourishment is present in areas with persistent and widespread poverty, undernourishment emanates due to the fact that increases in food production per hectare of arable land cannot keep up with increases in population.

Figure 7.3: Prevalence of Undernourishment (% of total population)



Source: FAO STAT Online Database

According to FAO's recent estimates, there were 200 million undernourished people in OIC member countries, corresponding to 27.5% of the world total undernourished people in 2014-16. On the other hand, although prevalence of under-nourishment (i.e. the share of undernourished people in the total population) in OIC member countries declined from 17.63% in 1999-01 to 13.0% in 2014-16, total number of undernourished people is on rise since 2012-14. This increasing trend is mainly driven by the worsening peace and security situation and increase in conflicts and natural disasters events in many OIC member countries.

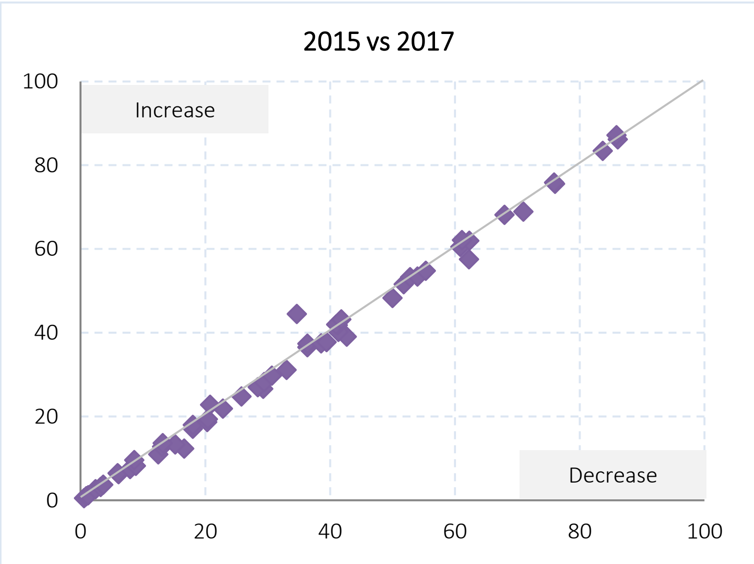
Optimal Use of Natural Resources (Goal: 2.8.2 & 2.8.4)

Effective and efficient management of natural resources is imperative for agriculture development and the improvement of food security in the majority of OIC member countries. However, despite progress, attaining the optimal use of agricultural resources remained an elusive target in several member countries.

Agricultural Population: The proportion of working people employed in agricultural activity in OIC countries exceeds that observed in other countries. In 2017, more than one third of working people in OIC countries were employed in agricultural activity compared with about one half in years 2000. Working people employed in garniture activity exceeds 50% in 16 OIC countries, most of which are located in Sub-Saharan Africa. In Chad, Somalia, Guinea-Bissau, Mauritania, and Niger the percentage of working people employed in agriculture activities exceeds 75% (Figure 7.4).

Nevertheless, there is a declining trend in share of people employed in agriculture across the OIC members. During the period of 2015-2017, 32 out of 54 members with data have recorded decrease in people employed in agricultural activity. Among these countries, Mali, Libya, Bangladesh, and Kyrgyzstan recorded the highest decline two to four percentage points. On the other hand, 22 member countries have reported an increase in share of people employed in agriculture sector. Notably, Yemen reported the highest increase of around 10%

Figure 7.4: Employment in Agriculture Activity (as percentage of all economic activity)



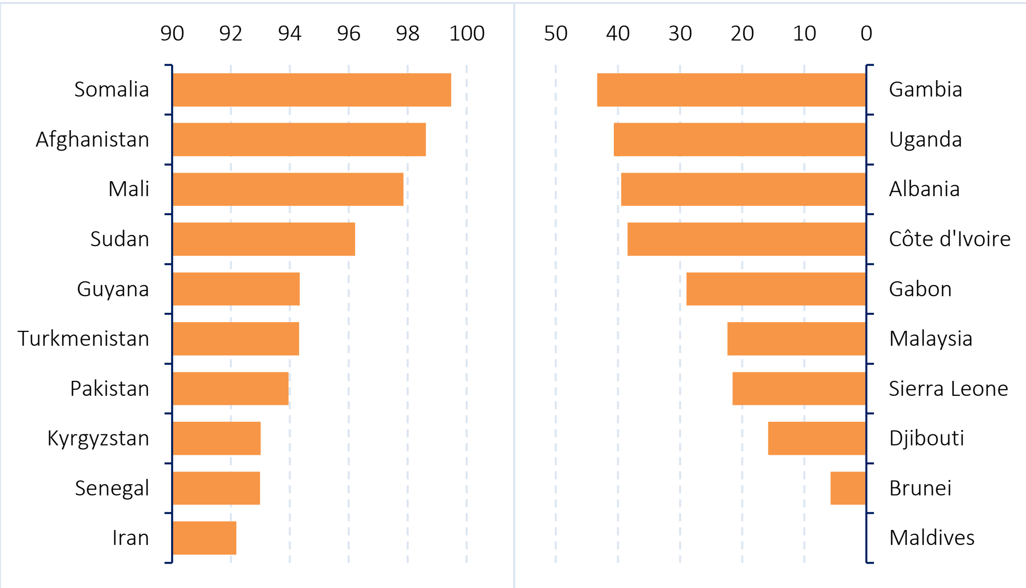
Source: World Bank, WDI

followed by Syria (2.1%), Benin (1.4%) and Chad (1.3%).

Land and Water Resources: In addition to the agriculture labour force, the effective and productive use of agricultural land is an essential element in the process of agricultural development. In this regard, the 57 OIC countries had a total agricultural land area of 1.37 billion hectares, corresponding to 28% of world total agricultural land area. Only 7 OIC countries (Kazakhstan, Saudi Arabia, Nigeria, Sudan Indonesia, Mozambique and Chad in decreasing order) account half of total agriculture land area of OIC countries. The arable land area in OIC countries amounted to only 310 million hectares in 2015, corresponding to 22.6% of their agricultural area. The permanent crops land of OIC countries (63 million hectares) accounted for only 4.4% of their total agricultural land area. On the other hand, the bulk of the agricultural land area in OIC countries (72.8% or 996 million hectares) is permanent meadows and pastures, largely used for grazing of livestock.

Water is a scarce resource in arid and semi-arid regions where many OIC countries are located, particularly in West Asia and North-eastern Africa. Most of the OIC countries in these regions are facing severe water pressures due to limited opportunities for the exploitation of new water resources. These pressures are expected to increase in the face of increasing populations and the increased level of water use per capita associated with economic development. Therefore, the efficient use of water resource in agriculture, through improving irrigation systems and techniques, is one of the most urgent needs and prerequisites for sustainable agricultural development and food security in OIC countries, particularly those in water-scarce regions.

Figure 7.5: Agricultural Water Withdrawal as percentage of Total Water Withdrawal, highest (left) and lowest (right) 10 OIC countries, 2000-2017



Source: FAO AQUASTAT Online Database

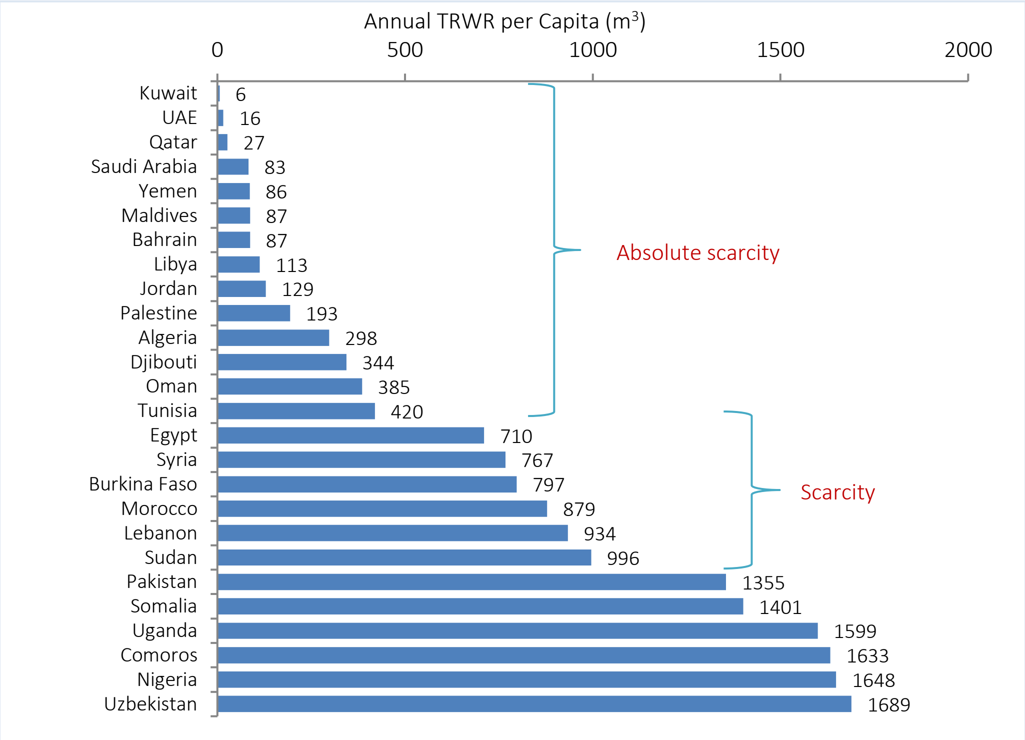
Considering the rapid growth of their population, many OIC countries are still facing serious challenges in meeting the increasing demand for water particularly in the agricultural sector. Of the 933 km^3 of water OIC countries withdraw annually 785 km^3 is being withdrawn by the agriculture sector; thus agricultural water withdrawal in OIC countries accounts for 84% of total water withdrawal. Compared to the developed countries average of 39% and the average of Non-OIC developing countries of 76%, the percentage in OIC countries stands very high and is due partially to inefficient use of water in the agriculture sector.

The distribution of agricultural water withdrawal within the OIC group is far from being uniform as Figure 7.5 reveals. This divergence can be attributed to the availability of renewable water resources and the structure of the economy which dictates how much water is withdrawn by the agriculture sector in comparison to the water withdrawn by the industrial sector and water withdrawn for municipal use.

Issues and Challenges in Achieving the Goals

Many OIC countries like their other developing counterparts have failed to materialize their true agricultural potential due to the inefficient use of land, water resource and deteriorating peace and security situation. The situation is of particular importance and concern in low income and poor countries where subsistence agriculture is the key sector for the survival of millions of poor people.

Figure 7.6: OIC Countries Suffering from Water Scarcity, 2013-2017

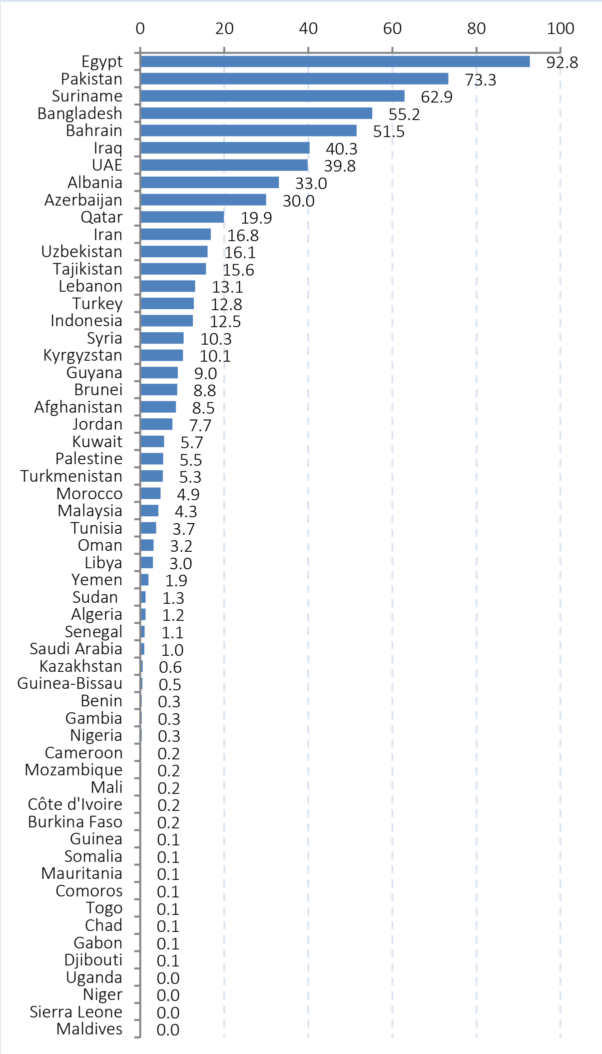


Source: FAO AQUASTAT Online Database. Latest available data between 2013-2017.

Water Scarcity

The scarcity of water resources and the use of outdated irrigation techniques are among the most critical obstacles and challenges facing agriculture development and food security situation in many OIC countries particularly in arid and semi-arid regions of West Asia and North-eastern Africa (Figure 7.6). Most of the OIC countries in these regions are facing severe water pressures due to limited opportunities for the exploitation of new water resources. These pressures are expected to increase in the face of increasing populations and the increased level of water use per capita associated with economic development. Therefore, the efficient use of water resource in agriculture, through improving irrigation systems and techniques, is one of the most urgent needs and prerequisites for sustainable agricultural development and food security in OIC countries, particularly those in water-scarce regions.

Figure 7.7: Area Equipped for Irrigation as % of Agricultural Area, 2008-2017



Source: FAO AQUASTAT Online Database

According to recent FAO estimates, OIC member countries recorded an average per capita total renewable water resources (TRWR) of only 4,652 m^3/year compared to the world average of 7,601 m^3/year (SESRIC, 2018). In fact, 26 OIC member countries suffer water stress and/or scarcity. Out of that, 6 countries experience water stress, 6 countries face water scarcity and the rest 14 countries suffer from water absolute scarcity. Countries with water stress and/or scarcity depend on external sources to provide their water need.

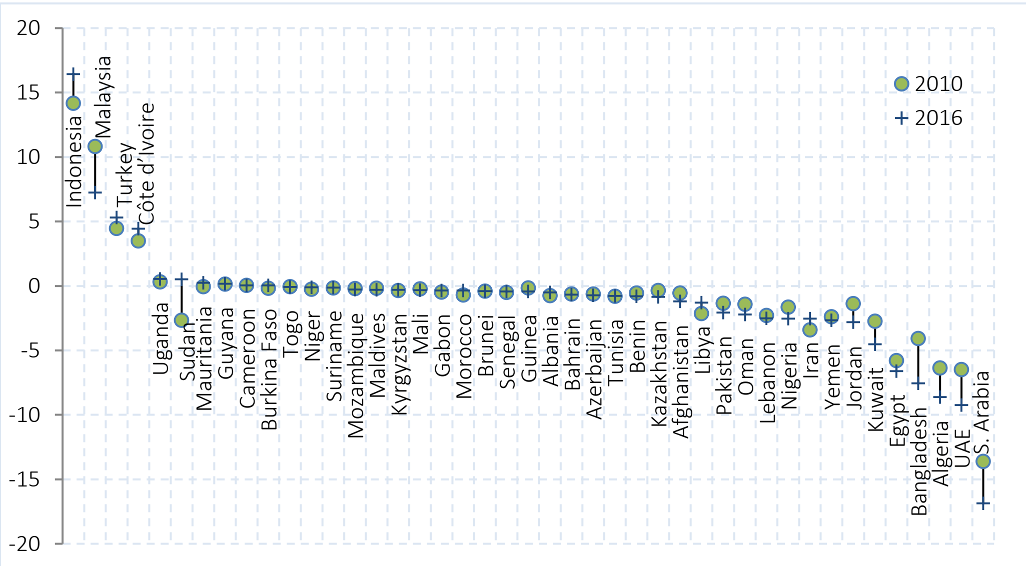
Lack of Irrigation Systems

Considering the fact that water is a scarce resource in the majority of OIC member countries, utilisation of a proper irrigation system is imperative to increase the productivity of agriculture. However, only 25.4% of the total arable land in OIC countries is equipped with an irrigation system. Moreover, in countries where agricultural irrigation is intensive such as in Pakistan, Egypt and Iraq, salinization has emerged as a major problem. In addition, surface irrigation, which is the least efficient irrigation technology, is used in 82.1% of the total agricultural area equipped with irrigation in OIC member countries, causing huge amounts of water diverted for irrigation to waste due to deep percolation and surface runoff. This ratio is more than 50% in 38 OIC countries, out of that 17 OIC countries, surface irrigation is single technique practised for irrigation. Consequently, huge amounts of the water diverted for irrigation in these countries are wasted at the farm through either deep percolation or surface runoff.

Growing Food Deficit and Humanitarian Crisis

Considering the expected increase in population growth rates and changes in consumption patterns, global agricultural production would need to increase by some 70% which means agricultural production, particularly food products, needs to double in developing countries, including OIC member countries. Yet, it seems that OIC member countries have insufficient domestic food production capacity to meet the food demand of their growing populations. During the period 2010-2016, the growth of food exports was outweighed by the growth of food imports in majority of OIC countries. As shown in Figure 7.8, 33 out of 43 OIC countries with data recorded food trade deficit in 2016. Among these countries, Saudi Arabia recorded the highest deficit of US$ 17 billion followed by United Arab Emirates (9.3 billion), Algeria (8.6 billion) and Bangladesh (7.6 billion). On the positive side of the scale, 10 OIC members reported food trade surplus in 2016. Indonesia is ranked at the top with a food trade surplus of US$ 16.4 billion followed by Malaysia (7.2 billion), Turkey (5.3 billion) and Côte d'Ivoire (4.4 billion). In general, 23 member countries reported increase in food trade deficit during the period under consideration. On the other hand, Sudan is the only country which moved from a US$ 2.7 billion trade deficit in 2010 to a surplus of US$ 0.5 billion in 2016.

Figure 7.8: Food Trade Balance (US$ Billion)



Source: FAO STAT Online Database

Growing food trade balance deficits is of particularly source of concern for the Low Income Food Deficit Countries (LIFDCs) and Countries in Crisis Requiring External Assistance worldwide, which spend around 54% of their export earnings on commercial food imports. According to the recent FAO classifications, 29 OIC member countries are found to be classified among the world's 52 LIFDCs and Countries in Crisis Requiring External Assistance, most of them are in Sub-Saharan Africa and the arid regions of West Asia and North-eastern Africa (Table 7.2). In general, the majority of these countries are characterized by low income level, conflicts, political instability and high prevalence of undernourishment. They are unable to produce sufficient food to meet their domestic demands while due to lack of resources they cannot import it as well. Moreover, the internal conflicts in some of these countries, particularly in Africa are, without doubt, negatively affecting all aspects of life, not only by exacerbating the unfavourable living conditions but also by remaining as obstacles in front of the potential for economic development. The insecure conditions in these countries also make it difficult for the food aids from other countries or international organizations to reach in the areas in need. In this respect, food shortages continued to affect a significant number of the 29 OIC-LIFDCs, where 19 of them have also been classified as 'Countries in Crisis Requiring External Assistance' (FAO website, September 2018).

Table 7. 2: Low-Income Food Deficit Countries and Countries in Crisis Requiring External Assistance

Afghanistan*+	Djibouti*+	Mauritania*+	Sudan*+
Bangladesh*	Gambia*	Mozambique*+	Syria*+
Benin*	Guinea*+	Niger*+	Tajikistan*
Burkina Faso*+	Guinea-Bissau*	Nigeria*+	Togo*
Cameroon*+	Kyrgyzstan*	Pakistan*+	Uganda*+
Chad*+	Iraq+	Senegal*+	Uzbekistan*
Comoros*	Libya+	Sierra Leone*+	Yemen*+
Côte d'Ivoire*	Mali*+	Somalia*+	

Source: www.fao.org. Notes: *→LIFDCs; +→ Countries in Crisis Requiring External Assistance

Policy Suggestions

As elaborated in previous sections, many OIC member countries have witnessed significant progress towards achieving the goals on agriculture development and food security. However, in general, progress has been slow and uneven along with widespread inequalities between and within countries. The situation is particularly alarming in low income and least developed member countries, as majority of these countries are characterized by inadequate capacity, poor infrastructure, inefficient use of agricultural resources, and fragile peace and security situation. These challenges and constraints should be carefully addressed by the relevant national authorities and policy makers. In this context, the following suggestion can serve as broad policy guidelines at both the national and intra-OIC cooperation levels.

The performance of agriculture sector in OIC countries is poor largely because of the persistent under investment by the public sector. Paradoxically, countries that are most strongly dependent on agriculture have most significantly reduced support to agriculture. To this end, there is a need to pay due attention towards empowerment of rural populations by investing in rural infrastructure, modern irrigation systems and agriculture mechanisation. In terms of the overall availability of the three main agricultural resources together (labour, land and water), it seems that Afghanistan, Bangladesh, Indonesia, Mali, Mozambique and Uganda are exhibiting the most potential for attracting intra-OIC investment in the agriculture sector. Yet, from the investors' perspective, considering the limited ability of these countries to attract FDI due to relatively weak business and investment climate and poor agricultural infrastructure, these countries could not attract sufficient interest from the investors. Business and investment environment should be enhanced at the national level through developing incentives for investors from both within and outside the OIC countries by introducing specific measures in national regulatory frameworks and promoting joint investment approaches such as joint trade/investments programmes and strategies and joint entries into OIC markets led by private investment banks. In order to achieve this goal, member countries should revisit and revise complicated regulations, licensing and other institutional bottlenecks.

Inefficiencies in land use can be attributed to the fact that many OIC countries bear the problems of inefficient land markets due to insecure property rights, poor contract enforcement and stringent legal restrictions that limit the performance of land markets. This is a major problem in OIC, and particularly in least developed member countries, where land tenure security is not established. Ensuring access to land and providing control over land for poor and marginalized rural households is significant for promoting agricultural growth, and in return, to mitigate poverty in the least developed member countries. While traditional tenure systems have been good, rising population density, urbanization and political instabilities in some OIC countries will exacerbate the pressure on available land area for agriculture even further in the near future.

There is an urgent need, at both the national and OIC cooperation levels, to address the issue of water shortage in the context of food security, public health and sanitation, and access to safe drinking water. In arid and semi-arid regions where many OIC countries are located water is simultaneously a scarce resource and it is highly volatile from year to year. Water storage whether in the conventional method of dams, or the less conventional method of underground water storage increase the availability of water on a regular basis and especially in dry seasons were otherwise water would have been absent. Moreover, taking into account that agricultural production in most parts of the OIC group remains dependent on irrigation systems, and that only a quarter of total agricultural area is equipped with an irrigation system, it is clear that investments in irrigation systems is a major challenge to be tackled by OIC countries. On the other side, where agricultural irrigation is intensive such as in Pakistan, Egypt and Iraq, salinization has emerged as a major problem because 82% of the agricultural area in OIC countries is irrigated through surface irrigation, which is the least efficient irrigation technology, causing huge amounts of water diverted for irrigation to waste due to deep percolation and surface runoff.

CHAPTER EIGHT

OIC-2025: Employment, Infrastructure and Industrialization

The OIC member countries are as a group well-endowed with potential economic resources in different sectors such as agriculture and arable land, energy and mining, human resources, and they form a large strategic trade region. Yet, this inherent potential does not manifest itself in the form of reasonable levels of economic and human development. The ineffective use of available factors of production in the member countries also manifests itself in the productivity indicators such as labour and total factor productivity growth rates.

This thematic area is the most comprehensive part of the strategy document and covers six main categories. These are (i) industry, (ii) transport, (iii) energy, (iv) tourism, (v) labour, employment and social protection, and (vi) entrepreneurship and SME development.

8.1 Industry

Goals 2.9.1 - 2.9.3:

[2.9.1] Increase local productive and export capability of OIC Member States with a focus on value added sectors in agriculture, manufacturing, maritime and services.

[2.9.2] Increase the value addition in natural resource-based industries paying special attention to employment generation, science, technology and innovation development, and the sharing of technology.

[2.9.3] Develop and facilitate green industry and industries based on blue economy.

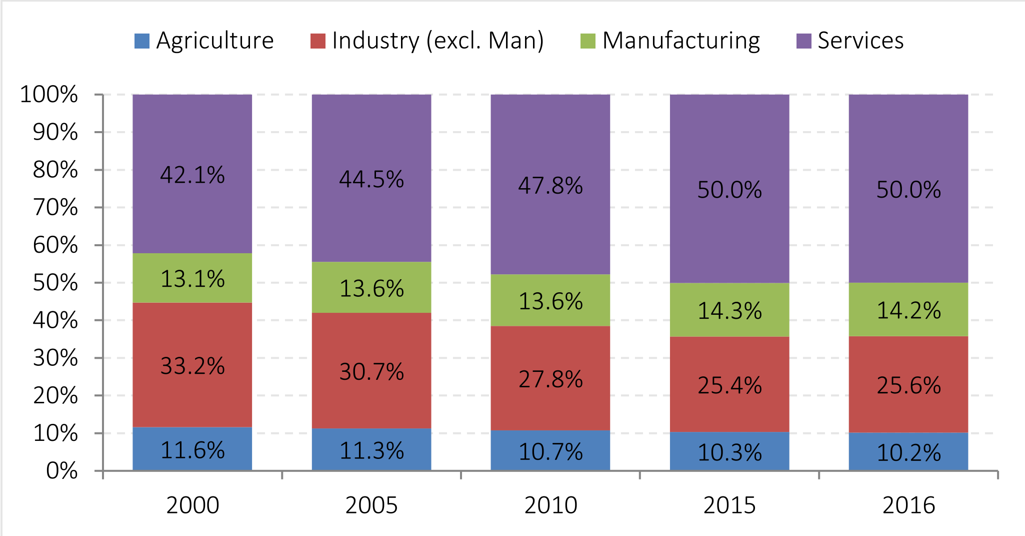
Rationale

Historically, economic development has been closely connected with industrial development. Over the years, there have been many attempts to develop the economies through industrialization across the world, but many of the public interventions failed to produce the desired outcomes. Amid renewed interest in industrial development in many parts of the world, above goals are particularly important to achieve for fostering economic development in OIC countries.

Economic performances of countries are strongly associated with their ability to raise productivity levels across the economic sectors. However, different sectors entail different characteristics in terms of contributing to overall productivity growths. There is a need for *structural transformation* towards higher productivity sectors to achieve sustained growth and better economic performance. In order to achieve structural transformation, productive sources of an economy should move towards sectors that have higher productivity potential. Aims to increase capacity to produce and export more value added products through investing in capacities to utilize existing technology and innovate new products and systems.

It is also widely recognized that quite a number of OIC countries are dependent on extractive resources for income generation and economic growth. However, if not enough investment is made to add value to these resources, productivity and competitiveness of countries will

Figure 8.1: Share of Economic Sectors in Total Value Added

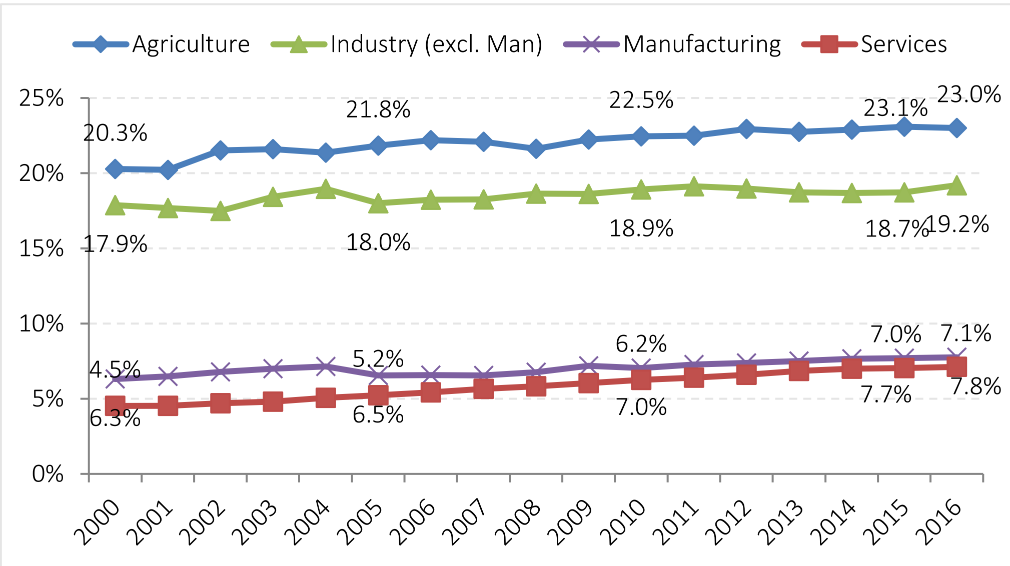


Source: UN Statistical Database.Data coverage: 51 OIC countries, 35 developed countries and 93 non-OIC developing countries.

deteriorate and suffer from what is commonly referred as "resource curse". Therefore, it is also extremely critical to invest in diversifying the economic structure to reduce reliance on few low productive sectors.

There are also growing anxiety over climate change and sustainable development across the globe. Sustainable Development Goals (SDGs) turned attention away from economic development to sustainable [economic] development. In this context, it is important to ensure

Figure 8.2: Share of OIC Countries in Global Economic Activity by Sectors



Source: World Bank WDI Database.

that the industrial development policies are environment friendly and pay particular attention to preserving ecosystems and habitats.

Current State and Progress towards Realization of the Goals

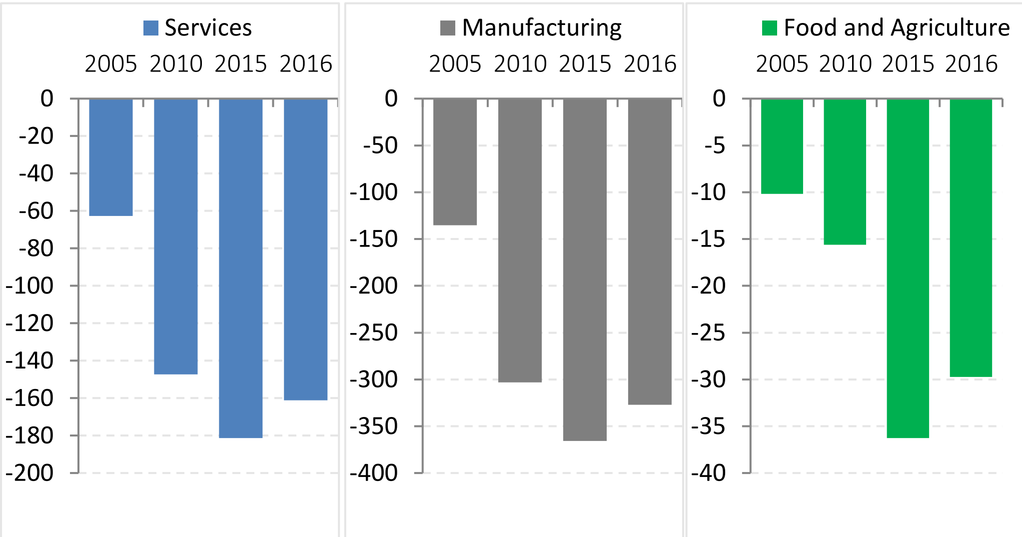
Economic structure of OIC countries have been evolving towards services sector and away from non-manufacturing industries. The share of manufacturing sector in total value added of OIC countries increased from 13.1% in 2000 to 14.3% in 2015 but slightly fell to 14.2% in 2016 (Figure 8.1). However, the share of agriculture has been constantly falling since 2000 and reached 10.2% in 2016 compared to 10.3% in 2015 and 11.6% in 2000. On the other hand, steady increase of services sector raises the concern over premature deindustrialization in OIC countries.

On the other hand, the share of OIC countries in global economic activity increases in all sectors (Figure 8.2). Perhaps more importantly from the perspective of industrial development, OIC countries increased their share in global manufacturing activity from 6.3% in 2000 to 7.7% in 2015, and further increased to 7.8% in 2016. Despite the progress, participation in global manufacturing activities is still extremely low and requires effective long-term strategies to transform the OIC countries into competitive industrial economies.

The lack of industrial and economic development is also evident from trade statistics. As shown in Figure 8.3, there was a growing expansion of trade deficit in OIC countries in major sectors, even in food and agriculture. In 2016, however, a considerable contraction in trade deficit is observed in all sectors, indicating an improvement in trade statistics.

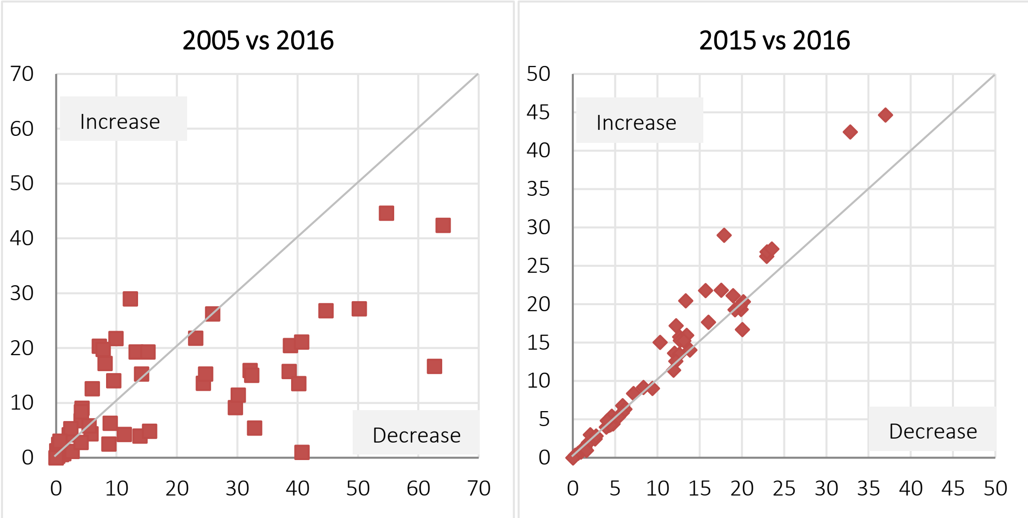
Aim of increasing the value addition in natural resource-based industries (Goal 2.9.2) is also important in reducing the reliance on primary products and achieving structural transformation in OIC countries. Figure 8.4 shows that many OIC countries reduced their reliance on natural

Figure 8.3: Trade Deficit in Manufacturing, Agriculture and Services (Billion USD)



Source: World Bank WDI Database and UNCTAD Stats. *Data Coverage: 55 OIC countries (left),* 43 OIC countries (middle and right)

Figure 8.4: Total Natural Resources Rents (% of GDP)



Source: World Bank WDI Database. *Data Coverage:* 54 OIC countries.

resources in 2016 when compared to 2005 (left), but statistics also imply that most OIC countries have greater dependence on natural resource rents in 2016 when compared to 2015 (right). This revels that many OIC countries continue to remain dependent on extractive resources.

Table 8.1: Value Addition in Mining and Quarrying in OIC Countries

Country	LYA	Value Added (Billion USD)	Change (*)
Albania	2014	0.6	n/a
Azerbaijan	2015	14.0	-42.5%
Bangladesh	2015	3.7	189.5%
Egypt	2013	28.8	48.8%
Iran	2015	2.9	-55.4%
Jordan	2014	1.0	-28.9%
Kazakhstan	2015	23.3	-31.7%
Malaysia	2015	26.4	-4.2%
Qatar	2015	60.7	n/a
Saudi Arabia	2015	165.9	n/a
Palestine	2014	0.04	18.8%
Turkey	2015	4.0	-17.5%

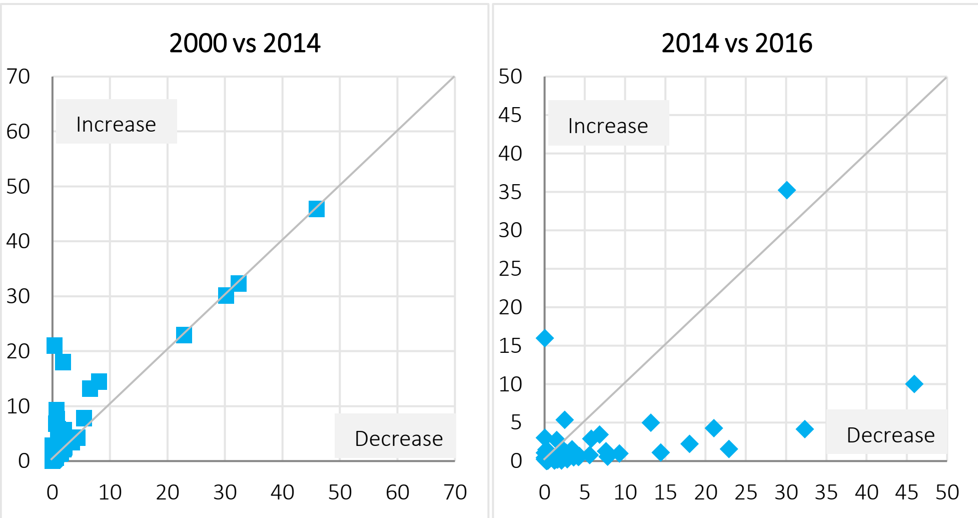
Source: UNIDO MINSTAT 2018. (*) Change is compared to the value in 2010 or available data during 2009-2012. If data before 2012 is not available, the change is not reported.

While it is important to improve the value addition in extractive resources, data is not available to make comprehensive analysis. According to UNIDO MINSTAT database, out of 12 OIC countries for which data are available, Saudi Arabia is the OIC country with largest value addition in mining and quarrying industry (US$ 166 billion). Qatar, Egypt and Malaysia are also the major countries with significant value addition in this sector. However, when their performances are compared with earlier realizations, many countries experience a reduction in total value addition in mining and quarrying industry (Table 8.1). This apparently requires effective collaboration among OIC countries to improve the capacities for greater value addition through research and development activities, as stated in the goal 2.9.2. Green growth requires utilising natural resources in a sustainable manner. Natural resources are important assets to produce wealth and prosperity for the current and future generations. However, it is important to foster economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies. Figure 8.5 shows that marine protected areas as percentage of territorial waters have fallen in a number of OIC countries during the period 2014-2016. Increasing the proportion of terrestrial and marine areas protected helps defend vulnerable plant and animal species and safeguard biodiversity, which in turn supports blue economy.

Investment in renewable energy is gaining growing recognition and interest across the world and OIC countries are no exception. Total renewable energy capacity of the OIC countries increased by 70% between 2008 and 2017, and 12.7% between 2015 and 2017. However, non-OIC countries are investing more than the OIC countries, as we observe that the share of OIC countries in global renewable energy capacity constantly falls to reach 5.4% in 2017 (Figure 8.6, left). During the period 2015-2017, 12 countries did not make new investment in their renewable energy production capacity and 10 countries increased their capacity only up to 5% (Figure 8.6, right). Only 7 OIC countries increased their capacity over 50% since 2015.

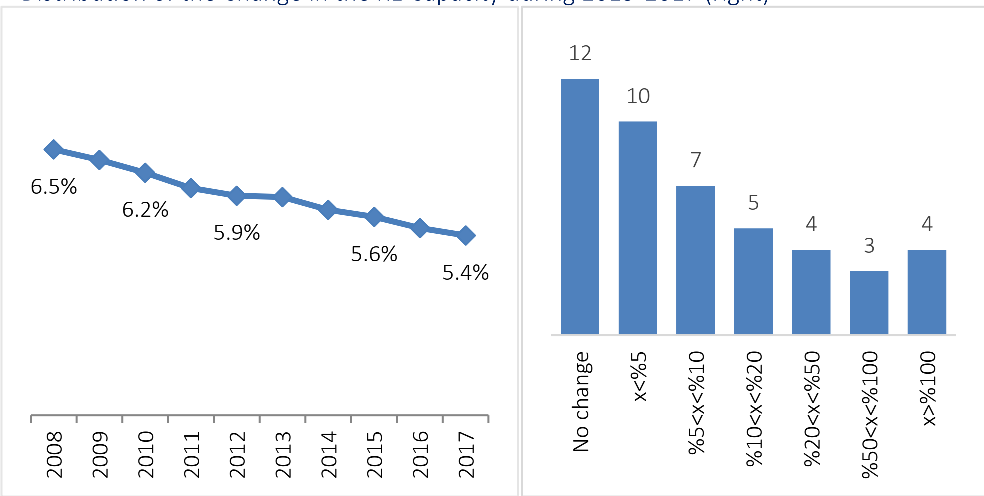
As targeted in Goal 2.9.3 again, blue economy is also a critical area of cooperation for OIC countries. Oceans and seas are vital to the livelihoods and food security of billions of people around the world, and to the economic prosperity of most countries. Although they are critical

Figure 8.5: Marine protected areas (% of territorial waters)



Source: World Bank WDI Database. *Data coverage:* 44 OIC countries in providing income and nutrition, pressures from human activities endangers the sustainability of these precious resources.

Figure 8.6: Share of OIC Countries in Global Renewable Energy Capacity (Left) and Distribution of the Change in the RE Capacity during 2015-2017 (right)



Source: IRENA Renewable Capacity Statistics 2018. *Data Coverage:* 55 OIC countries (left); 45 OIC Countries (right).

Issues and Challenges in Achieving the Goals

In order to increase production and export capabilities, OIC countries need effective industrial development policies. This is necessary to achieve greater productivity and competitiveness in manufacturing sector. Industrial development requires inclusive strategies that bring in all potential actors who can contribute to the development process. Starting from individuals to finance institutions, probably most segments of a society can be supportive part of this process. However, in all cases, governments will have facilitator role, because they will have the oversight on capacities, resources and requirements for successful transformation. They are in a position to raise people's spirit to engage in entrepreneurial activity, innovative SMEs to enter foreign markets, identify the gaps in human capital, infrastructure and institutions and bridge those gaps, establish special finance institutions and financial mechanisms to finance industrial development projects, build the technology and innovation capacity of their countries and engage in regional partnership to make use of potentials of greater markets.

Today, there is a renewed interest in industrial policy to achieve greater competitiveness in the world economy. Astonishingly, this interest is stronger in developed countries than in developing countries. In order to narrow the gap in economic development and reduce the level of economic concentration, OIC countries need to refocus their attention to economic diversification in manufacturing sector. They should target to become competitive in a variety of products at the highest feasible levels of quality. They should also implement policies to rapidly spread these capacities to build clusters of firms that generate new jobs to utilize the productive capacity of youth and skilled labour force.

An important challenge for OIC countries is, however, the lack of high-skilled human capital stock. Technically and scientifically qualified personnel support the industrial development process by contributing to the technology, innovation, production and marketing. As highlighted in SESRIC (2017a), current skills levels of the labour force in OIC countries is comparably low. Therefore, governments should increase government support to education, and improve vocational education and training to upgrade the skills base.

Moreover, inadequate level of financial development hampers the access to capital in financing critical investment opportunities, particularly for newly established innovative enterprises. A well-developed financial system also allows resources to be allocated efficiently. The current level of financial development, as discussed in section 3, is rather underdeveloped. Therefore, there is a need to improve the financial development to increase the ability of firms to obtain adequate financing for their innovative and potentially competitive investment opportunities.

Finally, in order to develop and facilitate green industry and industries based on blue economy, there is a need for greater awareness raising on the importance of the target. A sustainable blue economy provides social and economic benefits by contributing to food security, poverty eradication, livelihoods, income, employment, safety and equity. It is important that blue economy practices protects and maintains the diversity, productivity, resilience and value of marine ecosystems. In this context, while devising their blue economy policies, OIC countries can develop and apply standards, guidelines and best practices that support marine ecosystems.

8.2 Transport

Goals 2.9.4 - 2.9.5:

[2.9.4] Reduce costs of export/import and improve services through development of adequate transport corridors and networks so as to increase the competitiveness of OIC Member States.

[2.9.5] Establish safe, secure and interconnected multimodal transport corridors and networks among the Member States to facilitate trade, social and cultural exchanges among them.

Rationale

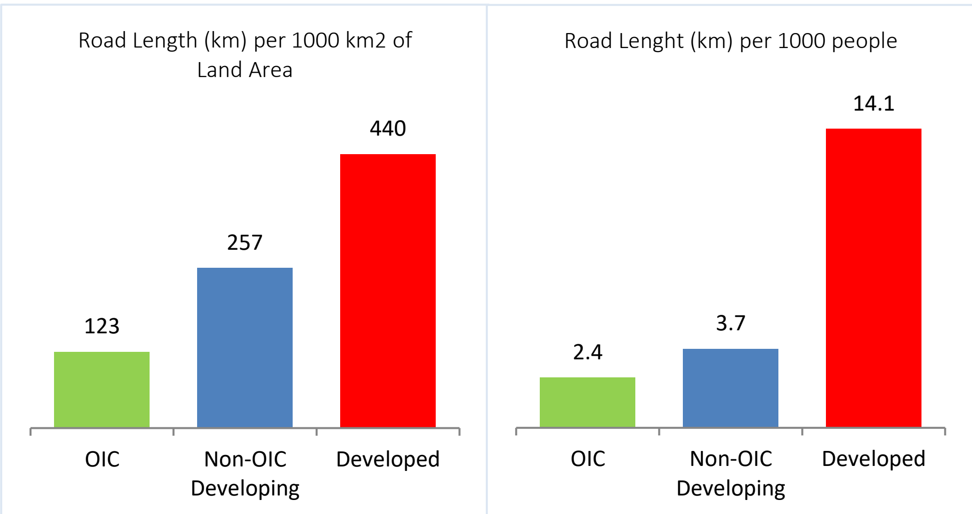
By enabling the transfer and movements of people, goods, services and resources and improving access to services and local and international markets, transportation is an indispensable element in human and economic activity. Transport is not only an enabler of business activities; but also a major economic sector in its own right, which serves as a corner stone in economic and human development. For this reason, it is not surprising that transportation has found its way into the OIC -2025 Programme of Action and to the 2030 Sustainable Development Agenda, where some SDGs are directly and/or indirectly connected to sustainable transport through specific targets and indicators.

Transportation networks and corridors plays a role in reducing the cost of doing business, and providing access and connectivity to areas that otherwise would have been isolated. Lower costs and enhanced accessibility, due to better transport links, corridors, and services, expand markets for businesses and improve their access to supplier inputs. Increased access and connectivity create increased opportunities for trade, competition and specialisation, which can lead to longer-term productivity gains. These changes are analogous to the gains from lowering barriers to trade and the expansion of opportunities that come from doing so (New Zealand Ministry of Transportation, 2014).

Transport is not only an enabler of business activities; it is a major sector of the economy in its own right. Transportation infrastructure composes of large portion of total infrastructure expenditure. Calderon, Moral-Benito and Servén (2009) present estimates of returns on infrastructure that are very robust and methodological sound. Their estimates of the output elasticity of infrastructure, which rely on a multi-dimensional measure of the physical stock of infrastructure as opposed to infrastructure spending, lie between 0.07 and 0.10. In other words, a 10 percent rise in infrastructure assets directly increases GDP per capita by 0.7 to 1 percent.

Transportation has social and economic impacts that positively affect the social and economic wellbeing and thus leading to economic development. In the literature, objecting voices can be found arguing that causality between transportation and economic development is important but difficult to prove. This might have some validity in developed countries, where transportation networks and corridors are well developed and the gains of additional investment in transportation might be marginal; however, in OIC countries that are still developing, investments in transport will yield massive benefits. History seems to support this argument. According to Eddington (2006), improving *"inter-urban and international connections have permitted radical new production processes and allowed regions and countries to start trading in order to reap the benefits of increasing specialisation in the production of goods and services."* It is clear that, in the context of OIC countries, establishing basic connectivity can be a very significant contributor to rapid economic growth.

Figure 8.7: Road Network Density, 2011



Source: SESRIC Staff Calculations based on WDI. *Data coverage*: 34 OIC countries, 33 developed countries and 56 non-OIC developing countries.

Current State and Progress towards Realization of the Goals

In order to evaluate the progress in achieving the goals 2.9.4 and 2.9.5, existing transport infrastructure and total trade cost figures are considered.

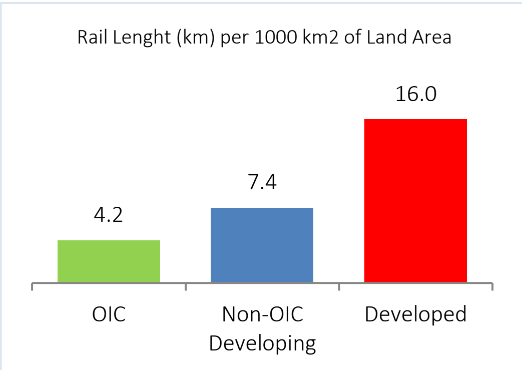
Road Networks: The length of road networks in OIC countries is estimated at approximately 2.5 million km (estimates for year 2011) with 53% of the roads being paved roads and the remaining unpaved roads (47%). To put this figure into perspective there is a need to standardize this figure according to population and land size. Road network length, when standardized on a per capita basis, can be considered a proxy for measuring the extent to which every person in any given country or region is served by roads. The length of road network per capita within the group of OIC member states stands at 2.4 and is modest when compared to non-OIC developing and developed countries (Figure 8.7, right). When standardization is based on the land area, the average road network of 123 km per 1000 km2 land area within the OIC group is almost half that of non-OIC developing economies and less than one-third of that of the developed economies (Figure 8.7, left).

Rail Networks: The total length of rail lines in OIC countries is estimated at 100 thousand km. To put this figure into perspective; there is a need to standardize the length of rail lines based on population and land area. The average length of railway per land area and population within the group of OIC countries lacks that in other country groups (Figure 8.8). The poor figures in OIC countries are mainly caused by the stagnant rail line infrastructure growth coupled with the increasing population.

Air Networks: The average number of airline take offs in the OIC countries, measured on per 1000 people basis, was 2.4 in 2017. This is a level is lower than what is observed in other country groups as Figure 8.9 demonstrates.

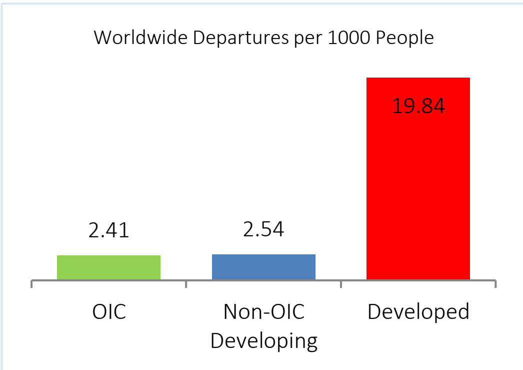
Sea Networks: With more than 100,000 km of total coastline, OIC countries possess significant potential for sea transportation. Yet, the current level of sea transportation network density in

Figure 8.8: Rail Network Density, 2016



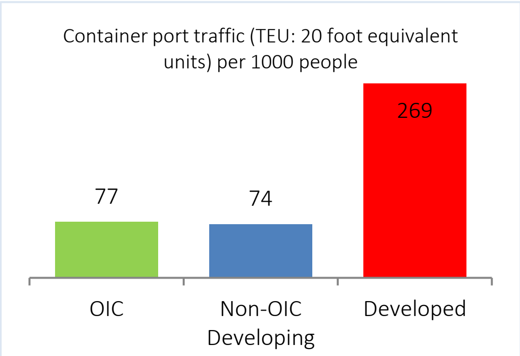
Source: SESRIC Staff Calculations based on WDI. *Data coverage*: 33 OIC countries, 29 developed countries and 50 non-OIC developing countries.

Figure 8.9: Air Network Density, 2017



Source: SESRIC Staff Calculations based on WDI. *Data coverage*: 52 OIC countries, 31 developed countries and 71 non-OIC developing countries.

Figure 8.10: Sea Network Density, 2016



Source: SESRIC Staff Calculations based on WDI. *Data coverage*: 34 OIC countries, 31 developed countries and 57 non-OIC developing countries.

the group of OIC member countries is far from enabling the group to fully utilize this potential as shown in Figure 8.10.

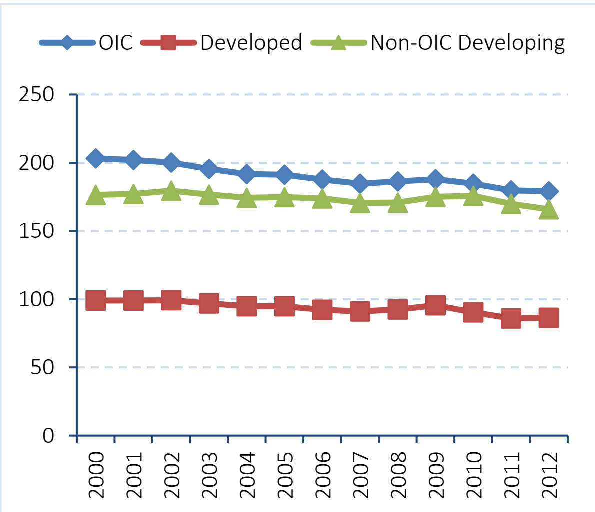
Trade Costs: The cost of transport is a major factor influencing the cost of trade and thus the competitiveness of a country. Figure 8.11 shows the average trade costs for different country groups over the period 1995-2012. In order to avoid any potentially misleading aggregation, the averages are calculated by using the bilateral trade costs with 20 largest export partners for each country. As it is evident, although tariffs in many countries are now at historical lows, overall trade costs remain high. Average trade costs tend to exhibit higher trade costs particularly in developing countries. OIC countries, on average, display even higher trade costs. In 2012, trade costs in OIC countries (179% ad valorem) were on average two times higher than those in developed countries (86% ad valorem).

Issues and Challenges in Achieving the Goals

The above analysis points to a strong need for more progress in transportation development. The transportation network densities and capacities of the OIC countries, as a group, lag behind other country groups.

OIC countries face critical obstacles and challenges in the field of transportation, which hinder their economic development. Already inadequate infrastructure and maintenance services cannot be improved considerably due to insufficient financing resources and investment in the transportation sector and transportation infrastructure projects. Complex and prolonged customs and border-crossing procedures, especially in land-locked member countries, prevent the development of transportation.

Figure 8.11: Average Trade Cost



Source: SESRIC Staff Calculations based on WB-UNESCAP Trade Costs Database

Another challenge faced by OIC countries is the inadequate implementation of transportation and trade facilitation measures and the lack of information and knowledge sharing among OIC member countries in this area. Lack of a sound, harmonized, and adequate legal and regulatory frameworks, both at national and OIC regional level further exacerbates this challenge. Moreover, OIC countries lack the adequate human and institutional capacity of relevant transportation authorities. The use of Information and Communication Technologies (ICT) in the area of transport is also lagging.

The above-identified obstacles and challenges have implications at both national and OIC cooperation level. At the national level, the solution of infrastructure problems requires sustainable longer-term investment and involvement of the private sector in transport project investments through OIC joint venture transport projects. Measures should be developed to improve maintenance of existing roads, railways, seaports and airports as well as to improve the quality of these transport modes services. Sufficient resources should be allocated to the projects, programs and studies in transport sector, in collaboration with regional and international financial institutions. More attention from private investors should be attracted through rational incentives. Private investments via Public-Private Partnership (PPP) scheme have become popular around the world as a tool for improving transport infrastructure.

At the OIC cooperation level, developing an OIC regional transport approach requires close cooperation and coordination between the member countries as well as the different organization and agencies involved. It also requires concluding of framework agreements on the priorities both in the infrastructure and policy areas. High level policy coordination among Ministers of Transport in member countries can help promote dialogue on the challenges and problems facing the sector in the OIC region.

Enhancing partnership with relevant regional and international organizations in the field of transport to avoid duplication and enhance effectiveness is also needed. In this framework, a master plan for the transport corridors in the OIC Member States including identification of the obstacles on the existing transport corridors in the OIC sub-regions should be prepared. Projects similar to the Port Sudan-Dakar railway line project should be designed and implemented to create grounds of cooperation among OIC member states in the field of transportation.

Due to the significant variations in the spatial distribution of population, the intensity of economic activities and the level of economic development among the member countries, the potential solutions to poor transport development should be tailored to the challenges faced by each individual country. Particularly for the land-locked member countries, the land transport (road and rail) is vital to economic development as the infrastructure development significantly contributes to the economic growth by reducing production costs, contributing to the diversification of the economy and, most importantly, linking these regions to transport corridors.

8.3 Energy

Goals 2.9.9 - 2.9.13:

[2.9.6] Enhance capacities of OIC Member States in energy production, trade and distribution with the aim of ensuring access to energy for all.

[2.9.7] Ensure access to affordable, reliable, sustainable, and modern energy for all.

[2.9.8] Increase the share of electricity generation through alternative renewable energy sources.

Rationale

The demand for energy is on a steep upward curve, particularly in developing world. Meeting the growing demand for energy in a safe and environmentally responsible manner is a great challenge. Sustainable Development Goal 7 aims at ensuring access to affordable, reliable, sustainable and modern energy for all, and it is introduced in the OIC-2025 Programme of Action among energy goals for OIC Member States.

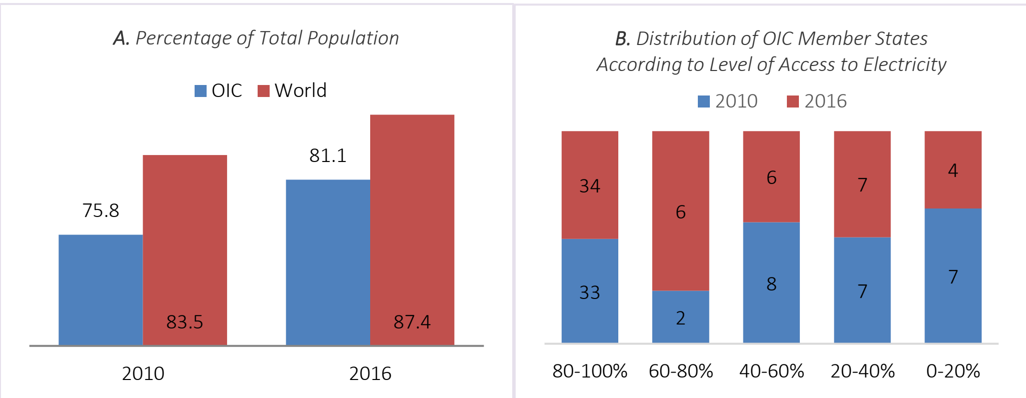
The OIC Member States are home to almost two-thirds of the world's crude oil and natural gas reserves. Yet, in terms of refining capacity of energy products, industrial energy use efficiency, popular access to energy, there is still a significant distance to cover. Access to reliable, modern and affordable sources of energy is a prerequisite for poverty eradication and promoting economic growth.

Current State and Progress towards Realization of the Goals

According to World Bank data, OIC Member States in total have made progress in providing access to electricity, raising this ratio from 75.8% in 2010 to 81.1% in 2016 (Figure 8.12). However, due to increases in population, the number of people without electricity in OIC area has increased from 311 million in 2010 to 334 million in 2016, counting for around 30% of world population without electricity access.

26 OIC Member states have reached 100% access to electricity, in addition to five of them whose values are between 91.4-99.4%. Afghanistan has seen the biggest increase – 41.4 percentage points, from 42.7% in 2010 to 84.1% in 2016. In the second place is Bangladesh who added 20.7 percentage points of the additional electricity connections from 2010 to 2016. Other OIC Member States that have made the most progress in providing access to electricity since the year 2010 are mainly in Africa, where for example Togo, Comoros, Uganda, Nigeria and Senegal have

Figure 8.12: Population with Access to Electricity



Source: World Bank data. *Notes:* OIC - N = 57.

seen increases between 10 - 16 percentage points. In same period, access to electricity in Djibouti and Suriname has decreased for -1.5 and -4 percentage points respectively. Unfortunately, 17 OIC Member States with the lowest access to electricity (below 60%) are all in Africa, with Chad (8.8%), Guinea-Bissau (14.7%), Niger (16.2%) and Burkina Faso (19.2) at the bottom of the list.

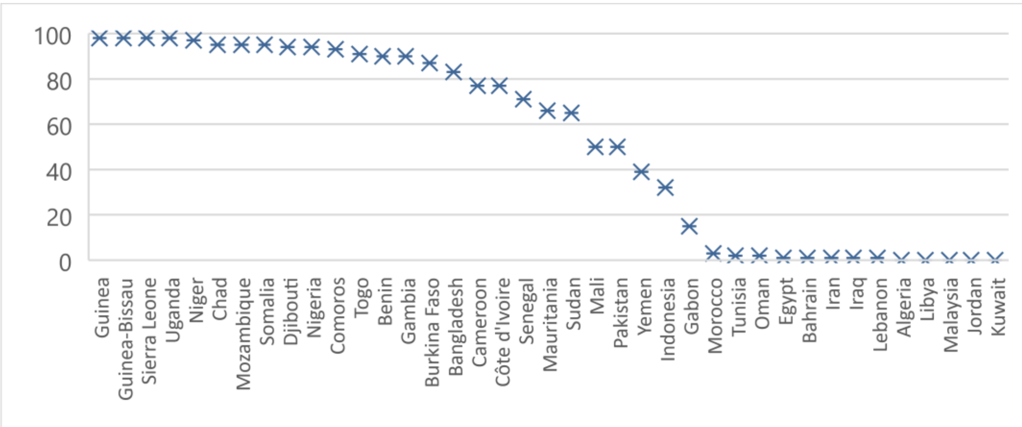
Figure 8.13 shows that percentage of population with access to clean fuels and technologies for cooking is in dramatic low levels, particularly in the OIC Member States from Sub-Saharan Africa. In 14 out of 39 OIC Member States, population without access to clean cooking was above 90% in 2015, meaning that millions of people were relying on polluting fuels and technologies for cooking, such as solid fuels and kerosene. Beyond children's health and premature deaths caused by household air pollution, polluting fuels are also a leading risk factor for non-communicable diseases, particularly among non-smoking women in OIC Member States.

From 2010 to 2015, the OIC Member States in total have managed to increase their net electricity production, as well as their share in global net electricity production, which increased from 10.2% in 2010 to 12.7% in 2015. Compared to 2010, only Syria*, Yemen, Albania and Comoros faced decreases in net electricity production in 2015.

In the sample of 41 OIC Member States natural gas plays important role, accounting for 45% of their combined net electricity production in 2015. Use of natural gas in electricity production in Bahrain, Qatar and Turkmenistan reaches 100%, while share of this source in electricity production in Algeria, Azerbaijan, Brunei, Oman, Tunisia and the United Arab Emirates is between 93-99%.

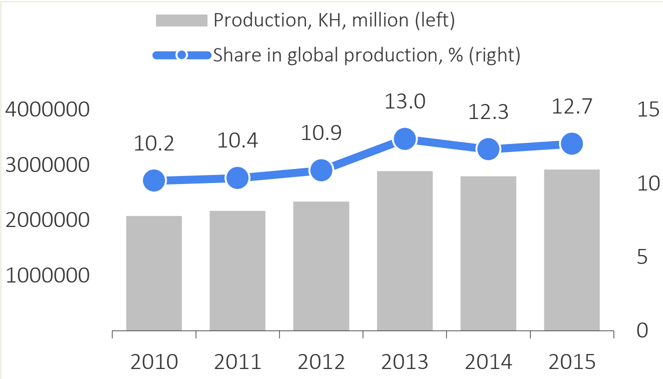
Coal, together with oil, accounts for another 45% of combined net electricity production in the 41 OIC Member States. In 2015 Kazakhstan (%72), Niger (%72) and Indonesia (%53) were most extensively using coal in electricity generation, while oil was used above 90% in Benin, Jordan and Lebanon.

Figure 8.13: Population Without Access to Clean Fuels for Cooking in 2015 (%)



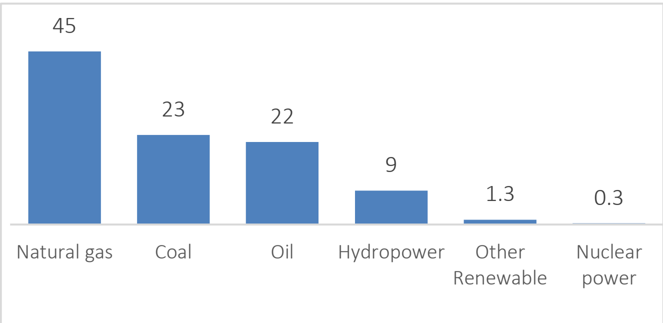
Source: REN21, Renewables 2018 Global Status Report, Renewable Energy Policy Network for the 21st Century, based on IEA - World Energy Outlook 2017 Energy Access Database.

Figure 8.14: Net Electricity Production in OIC Countries



Source: UN data. Notes: OIC - N = 57.

Figure 8.15: Sources of Net Electricity Production, 2015, %



Source: World Bank, World Development Indicators. Notes: OIC: N = 41.

Albania, Tajikistan, Mozambique and Kyrgyzstan are using hydroelectric power generation for more than 90% of their electricity needs. Unfortunately, as it is shown in Figure 8.15, despite developments in bioenergy, solar and wind technologies, the role of non-hydro renewables in net electricity production in 41 OIC Member States remains marginal, at 1.3%. Situation is similar with nuclear power that accounts for symbolic 0.3% of combined net electricity production in given sample of OIC Member States.

Issues and Challenges in Achieving the Goals

The heterogeneity of energy use across the OIC area is due largely to different natural resource endowments. It is normal for a country with large deposits of a particular energy source to use it as the primary mean of power generation. However, people living in places without ready stocks of fossil fuels or those with low purchasing power may have to rely on low-quality fuels, paving the way for household air pollution, what is the case in many OIC Member States. Still, the OIC have to increase its efforts in explaining the potential health benefits of switching from inefficient and polluting cooking fuels and technologies to cleaner ones.

Achieving universal access to modern energy by 2030 will require an enormous increase in OIC Member States' total power generation. The scale of this challenge will demand enormous financial investments, considerable political will and consideration of all the available technological options.

For the OIC Member States with low levels of access to electricity, renewables may be the cheapest way to provide electricity access. Off-grid technologies can be more cost-effective for the hardest-to-reach rural populations who are not likely to benefit from grid expansion. For these people, decentralised systems, predominantly supplied by solar and wind renewable energy technologies, may offer the lowest cost pathway to electricity access.

Investments in non-hydro renewables are important also for OIC Member States with relatively higher levels of access to electricity. The reason behind that is population growth and rapid urbanization that will result in a significant rise in energy demand in the future. For that reason, achieving universal and sustainable energy access for all by 2030 will necessitate additional electricity connections from renewables, whose power benefits will be much greater than the resulting waste and pollution.

8.4 Tourism

Goals 2.9.9 - 2.9.13:

[2.9.9] Publicize and highlight the opportunities and possibilities of investment, which exist in OIC Member States and the best practices of some Member States in tourism sector.

[2.9.10] Establish alliances between tourism stakeholders with a view to strengthening joint tourism marketing and promoting cooperation efforts at the sub-regions level as well as at the level of the OIC region as a whole.

[2.9.11] Enhance the role of Public-Private Partnerships (PPPs) in the expansion and upgrading of the existing tourist capacities and activities and for the construction of new facilities of appropriate quality and service standards, using up-to-date technologies.

[2.9.12] Promote regional and cross-border tourism projects in the Member States to attract investments.

[2.9.13] Promote awareness about Islamic tourism services in the Member States and beyond.

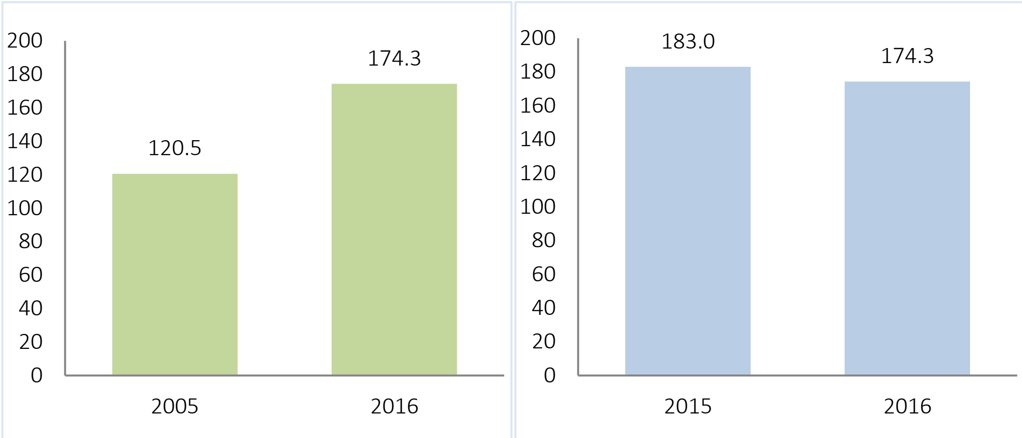
Rationale

Tourism can play an important role in the global fight to reduce poverty and achieve the Sustainable Development Goals (SDG 8, 12 and 14). International tourism activity generates significant economic benefits to tourists' host and home countries alike. It not only generates tourism revenue but also creates job and fosters development. Beyond generating economic benefits and boosting productive capacities, tourism has the potential to foster inclusion by reducing poverty and inequalities among vulnerable groups such as the poor, youth and women. The growth in tourism industry has spurred activities in other sectors of economy such as horticulture, handicrafts, agriculture, construction and even poultry.

Intraregional tourism is a precursor to promoting the region for international visitors particularly from the neighbouring countries. It strengthens the capacity within the region to develop better structures and institutions to rectify some of the common challenges faced by a region. Defined by this impressive network of socio-economic activities and the infrastructure needed to support it, tourism is one of the largest sectors in the world as well as an important category of international trade.

As a group, OIC countries have a high potential for the development of a sustainable international tourism sector. This is true given their rich and diverse natural, geographical, historical, and cultural heritage assets. Therefore, international tourism is a very important sector that could, if

Figure 8.16: Number of Tourist Arrivals in OIC Countries, 2005-2016 (in millions)

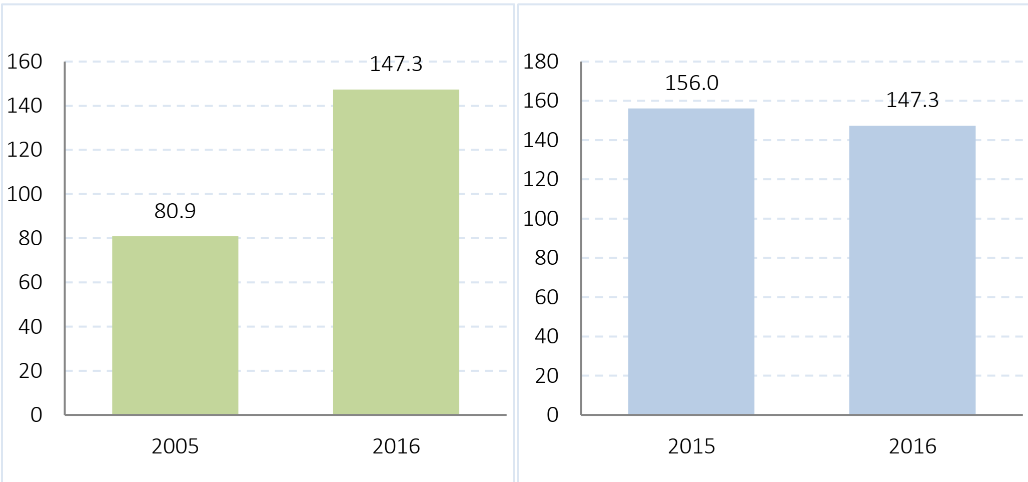


Source: UNWTO. Data coverage: 36 OIC countries.

properly planned and managed, play a significant role in the economic development of OIC countries. This is due not only to their existing and potential tourism resources, but also to the fact that their citizens travel in large numbers around the world for business, leisure, and other purposes. Accordingly, this sector can make tangible contribution in promoting socio-economic development as well as strengthening the bonds of solidarity among the people.

One of the effective ways of strengthening cooperation among OIC countries is to enhance intra-OIC tourism activities. In this way, people live in OIC countries visit and know each other more. This would also enhance intra-OIC investment and trade. Another promising factor for OIC countries in the domain of tourism is the emergence of Islamic (Halal) tourism. An increasing number of people living in OIC countries prefer using tourism facilities and services designed in line with the Islamic principles. Therefore, this sub-niche market of the tourism industry has a great potential that can foster development of tourism industry.

Figure 8.17: Tourism Receipts in OIC Countries, 2005-2016 (USD Billions)



Source: UNWTO. Data coverage: 35 OIC countries.

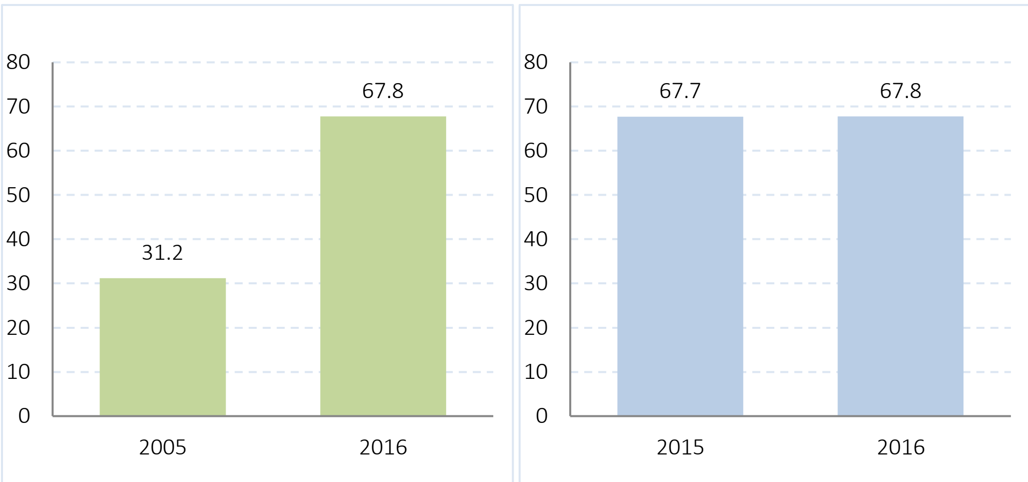
Current State and Progress towards Realization of the Goals

International tourist arrivals and tourism receipts are two key indicators to assess the development of the tourism industry in a country. In this regard, Figure 8.16 and 8.17 present data on international tourist arrivals and tourism receipts in OIC countries, for which the data are available. According to Figure 8.16, tourist arrivals went up from 120.5 million in 2005 to 174.3 million in 2016. However, a slight decrease in terms of tourist arrivals was recorded from 183 million in 2015 to 174.3 million in 2016. A similar picture is seen in the case of tourism revenues that increased from USD 80.9 billion in 2005 to 147.3 billion in 2016. Nevertheless, the total tourism receipts of OIC countries, for which data are available, in 2015 were measured at USD 156 billion that went down USD 147.3 billion in 2016.

Overall, 27 OIC countries achieved to increase their tourist arrivals and 17 OIC countries saw an increase in their tourism receipts in 2016 when compared with their performances recorded in 2015.

Between 2005 and 2016, intra-OIC cooperation in the domain of tourism had improved. As a reflection of this, the total number of intra-OIC tourist arrivals went up from 31.2 million in 2005 to 67.8 million in 2016 (Figure 8.18). A small increase was also recorded over the period 2015-2016. Intra-OIC tourist arrivals increased slightly from 67.7 million in 2015 to 67.8 million in 2016. Overall, 22 OIC countries saw an increase in their intra-OIC tourist arrivals figures when compared with their performances recorded in 2015. It is promising that a good number of OIC countries witnessed an improvement by attracting more tourists originating from OIC countries.

Figure 8.18: Number of Intra-OIC Tourist Arrivals in OIC Countries, 2005-2016 (Millions)



Source: UNWTO. Data coverage: 31 OIC countries.

Table 8.2: GMTI Scores of top-10 OIC Countries

Rank	Country	GMTI 2015		Rank	Country	GMTI 2018
1	Malaysia	83.8		1	Malaysia	80.6
2	Turkey	73.8		2	Indonesia	72.8
3	UAE	72.1		3	UAE	72.8
4	Saudi Arabia	71.3		4	Turkey	69.1
5	Qatar	68.2		5	Saudi Arabia	68.7
6	Indonesia	67.5		6	Qatar	66.2
7	Oman	66.7		7	Bahrain	65.9
8	Jordan	66.4		8	Oman	65.1
9	Morocco	64.4		9	Morocco	61.7
10	Brunei	64.3		10	Kuwait	60.5
Cumulative Score of top-10 OIC countries		698.5		Cumulative Score of top-10 OIC countries		683.4

Source: GMTI

The Muslim tourism market has witnessed rapid expansion over the years and emerged as one of the fastest growing segments of the global tourism market. The state of the Islamic (Halal) tourism market can be monitored by using some internationally recognized composite indices such as the Global Muslim Travel Index (GMTI) (more information on the GMTI can be found in SESRIC, 2017c and GMTI, 2018). According to Table 8.2, Malaysia topped the index ranking with cumulative scores of 83.8 in 2015 and 80.6 in 2018. The cumulative score of top-10 performer OIC countries in this index decreased from 698.5 in 2015 to 683.4 in 2018. This reduction, on average, reflects a deterioration in the overall Muslim-friendly tourism ecosystem in OIC countries.

The figures presented in Table 8.3 support this finding that the average score of 20 OIC countries are on the decline since 2016 which went down from 66.6 in 2016 to 62.6 in 2018. On average, the highest levels of declines were observed in the areas ease of communication and air connectivity. In areas such as visa requirements, safety & culture, airport facilities, on average, 20 OIC countries, for which data are available, recorded a progress.

Issues and Challenges in Achieving the Goals

The selected indicators in the domain of tourism indicate that in the OIC group, on average, desirable levels of tourism development and cooperation have not yet been achieved. In other words, the development level of the tourism sector in OIC countries, on average, continues to stay under its potentials.

Overall, the development of a sustainable international tourism industry necessitates the adoption of articulate long-term strategies as well as medium to short-term coherent plans and programmes at the national level that would be accompanied by a process of creating a supportive OIC cooperation environment at the regional level. The challenges facing tourism and the development of a sustainable international tourism sector in OIC countries are diverse as each country has its own tourism features, level of development, and national development priorities and policies.

Table 8.3: GMTI Sub-Index Scores of OIC Countries

	2016	2017	2018
Top 20 OIC Average	**66.6**	**66.9**	**62.6**
Visa Requirements	69.5	71	72
Air Connectivity	57.4	71	57
Transport Infrastructure	na	na	33
Outreach	33.1	36.9	36
Ease of Communication	59.6	59.5	59
Digital Presence	na	na	27
Safety & Culture	84.4	82	86
Inbound Economy	na	na	35
Enabling Climate	na	na	47
Access to Prayer Spaces	99	99.5	100
Dining Options & Halal Assurance	82	83.4	83
Accommodation Options	45.3	46.6	46
Airport Facilities	77.9	82.4	82
Unique Experiences	na	na	17

Source: GMTI. Note: OIC sample size is 20 due to data limitiations. Na stands for not available.

At the national level, it is essential to design tourism development strategies with a view to improving cooperation among OIC countries as well as different OIC geographical regions. As tourism is a business and primarily an area for private sector activity, efforts should be made to encourage and promote extensive private sector involvement in tourism development through strengthening public-private sector cooperation with a view to establishing policies, strategies, and regulations relative to sustainable tourism development. Inadequate infrastructure development such as airports, hotels and lodging services emerge as a major challenge in many OIC countries that hinders development of tourism. Existing transport networks among OIC countries are not strong enough to meet the growing demand stemming from Muslims living in different countries and continents. Even at the OIC sub-regional level, there are critical shortage of roads, airports and railways. This weak infrastructure also makes it difficult to provide tourists with the international standards of tourism facilities and services. Investing into human capital to develop capacities of tourism service providers is another recommendation that OIC countries need to take steps forward.

Even though there are some significant improvements at the individual country level, OIC countries, as a group, need to exert more efforts to improve the overall Islamic tourism ecosystem. To start with, awareness on Halal tourism products and services need to be improved. It is also essential to develop unified Halal standards in the tourism industry that can be used by all OIC countries.

The establishment of alliances among tourism stakeholders in OIC countries would play a key role in the development of the tourism industry. In particular, official tourism promotion bodies of OIC countries should be encouraged to cooperate with a view to strengthening tourism marketing and promotion both at the sub-regional level as well as at the level of the OIC region as a whole. The areas of cooperation should not stay limited with marketing and promotion. The success stories and best practices of OIC countries in the domain of tourism should be exchanged through organizing workshops and seminars. These platforms would also allow OIC countries to share lessons learned and promote cooperation among key stakeholders in the tourism industry.

8.5 Labour, Employment and Social Protection

Goals 2.9.14 - 2.9.16:

[2.9.14] Promote the exchange of information and best practices as well as strategies, polices and experiences in the area of occupational safety and health, employment, social protection and migration, with a view to promoting a culture of prevention and control of occupational hazards.

[2.9.15] Promote labour protection, which comprises decent conditions of work, including wages, working time and occupational safety and health, essential components of decent work.

[2.9.16] Improve information transparency on employment statistics and promote vocational training programmes.

Rationale

Occupational safety and health (OSH) represents a key element in achieving decent working conditions and sustaining well-being of workers. It is concerned with protecting safety, health and welfare of working people. Appropriate legislation and regulations together with adequate means of enforcement, are essential for the protection of workers' safety and health. Therefore, OSH can be secured by an adequate and appropriate system.

It is also important to protect the rights of the labour force and provide them with decent working conditions. All workers have the right to enter into and leave employment voluntarily and freely, without the threat of a penalty, and taking into account the legal rights and responsibilities. A worker's vulnerability should not be used to offer employment conditions below the legal minimum, and employers should refrain from using any practices that restrict a worker's ability to terminate employment. Moreover, all persons should enjoy equality of opportunity and treatment in the labour market and workplace.

On the other hand, the high incidence of the informal economy is a major challenge for the rights of workers, including the fundamental principles and rights at work, and for social protection, decent working conditions, inclusive development and the rule of law. Most people enter the informal economy not by choice but as a consequence of a lack of opportunities in the formal economy and in the absence of other means of livelihood. Moreover, decent work deficits, including the denial of rights at work, the absence of sufficient opportunities for quality employment, inadequate social protection and the absence of social dialogue, are most pronounced in the informal economy. The transition from the informal to the formal economy is essential to achieve inclusive development and to realize decent work for all.

Active Labour Market Policies (ALMPs) that promote vocational training programmes are highly instrumental in increasing employment, improving equity, enhancing employment mobility and job quality, and reducing poverty. They can be used to target specific groups to tackle the particular problems of these groups, including youth, women, disabled, long-term unemployed and migrants. They help to create new jobs in the medium and long term only in combination with other public policies, such as macroeconomic, industrial and educational policies.

Current State and Progress towards Realization of the Goals

Occupational safety and health (OSH) is about the recognition, evaluation and control of hazards arising in or from the workplace that could affect negatively the health and well-being of workers. The scope of OSH has been evolving in response to social, political, technological and economic changes in the world. In this context, the magnitude of the global impact of occupational accidents and diseases, as well as major industrial disasters, in terms of human suffering and related economic costs, have been a long-standing source of concern at workplace, national and international levels. According to the latest global estimates, 2.78 million deaths occurring annually across the countries are attributed to work. Work-related mortality accounted for 5% of the global total deaths. In total, it is estimated that more than 7,500 people die every day; 1,000 from occupational accidents and 6,500 from work-related diseases (Hämäläinen et al., 2017). Since data at individual country level is missing, the global trend is reported below in Table 8.4.

Table 8.4: Global Trend of Occupational Accidents and Fatal Work-Related Diseases (2001-2015)

	Fatal Occupational Accidents		Non-fatal Occupational Accidents (At least 4 days absence)		Fatal Work-Related Disease
	Number	**Rate***	**Number**	**Rate***	
2001	351,203	15.2	268,023,272	12,218	
2002					1,945,115
2003	357,948	13.8	336,532,471	12,966	
2008	320,580	10.7	317,421,473	10,612	2,022,570
2010	352,769	11	313,206,348	9,786	
2011					1,976,021
2014	380,500	11.3	373,986,418	11,096	
2015					2,403,965

Source: Hämäläinen et al., 2017. * Number of occupational accidents per 100,000 persons in the labour force.

Occupational diseases also create enormous costs when workers are not well protected from sickness, disease and injury arising from their employment. It reduces productivity of workers and increases health care expenditures. In this respect, work-related accidents and diseases result in an annual 4% loss in global GDP (ILO, 2013). Yet, 98% of workplace accidents and 100%

of occupational diseases are preventable through the implementation of sound prevention, reporting and inspection practices. Employers also face costly early retirements, loss of skilled staff, absenteeism, and high insurance premiums due to work-related accidents and diseases. Therefore, both in terms of humanitarian as well as economic reasons, it is important to strengthen the measures for OSH to promote the social protection and well-being of workers in OIC countries.

In order to promote occupational safety and health in OIC countries, OIC Network for Occupational Safety and Health (OIC OSHNET) prepared General Guidelines on Occupational Safety and Health, which was adopted during the 3rd Islamic Conference of Labour Ministers held in Indonesia in 2015. Moreover, within the framework of OIC Occupational Safety and Health Capacity Building Programme (OSHCaB), SESRIC carries out short-term training programmes based on the South-South Cooperation approach. With a proactive vision, SESRIC also engages with the regional and international institutions to contribute in the efforts of OIC member countries in improving their Occupational Safety and Health Capacities.

Protection of labour is among the critical responsibilities of governments, which are required to oversee that the rights of the labour force are adequately observed in the labour market. However, it is observed that OIC countries are heavily suffering from informal employment and working poverty. Informality has multiple causes, including governance and structural issues, and that public policies can speed up the process of transition to the formal economy, in a context of social dialogue. Therefore, there is a need to take urgent and appropriate measures to enable the transition of workers from the informal to the formal economy, while ensuring the preservation and improvement of existing livelihoods during the transition.

Figure 8.19a: Employment by Economic Class (2016)

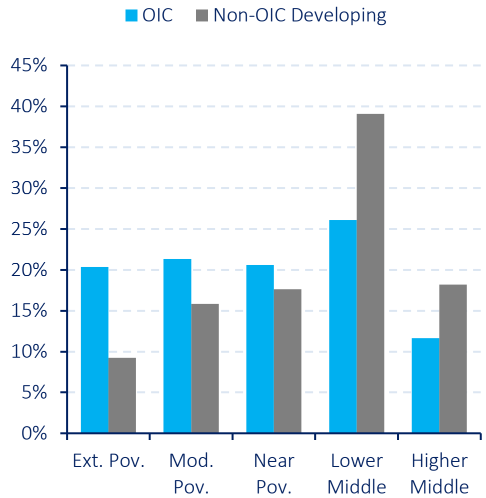
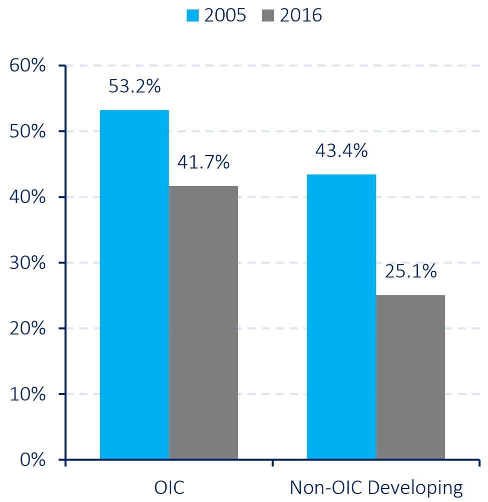


Figure 8.19b: Working poverty rate (living on less than US$3.10 per day, PPP)



Source: ILO, Key Indicators of the Labour Market (KILM) Database.

Again, large numbers of people are working, but do not earn enough to lift themselves out of poverty. In fact, roughly 262 million workers in OIC countries live in extreme poverty (i.e. on less than US$1.90 per capita per day) or in moderate poverty (i.e. on between US$1.90 and US$3.10) despite being in employment (Figure 8.19). Moreover, youth exhibit a higher incidence of working poverty than adults. Globally, 37.7% of working youth are living in extreme or moderate poverty in 2016, compared to 26% of working adults (SESRIC, 2017). In other words, the labour market outcomes are not promising enough for many people that neither help them to escape from poverty nor support them to climb up in the social development ladder.

Vocational training programmes help to enhance employability and promote labour productivity through skills development. Such programmes are usually designed under active labour market policies. Data unavailability on the labour market policies in OIC countries hinders to make more comprehensive assessments on the scale and impact of such policies in OIC countries. A survey conducted by the World Association of Public Employment Services (WAPES) and the Inter-American Development Bank (IADB) with the 73 public employment services worldwide in 2014 provides some insights on the labour market policies in participating OIC member countries. According to the survey, general vocational guidance, external vocational training, and self-employment schemes are the most frequent ALMP measures both in 15 participating OIC countries as well as in other participating countries (Table 8.5).

Issues and Challenges in Achieving the Goals

Education, training and lifelong learning contribute significantly to promoting productivity. They should form an integral part of comprehensive economic, fiscal, social and labour market policies and programmes in achieving sustainable economic growth and employment creation and social development. Governments should invest and create conditions to enhance education and training at all levels. However, many OIC countries need support in the design and implementation of appropriate education and training policies to attain human development, productivity and economic growth.

Future jobs will require higher levels of education, and a different mix of skills and qualifications. New skills are required not only to enhance the employability of labour force, but also to raise the productivity and competitiveness of enterprises and achieve higher growth rates. In this context, the training need of innovation competent labour force should be well prioritized to promote innovation-driven development. Moreover, investment in technical, vocational education and training programmes in new emerging sectors should be scaled up and enterprises should be encouraged in utilizing and investing in new technologies. Since majority of jobs are created by SMEs, it is important to facilitate the development of skills strategies and the process of skills upgrading within such enterprises.

Table 8.5: Labour Market Policies in OIC Member Countries

	Albania	Algeria	Benin	Burkina Faso	Cameroon	Cote d'Ivoire	Gabon	Guinea	Guyana	Mauritania	Morocco	Niger	Suriname	Togo	Turkey	**TOTAL**
General vocational guidance (1)	+	+	+	-	+	+	+	+	-	+	+	+	+	+	+	**13**
Vocational training measures (2)	+	-	-	+	+	+	-	+	+	+	+	+	-	-	-	**9**
Vocational training by external training organisations (3)	+	+	+	-	+	+	+	+	+	+	+	+	+	+	+	**14**
Work testing / placement into temporary work trial	-	-	+	-	+	-	+	+	-	+	-	-	-	+	+	**7**
Self-employment schemes / business start-up	-	-	+	+	+	+	-	+	-	+	+	+	+	+	+	**11**
Wage cost (4)	+	-	+	-	-	+	-	-	-	+	+	-	-	-	+	**6**
Job creation measures (5)	-	-	-	-	+	-	+	-	-	-	-	-	+	-	+	**4**
Employment maintenance measures (6)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	+	**1**
Programmes to promote the mobility of workers	+	-	+	-	+	-	+	-	-	-	-	-	-	-	-	**4**

Source: Compiled from WAPES-IADB 2014 Survey, available at http://www.theworldofpes.org.
Notes: (1) General vocational guidance (i.e. counselling/ advice) for young people (school-to-work transition) and adults; (2) PES/organisation itself is active as provider of vocational training measures (focus qualifications/ competencies); (3) Funding and/or referral of vocational training sessions provided by external training organisations; (4) Wage cost subsidies to promote recruitment of unemployed persons; (5) Job creation measures as additional (public) employment in restricted target areas; (6) Employment maintenance measures (short time work schemes etc) for workers running the risk of economic layoff

Social security is an important tool to prevent and reduce poverty, inequality, social exclusion and social insecurity, to promote equal opportunity, and to support the transition from informal to formal employment. The right to social security is, along with promoting employment, an economic and social necessity for development and progress. Today, all countries in the world have a social protection program. However, 73% of the world's population continues to live without adequate social protection coverage (ILO, 2014). This means that, for the large majority of people, the fundamental human right to social security is only partially realized or not at all.

Social security is an investment in people that empowers them to adjust to changes in the economy and in the labour market. Social security systems act as automatic social and economic stabilizers, help stimulate aggregate demand in times of crisis and beyond, and help support a transition to a more sustainable economy. The transition to formal employment and the establishment of sustainable social security systems are mutually supportive.

In order to address some of the major labour market challenges, most countries implement various labour market policies. These typically include employment services and programmes that aim to enhance the capabilities of jobseekers as well as measures to extend the set of job opportunities that jobseekers can access. They are implemented in different context in different countries with different outcomes, depending on the economic context, resources, institutional setting and the administrative capacity.

It is important that training programmes and employment incentives are well designed and targeted towards the most disadvantaged and vulnerable groups such as the long term unemployed, young people, low skilled and older workers. With regular assessments of these programmes, it should be made sure that they have positive impacts on overall economic activity and productivity without excessively burdening public finances. In order to stimulate learning from experience, systematic evaluations are also needed to decide on policies to be expanded, adapted, merged or ended.

The relationship between labour market policies and the informal economy requires special attention. Labour market policies such as training could be used to enhance the productivity of informal workers, while public works can build infrastructure, providing a first step towards formalization. Other policies such as in-work benefits could act as an incentive to formalize jobs.

8.6 Entrepreneurship and SMEs development

Goals 2.9.17 - 2.9.19:

[2.9.17] Develop a dynamic and well-functioning private sector for increasing investment and trade, economic growth, industrialization and structural transformation.

[2.9.18] Increase the contribution of SMEs to the overall economic growth and development of OIC Member States and enhance their competitiveness and dynamism by facilitating their access to information, market, human resource development and skills, finance as well as technology.

[2.9.19] Promote and encourage women's SMEs.

Rationale

Industrial development requires inclusive strategies that bring in all potential actors who can contribute to the development process. Starting from individuals to finance institutions, probably most segments of a society can be supportive part of this process. However, in all cases, governments will have facilitator role, because they will have the oversight on capacities, resources and requirements for successful transformation. They will have the power to incentivize people to engage in entrepreneurial activity, innovative SMEs to enter foreign markets, identify the gaps in human capital, infrastructure and institutions and bridge those gaps, establish special finance institutions and financial mechanisms to finance industrial development projects, build the technology and innovation capacity of their countries and engage in regional partnership to make use of potentials of greater markets (SESRIC, 2017).

Industrialisation is not just about large-scale production involving long production runs, large investments and many workers. Small firms can play an important role in realizing industrial development. Although they are considered as an important source of employment, their role is not limited to that only. Small firms can also be a source of dynamism. In developed countries, they played a dynamic role in innovation activities, including electronic parts and components and computer software, and significantly contribute to the industrial development process.

SMEs and entrepreneurs help countries to develop a strong private sector that has the potential to support sustainable development. Entrepreneurship is about creating economic and social value in the presence of uncertainty and limited resources. Reasons that make people take an entrepreneurial route vary across countries. In developing countries, taking entrepreneurial action is mostly based on necessity and motivated by income generation. On a macro level, entrepreneurship contributes to the GDP growth and overall productivity and efficiency of an economy. On a micro level, it is a source of poverty alleviation in many low and middle-income economies. SMEs and entrepreneurs are also important sources of job creation that reduces unemployment rates.

When it comes to female entrepreneurship, the impacts are not limited with the economic output and productivity. Women entrepreneurs play a catalyst role in achieving sustainable development through their activities. Moreover, women are more likely to join and run SMEs with social concerns given their sensitivities such as on care giving, social cohesion, community development, etc. Therefore, activities of women entrepreneurs tend to generate significant economic and social outcomes. In this regard, OIC countries need to develop a strong private sector where entrepreneurship ecosystem is conducive for doing business. In this ecosystem, firms and SMEs could become competitive by investing into human capital and technology.

Current State and Progress towards Realization of the Goals

Many countries support entrepreneurship for the purpose of alleviating poverty and generating new employment opportunities instead of backing industrialization. There are also some OIC countries that have effectively integrated entrepreneurship development into their industrialisation strategies. Morocco, for example, included special measures to support entrepreneurship in its Industrial Acceleration Plan 2014-2020, which aims to increase industry's contribution to 23% of GDP and create 500 thousands new jobs by 2020. It employs a number of instruments to foster growth and competitiveness, particularly the massive development of infrastructure in industrial clusters (El Mokri, 2016). Similarly, Côte d'Ivoire adopted a plan to promote the creation of new firms by reducing start-up costs, investing in infrastructure and improving the legal framework in the ICT sector (World Bank, 2016).

Entrepreneurs face major challenges and constraints when starting firms or upgrading their operations. Since these challenges differ across countries, it is important to identify them before designing policies. These challenges are typically related to financing, infrastructure, skills and business environment. As reported in SESRIC (2017b), most of the firms in OIC countries identify the access to finance (14.7%), electricity (14.6%) and political stability (14.2%) as the biggest obstacle. In MENA region, political stability is seen as the major obstacle by 30.1% of firms (Figure 8.20).

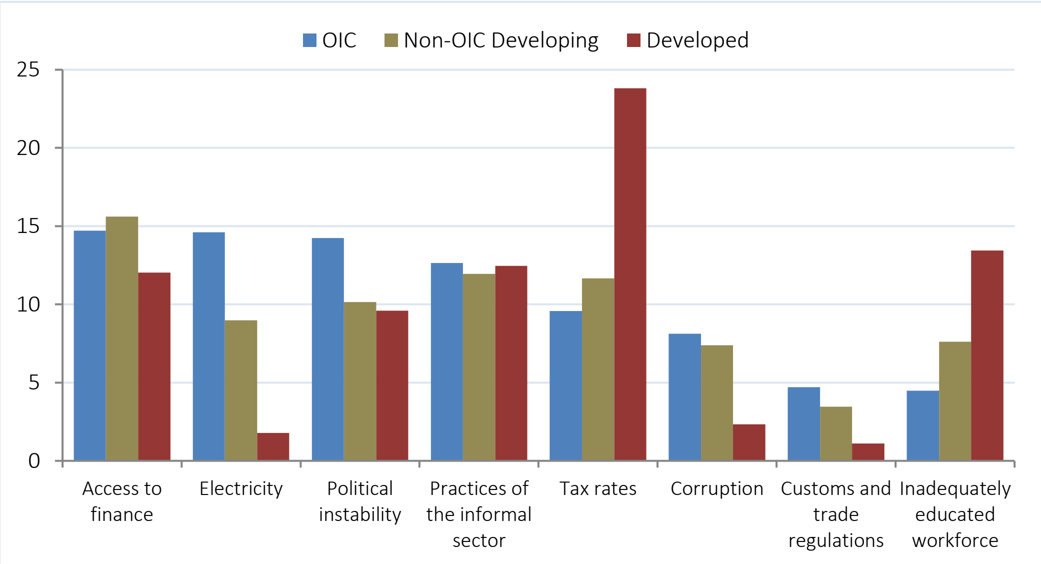
It possible to assess the overall state of entrepreneurship ecosystem in a country by using the World Bank's Doing Business Index, which ranks countries on a set of 10 indicators related to different aspects of the business cycle. The ease of starting a business indicator measures the distance of economies to frontier scores for starting a business, which is derived from the most efficient practice or highest score achieved on this indicator.

The average score of OIC countries went up from 52.7 in 2015 to 55.1 in 2017 that reflects a small improvement in the overall business environment. The OIC group was having the lowest averages in both 2015 and 2017 among country groups (Figure 8.21). At the regional level, the performances of OIC sub-regions differ remarkably. The SSA region had the lowest average (48.3) and ECA had the lowest average (70) in 2017. This reflects that doing business in the SSA is relatively more difficult than doing in the ECA.

In OIC countries, on average, a progress has been recorded over the period 2009-2017 in terms of time required to start a business. Time component of starting a business indicator displays the time required to complete each procedure necessary to start a business. The average time required to start a business went down from 42.5 days in 2009 to 18.3 days in 2017. Compared with 2015, in OIC countries, on average, an entrepreneur needs to spend less time (about 1.3 day) to start a business in 2017.

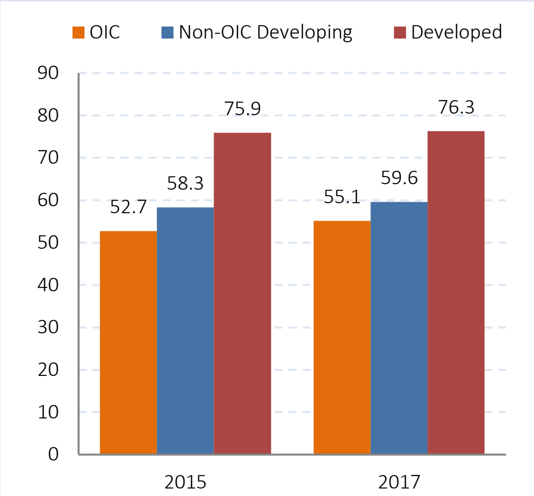
Being a female entrepreneur in OIC countries is not as easy as being a male entrepreneur that gender specific socio-economic challenges exist. A woman in OIC countries, on average, needs

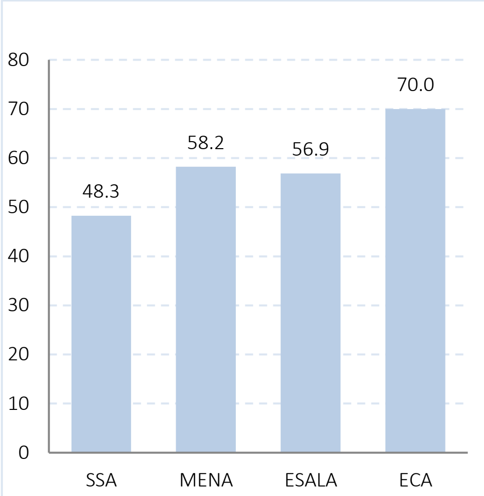
Figure 8.20: Biggest Obstacles faced by Firms



Source: World Bank Enterprise Survey.

Figure 8.21: Ease of Doing Business Index Scores 2015 vs 2017 (left) and EDBI in OIC Sub-regions, 2017 (right),





Source: WDI. Note1: OIC sample size: 56
Note2: A higher score implies that doing business is relatively easier

spend more time (18.5 days) to start a business compared to the average of developed countries (8.9 days) in 2015. OIC countries, on average, achieved to record a progress and the time required for women to start a business went down from 18.5 days in 2015 to 17 days in 2017. In OIC countries located in the SSA region, on average, a woman entrepreneur needs to spend more time (19.1 days) when compared with the average of the ECA region (7.1 days) in 2017 (Figure 8.22).

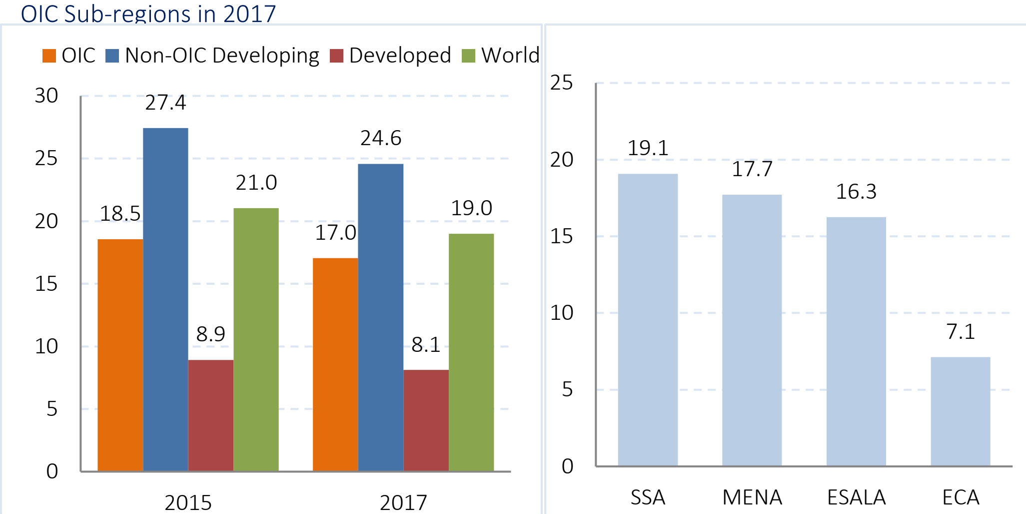
Issues and Challenges in Achieving the Goals

Although the private sector in OIC countries has great potentials for sustaining economic growth and development, it stays relatively underdeveloped. There are genuine reasons why the private sector could not reach their full potentials. To start with, entrepreneurs and SMEs in OIC countries, on average, are disadvantaged in terms of the number of procedures and required time for starting a business when compared with their counterparts in the developed world. In this regard, OIC countries should design policies to improve the overall doing business environment by reducing procedures that lead to inefficiencies. This would encourage entrepreneurial activities and pave the way for the emergence of new SMEs.

As a matter of fact, the quality of infrastructure (transport, utilities, communications, and energy) in OIC countries is relatively weak (SESRIC, 2016). In this regard, the SMEs and entrepreneurs in OIC countries cannot easily compete with their counter parts in other countries. This also affects dynamism of the private sector in a negative way. A poor infrastructure including ICT reduces access to markets and leads to asymmetric information.

Entrepreneurs need better infrastructure and a more supportive business environment. Infrastructure is a key component in promoting industrialisation, raising incomes, accumulating human capital and facilitating access to markets. On the other hand, improving general economic

Figure 8.22: Time Required for Women to Start a Business (Days), 2015 vs 2017 (left) and in OIC Sub-regions in 2017



Source: WDI. Note: OIC sample size: 56

conditions through sound fiscal and monetary policies and appropriate exchange rates, boosting the business environment and enforcing stable regulatory frameworks can impact enterprise performance and their contributions to industrialisation (AfDB/OECD/UNDP, 2017). These policies need to be tailored to the specific conditions, needs and existing capabilities of individual countries.

Many financial institutions in OIC countries are not able to catering to the needs of entrepreneurs and SMEs. For instance, banks have higher collateral requirements, higher interest rates, and additional bank procedures and charges for entrepreneurs. In particular, female entrepreneurs are relatively more disadvantaged in access to financial institutions due to socio-cultural barriers in various OIC countries. Limited access to finance not only discourages new-entrants to the market but also tends to curb the growth of existing SMEs. Start-ups are more subject to credit constraints and are less resilient against financial shocks. One of the most promising solutions for providing capital to start-up entrepreneurs and SMEs is crowdfunding. Venture capital and angel investment are also widely used tools to address the credit constraints of innovative entrepreneurs.

Overall, OIC countries need to create a more conducive business environment that entrepreneurs and SMEs can flourish and grow. It necessitates investment into infrastructure as well as making amendments to reduce unnecessary formal procedures as well as bureaucracy in the business environment. It is essential to make all these reforms and devise policies in OIC countries through a gender lens, as women entrepreneurs are in a more disadvantaged position in the business environment in many OIC countries due to various reasons. As such, reforms do not take place; women living in OIC countries go on staying under their potentials and could not contribute to the development of their respective societies. Moreover, delays in these reforms would discourage entrepreneurial activities for both men and women as well as affect the growth of the private sector and SMEs in a negative way.

CHAPTER NINE

OIC-2025: Other Priority Areas

There are some other thematic areas that are not directly related to economic activities but have significant impact on them. In this respect, this section reviews the goals in the areas of (i) environment, climate change and sustainability, (ii) education, and (iii) science, technology and innovation.

Global warming and climate change is one of the most serious threats to the global environmental sustainability today. Abnormal weather conditions and the unexpected natural disasters cause death or displacement of many people especially the poor. It is important that all Member States intensify their efforts to address environmental degradation and climate change and pursue a multidimensional approach including utilizing relevant institutions and strengthening cooperation among themselves.

Education and life-long learning are the core of human capital formation and central to development of a society. Research in science and technology is also the key to progress towards a knowledge-based and innovation-driven economy. It is important to invest in education and scientific development to improve human capital formation and achieve socio-economic development in OIC countries.

9.1 Environment, Climate Change and Sustainability

Goals 2.5.1 & 2.5.2:

[2.5.1] Protect and preserve the environment, promote sustainable production and consumption patterns and enhance capacities for disaster risk reduction and climate change mitigation and adaptation.

[2.5.2] Enhance collaboration among the Member States and international partners in environmental protection and conservation, including the implementation of multilateral environmental agreements.

Rationale

Despite the fact that generally whole world is and will be affected by the environmental degradation, its negative impacts are and will be more pronounced in developing countries, including OIC member countries. Indeed, the higher environmental vulnerability of OIC members emanates from their geographic locations, high dependence on climate sensitive natural resources and low adaptive capacities. Existing climate models predict worsening of environmental and climatic conditions in many OIC countries; posing serious social and economic consequences especially for the disadvantaged and poor populations.

Current State and Progress towards Realization of the Goals

Adaptation measures are an integral part of an effective strategy to address the climate change. As of September 2017, 22 OIC LDCs have completed and submitted their national adaptation plans of action (NAPA) to the UNFCCC secretariat. In total, 48 LDCs have submitted over 500 projects. Around half (49%) of these projects were submitted by the 21 OIC countries (Table 9.1). Among these OIC countries, Mauritania, Guinea and Sierra Leon submitted more than 20 projects. The implementation of these 248 projects in OIC countries required over 400 million US$.

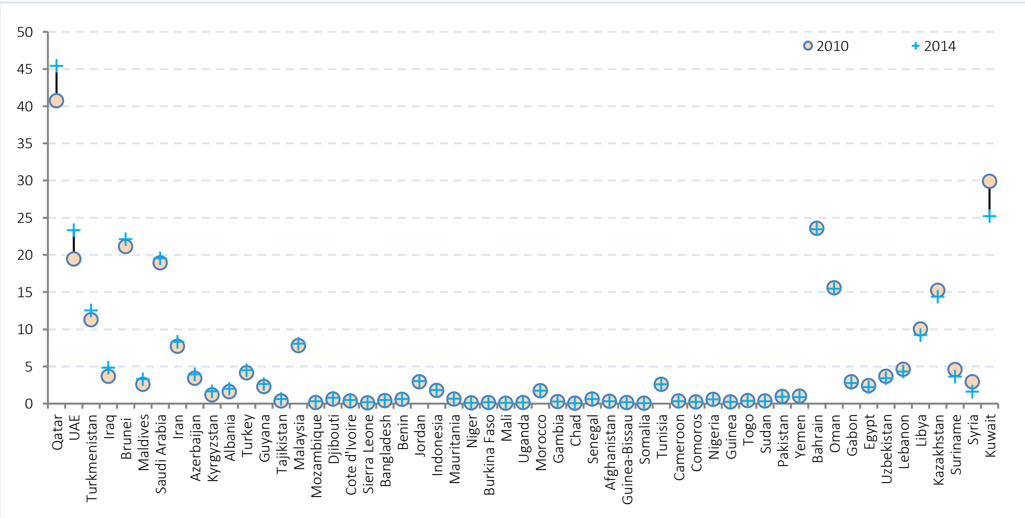
Table 9.1: NAPA Priority Projects

Country	# of Projects	Cost (Million US$)	Country	# of Projects	Cost (Million US$)
Afghanistan	2	4.4	Mali	19	49.8
Bangladesh	19	77.3	Mauritania	26	20.2
Benin	5	15.6	Mozambique	4	9.2
Burkina Faso	12	5.9	Niger	15	N/A
Chad	10	14	Senegal	4	59.2
Comoros	13	4.5	Sierra Leone	24	30.1
Djibouti	8	7.4	Somalia	3	18.7
Gambia	10	15.1	Sudan	5	15.1
Guinea	25	8.2	Togo	7	19.1
Guinea Bissau	14	7.2	Yemen	12	29.9
Maldives*	11	23.0	Total-22	248	411

Source: UNFCCC

Though OIC member countries are the least polluters, their GHG emissions are on rise coupled with limited mitigation efforts. During 2010-2014, 34 out of 55 OIC countries with data have witnessed increase in CO2 emissions per capita. As shown in Figure 9.1, Qatar recorded the highest increase of 4.7 metric tons per capita in CO2 emission followed by United Arab Emirates (3.8 metric tons), Turkmenistan (1.3 metric tons), and Iraq (1.2 metric. On the other hand, Kuwait recorded the highest decline (4.7 metric tons per capita) in CO2 emissions followed by Syria (1.3 metric tons), and Suriname (0.9). In general, per capita emissions remained comparatively very

Figure 9.1: Co2 Emissions per Capita (Metric Tons), 2010-2014



Source: World Bank, WDI .

Table 9.2: Status of Joining Multilateral Environmental Agreements

Country	UNFCCC	Kyoto Protocol	Paris Agreement
Afghanistan	R	R	A
Albania	A	A	A
Algeria	R	A	A
Azerbaijan	R	A	A
Bahrain	R	A	A
Bangladesh	R	A	A
Benin	R	A	A
Brunei Darussalam	A	A	A
Burkina Faso	R	A	A
Cameroon	R	A	A
Chad	R	A	A
Comoros	R	A	A
Cote d'Ivoire	R	A	A
Djibouti	R	A	A
Egypt	R	R	A
Gabon	R	A	A
Gambia	R	A	A
Guinea	R	A	A
Guinea-Bissau	R	A	S
Guyana	R	A	A
Indonesia	R	R	A
Iran	R	A	S
Iraq	A	A	S
Jordan	R	A	A
Kazakhstan	R	R	A
Kuwait	A	A	S
Kyrgyzstan	A	A	S
Lebanon	R	A	S
Libya	R	A	S
Malaysia	R	R	A
Maldives	R	R	A
Mali	R	R	A
Mauritania	R	A	A
Morocco	R	A	A
Mozambique	R	A	S
Niger	R	R	A
Nigeria	R	A	A
Oman	R	A	S
Pakistan	R	A	A
Qatar	A	A	A
Saudi Arabia	A	A	A
Senegal	R	A	A
Sierra Leone	R	A	A
Somalia	A	A	A
Sudan	R	A	A
Suriname	R	A	S
Syria	A	A	A
Tajikistan	A	A	A
Togo	R	A	A
Tunisia	R	A	A
Turkey	A	A	S
Turkmenistan	A	R	A
Uganda	R	A	A
United Arab Emirates	A	A	A
Uzbekistan	A	R	S
Yemen	R	A	S

Source: UNFCCC. Key: A=Accession, R=Ratified, S=Signatory

high in fuel exporting members like Qatar, Kuwait, United Arab Emirates and Saudi Arabia. On the other hand, per capita CO2 emissions remained well below a half of the metric tons (0.5) in 16 members, most of them from the Sub-Saharan Africa region.

There is a widespread awareness in OIC members about the climate change and its negative consequences. They actively participate in the climate related summits, treaties, events, and projects. According to the latest information, 42 OIC countries have ratified the UNFCC convention whereas; 14 members are in state of accession, most of them are fuel exporting countries as the concept of 'using low-carbon technology' implies reduction in oil use for transportation and industry. In case of Kyoto Protocol, only 10 OIC member countries have ratified it whereas; 46 members are in the state of accession (Table 9.2).

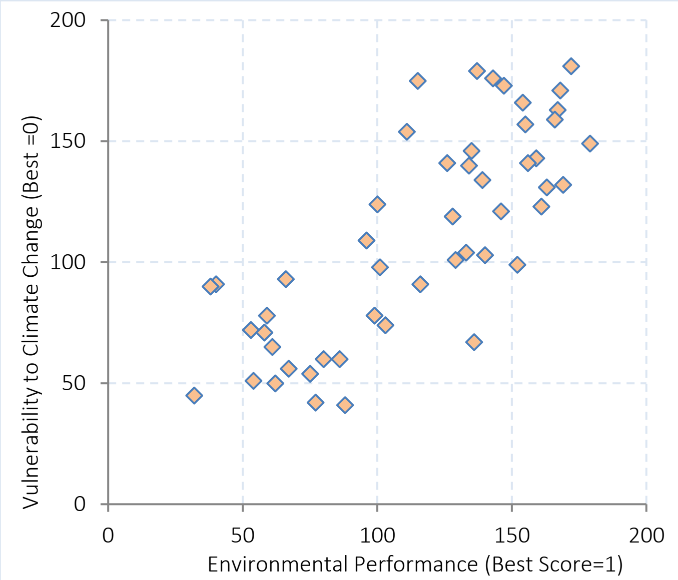
The latest international deal on climate change 'Paris Agreement' is, by far, the most popular global initiative with 196 signatories, of which 166 have ratified it. Among the OIC countries, 43 members have ratified it whereas; 13 members have status of signatory.

Issues and Challenges in Achieving the Goals

Low Environment Performance and High Vulnerability

Majority of OIC member countries are characterised with poor environmental performance and high level of vulnerability to climate change (Figure 9.2). With respect to overall position of members based on Environmental Performance Index (EPI) ranking vis-à-vis Gains Index's Climate change vulnerability rank, Qatar is the best performing and environmentally sustainable country followed by Turkmenistan, Albania and Brunei. On the other hand, 24 OIC member countries are ranked among the most vulnerable and low performing countries in the world. Bangladesh is ranked at the bottom with EPI score (179) followed by Niger, Pakistan and Afghanistan. In general, these countries are particularly lagging behind in urban planning, governance and environmental sustainability.

Figure 9.2: Environmental Performance and Vulnerability in OIC Countries



Source: Environmental Performance Index 2016 and GAIN Index 2016.

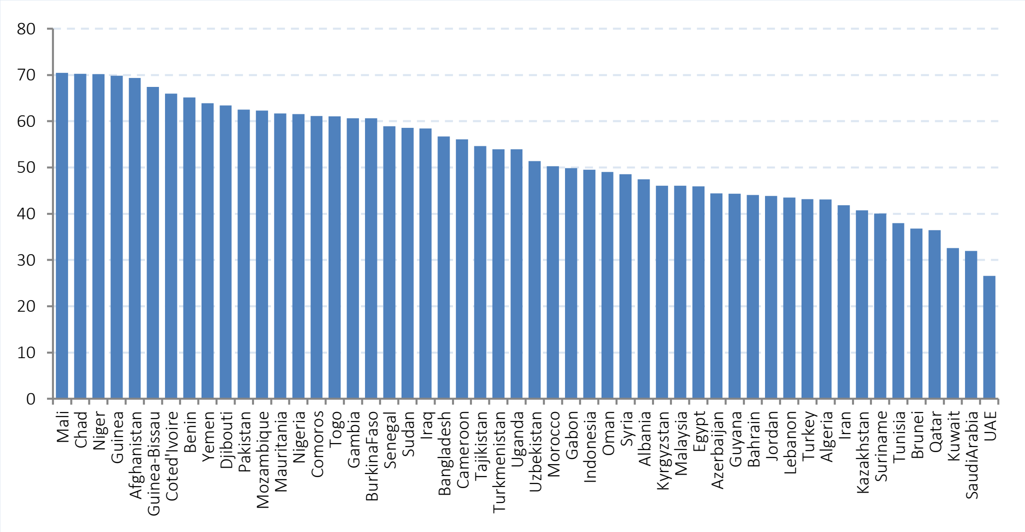
Lack of Adaptive Capacities

Adaptation is a key building block of global response to climate change and natural disasters. However, in spite of their critical importance, adaptive capacities remained very low across the OIC member countries, with the lack of score above 50 for 28 members. In general, there is a huge disparity among the OIC countries regarding lack of adaptive capacities, ranging from 26 to 70 (Figure 9.3).

Among the OIC members Mali, Chad Niger, and Guinea have the highest lack of adaptive capacity with score of 70. On the opposite side of the scale, United Arab Emirates is the most equipped OIC country with a score of 45 followed by Saudi Arabia, Kuwait and Qatar. In general, most of the OIC countries still rely on the traditional disaster management systems based on reactive approach of post-disaster response and relief, and lack the capacities for effective risk mitigation and preparedness for disasters.

With high concentration of people, infrastructure and commercial activities, cities are more exposed to increasing environmental pressures and instabilities. Therefore, role of municipalities and local governments is pivotal to develop sustainable urban plans to enhance urban infrastructure and capacities. Among the OIC member countries, so far, only 34 member

Figure 9.3: Lack of Adaptive Capacities, 2016



Source: UNU-EHS, 2016

countries have reported on the development of national urban plans (Table 9.3). Most of these plans do not pay significant attention to the issues related with environmental sustainability and climate resilience. Furthermore, so far, only 23 member countries have adopted and implemented strategies in line with the Sendai Framework for Disaster Risk Reduction 2015-2030.

Table 9.3: National Policies and Urban Resilience

Focus/Theme	Environmental Sustainability	Climate Resilience
Extensive	[5] Bahrain, Bangladesh, Malaysia, Qatar, Turkey	[2] Maldives, Morocco
Moderate	[4] Algeria, Indonesia, Kyrgyzstan, Morocco	[4] Malaysia, Qatar, Turkey, Uganda
Low	[11] Brunei, Comoros, Cote d'Ivoire, Djibouti, Mali, Maldives, Mauritania, Nigeria, Senegal, Togo, Uganda	[14] Bahrain, Bangladesh, Brunei, Comoros, Cote d'Ivoire, Djibouti, Indonesia, Kyrgyzstan, Mali, Mauritania, Nigeria, Senegal, Somalia, Togo

Source: UN Habitat and OECD, 2018.

Policy Suggestions

Despite all progress in adaptation and mitigation process, a significant number of OIC member countries remained exposed to major environmental challenges. This state of affairs necessitates more leadership at both national and local level to mainstream the climate resilience into every aspect of implementation of OIC-2025.

Carbon emissions problems in different OIC countries are specific to their own local conditions. The sectorial GHG emissions profile can be used as a tool to know which sectors emitted more, thus finding the bottlenecks. For example, 80% of GHG emissions from energy sectors arise in fuel producing members. So, a mitigation effort in agriculture sector will be less beneficial in these countries. A reverse condition applied in some agriculture dependent members.

Environmental conservation, climate change adaptation and disaster mitigation are closely associated. Global studies indicate that more than 80% of the natural disasters are hydro-meteorological; e.g. floods, droughts, desertification, cyclones, storms etc. Therefore, environmental degradation and climate change intensify the frequency and severity of hydro-meteorological hazards. Given the fact that climate change is expected to intensify disaster risks significantly in many members, there is a serious need for adopting prudent environmental management practices to reduce disaster risks and the adverse effects of climate change. This involves following key dimensions: sustainable water resources management, sustainable land-use management, and integrated coastal zone management.

Preparing capacities for climatic risk reduction also requires a sound analysis of existing capacities and gaps, risks, well-developed early warning systems, contingency planning, stockpiling of equipment and supplies, coordination mechanisms, public information, and associated training and field exercises. The policies to establish national and local databases to collate developmental and disaster risk information and to produce analysis of hazards, risks and vulnerabilities are highly essential for OIC countries to promote information, knowledge sharing and capacity development in those countries

Goal 2.5.3

[2.5.3] Maximize the productive use of water and minimize its destructive impact.

Rationale

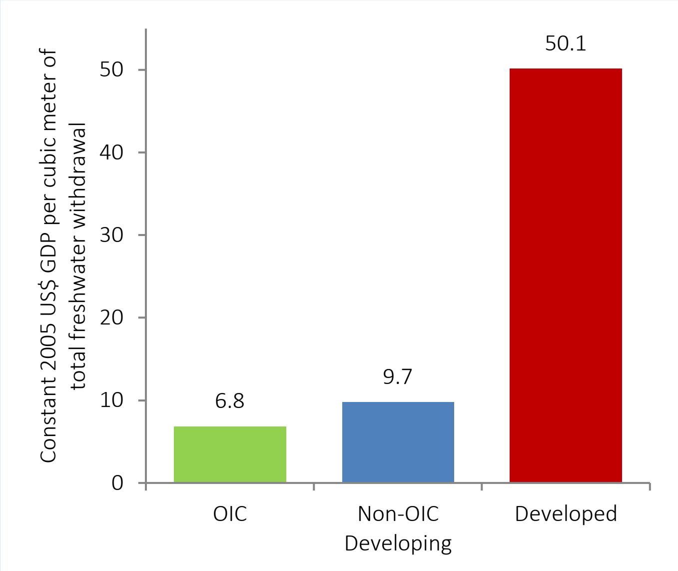
Water flows through our planet and through our bodies providing the source of life and the basis for social and economic development. Without water resources and the essential services they provide, achieving sustainable development, public health, food security, peace and human dignity remain elusive goals.

The demand for water in the OIC member countries is steadily increasing and is being spurred by population growth, increasing urbanization, raising incomes, growing economies, and new patterns in consumerism. This new and greater demand for water in the OIC member countries is transpiring when we consider the already limited water resources available in these countries. This highlights the importance of using water resources in the most possible productive manner.

Current State and Progress towards Realization of the Goals

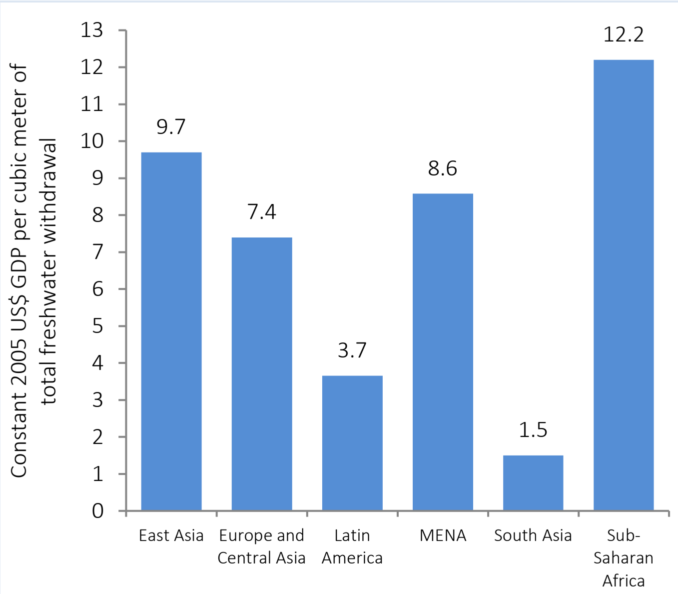
As illustrated in Figure 9.4, water productivity is very low in OIC countries compared to other country groups where each one cubic meter of total freshwater withdrawal corresponds to 6.8 US$ of GDP. This compares poorly with water productivity in non-OIC developing countries where

Figure 9.4: Water Productivity



Source: SESRIC Staff Calculations based on World Bank WDI Online Database. Data weighted by country GDP and Fresh Water Withdrawals. 53 OIC countries, 33 developed countries and 81 non-OIC developing countries. latest available data between 2003 and 2017 used in calculation.

Figure 9.5: Water Productivity in OIC Regions



Source: SESRIC Staff Calculations based on World Bank WDI Online Database. Data weighted by country GDP and Fresh Water Withdrawals. EA -3 countries, ECA – countries, LA – 2 countries, MENA – 16 countries, SA – 4 countries and SSA – 20 countries.. Latest available data between 2003 and 2017 used in calculation

GDP per cubic meter of total freshwater withdrawal equals 9.7 US$, and is astronomically behind the level of 50.1 US$ recorded in the developed countries.

A significant level of variability among OIC regions has been observed in terms of water productivity. As Figure 9.5 shows, OIC countries in Sub-Saharan Africa recorded the highest water productivity among OIC regions, followed by OIC countries in East Asia and OIC countries in Middle East and North Africa. In Contrast, OIC countries in South Asia recorded the lowest water productivity among OIC regions followed by OIC countries in Latin America and OIC countries in Europe and Central Asia.

Issues and Challenges in Achieving the Goals

In the context of increasing water productivity there are two vital and interrelated activities that are of great importance to the issue, namely the improvement in technical efficiency of water use and the efficient allocation of available water among competing uses. Improvements in the efficiency of water use and its allocation are usually undertaken by water providers and water users with the different water using sectors, namely: agriculture, industrial and municipal. By meeting the needs of water users using less water, significant quantities of water can be freed up.

The starting point for addressing the challenges of improving the technical efficiency of water use and the efficient allocation of available water among competing uses is to adopt a knowledge-based approach. The foundation for the knowledge-based approach lies in a detailed accounting of water supply and demand and patterns of water use, which vary in time and space, and the use of this information in identifying, adopting and developing water related strategies that will enhance water productivity. In this regard, it is also important to understand the linkages between the different sectors of the economy, as more often than not, the causes of low water productivity lie outside the water domain; specifically, in the economic, agricultural and energy policies that lead to unproductive use of water resources.

Policy, legislations and fiscal decisions shape the realities on the ground at the national and local level. Therefore, it is of vital importance that all the policies, pieces of legislations and fiscal decision that affect water demand and allocation of water among different users and service delivery are in total alignment with each other.

The different roles, responsibilities, objectives and interests of the various stakeholders involved in water policy need to be well understood and defined. The objectives of different water using sectors may be misaligned and contradictory; therefore, harmonizing the actions of different water stakeholders is paramount to achieve optimized and productive water use.

To successfully improve water productivity, OIC countries need to develop strong institutional capacities. In addition to institutional capacity, there is a need to develop technical capacities in all water-related fields. To facilitate the building of capacities, knowledge sharing and transfer can play a big role. In the OIC, there are many centres of excellences in both water knowledge and practice. SESRIC is in the process of establishing an online network of centres of excellence in the domain of water in OIC countries with the objective of Facilitate and encourage joint research, knowledge sharing, and exchange of experience between these centres of excellence.

Goals 2.5.4

[2.5.4] Strengthen cooperation for the implementation of the OIC Water Vision and attainment of the goals and targets defined therein.

Rationale

OIC countries face common water challenges despite the great diversity of water environments. The OIC's great diversity and great water challenges, coupled with its shared beliefs, together provide an extraordinary opportunity for its member states to work together to ensure a water secure future, sharing varied experiences and learning from what has and has not worked.

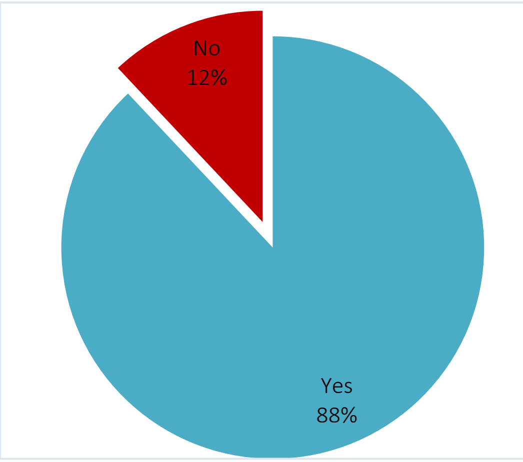
The OIC over the years has worked to address the challenges faced by its member countries and a response to a direct request from the OIC Water Ministers, the OIC General Secretariat began the process of developing a common vision to address water issues. Following deliberations at meetings of an Advisory Panel of Experts in Dubai in May 2010 and Astana in June 2011, a draft vision was developed that was then presented to wider communities within the OIC for adoption. The OIC Water vision was eventually adopted by the 2nd Islamic Conference of Ministers Responsible for Water in Istanbul in 2012

The need for an OIC water vision to catalyze action to address the major challenges facing member states is only too apparent and highly diverse. Many OIC nations are classified as water scarce, while others are endowed with large freshwater resources; baseline conditions in others are much more limited and these conditions are likely to be further exacerbated under a changing climate. The situation may be further exacerbated where the quality of the water is poor, where access to finance is difficult or where the sharing of resources across international boundaries limits management. In addition the often rising and conflicting demands for water from different sectors, especially in balancing food and water security needs, is likely to increase in the future with changes in socio-economic conditions in member states. The OIC Water Vision of "working together for a water secure future" is a powerful call, but the challenge will be to move to implement this and to achieve results. Adopting this and developing supporting activities will foster greater cooperation and collaboration between member states ensuring the rich knowledge and experiences available within can be shared. Through commitment to this vision by all OIC members there are real possibilities of addressing many of the present and future water security challenges (OIC Water Vision, 2012)

Current State and Progress towards Realization of the Goals

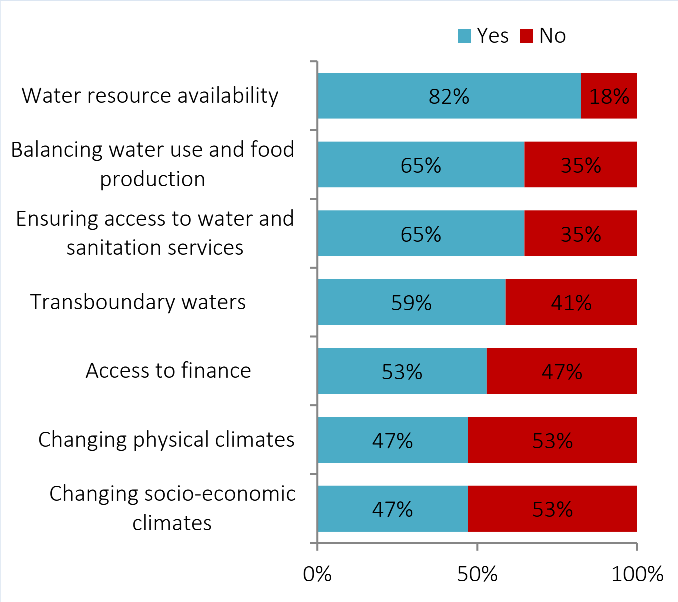
More than three years since the adoption of the OIC Water Vision, the OIC General Secretariat in collaboration with the Turkish Water Institute (SUEN) and the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC) prepared a questionnaire on the "Implementation of the OIC Water Vision and Future Cooperation Activities". The questionnaire aimed to gather information on implementation of the OIC Water Vision; identify the key water-related challenges facing OIC countries; and learn about the future actions and strategies to address these challenges. The questionnaire was distributed to all OIC member countries and a total of 17 countries responded to the questionnaire. In most of the countries surveyed (88%), the OIC Water Vision document has already been circulated to the relevant departments and the implementation of various recommended actions and activities is in progress. Besides, the majority of responding countries have also adopted, updated, and /or evaluated a

Figure 9.6: Existence of Comprehensive Water Policy since 2012



Source: Based on results from Questionnaire on "Implementation of the OIC Water Vision and Future Cooperation Activities", conducted in 2015.

Figure 9.7: Specific Policies, Strategies and/or Action to address Water Challenges



Source: Based on results from Questionnaire on "Implementation of the OIC Water Vision and Future Cooperation Activities", conducted in 2015.

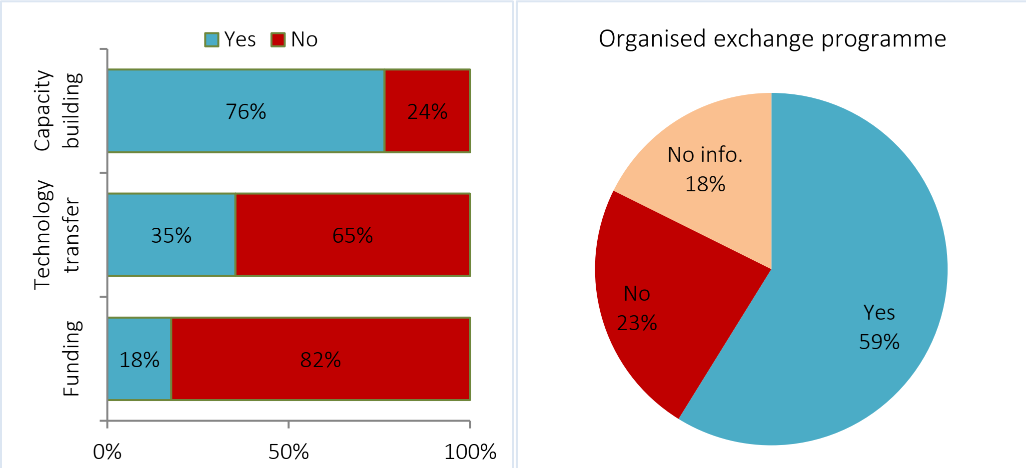
comprehensive national policy on water issues since the adoption of the OIC Water Vision in 2012 (Figure 9.6).

The results of the survey reveal that more than half of the respondents have specific policies, strategies and /or action to address five out of seven major water security challenges listed in the OIC Water Vision. As shown in Figure 9.7, over 82% of the respondents have a policy to address the water resource availability related issues, 65% for balancing water use and food production, and ensuring access to water and sanitation services. On the opposite side of the scale, less than half (47%) of the respondents have a policy to address the challenges of changing socio-economic and physical climates. Among the respondents, four countries namely: Burkina Faso, Guinea, Mali and Turkey reported having specific policies, strategies and /or action to address the all major challenges listed in the OIC Water Vision.

There is a widespread acknowledgement that cooperation among OIC countries could play an important role in bridging the gap between developing countries by facilitating the exchange of information and transfer of knowledge and expertise. Results of the questionnaire reveal that there is an increasing level of awareness as well as willingness among the OIC member countries to mainstream the idea of OIC cooperation in water resource management. 82% of the respondents were affirmative to seek help from other OIC countries to achieve water security; whereas, 70% of the respondents showed their readiness to offer help to other OIC countries.

However, the respondents have shown mixed reactions to the question about their readiness to help other OIC countries in different fields like capacity building, technology transfer and funding to achieve water security. A significant majority (76%) of respondents are ready to help others through capacity building programmes. Though funding was recognized as one of the major obstacles in the implementation of the OIC Water Vision, only 18% of respondents are affirmative to use this option to help others (Figure 9.8). Meanwhile, over one third (35%) of respondents expressed their readiness to help other OIC countries to achieve water security by facilitating the technology transfer. Although three quarters (76%) of respondents showed interest in offering capacity-building programmes to other OIC countries, only 59% of respondents have actually

Figure 9.8: Readiness to Offer Help in Different Fields and Cooperation through Exchange Programmes



Source: Based on results from Questionnaire on "Implementation of the OIC Water Vision and Future Cooperation Activities", conducted in 2015.

been cooperating with other OIC countries through information and experience exchange programs, which covered a wide range of water related issues such as sanitation and hygiene; wastewater management and water quality; water harvesting; flood management and disaster mitigation measures; and water saving techniques and technologies. Furthermore, about a quarter (23%) of respondents never participated in an exchange programme with other OIC countries whereas; 18% of respondents refrained from giving any information in this regard.

Among the 17 countries that have completed the questionnaire, 59% countries have received aid as development assistance from other OIC countries while 12% received no aid at all, about one third of respondents refrained from providing any information in this regard. Nearly a quarter (23%) of recipient countries in fact received aid from Gulf Cooperation Council (GCC) countries like Saudi Arabia, Qatar and UAE etc. On the other side, only 23% of respondents reported that they donated development assistance to other OIC countries to improve the water security situation. Majority of respondents refrained from providing any information regarding this issue. Among the respondents, Egypt and Iraq are listed both as recipient and donor country.

Issues and Challenges in Achieving the Goals

In order to help achieve the OIC Water Vision; the OIC Water Council was established in pursuant to the decision of the Third Islamic Conference of Water Ministers (ICWM) held in Istanbul, Turkey on 17-19 May 2016. The First meeting of the OIC Water Council was held in Istanbul, Turkey on 16 November 2017. In that meeting an implementation plan for the OIC Water Vision was developed. The implementation plan comprises the following broad objectives;

- Assessment of the needs and capacities of the Member States.
- Identification of lead water institutes in Member States.

- Collaborative activities on capacity building, innovative technological ideas and developing training programs among research and training institutes of the Member States.
- Capacity building activities giving special focus on the needs of least developed OIC Countries to address water related challenges.
- Resource mobilization mechanisms for the implementation of water projects, particularly in Least Developed OIC countries.

The OIC needs to commit all its related bodies in helping execute the implementation plan and already SESRIC and COMSTECH are playing significant roles especially in determining the needs and capacities of member states and facilitating cooperation between water related research and training institutes of the Member States.

The weak spot in the implementation plan is resource mobilization. This should be revisited by the OIC Water Council and means of cooperation among member countries should be outlined.

Turkey has championed water cause in the OIC including the establishment of the OIC Water Council and the developing of the implementation plan for the OIC water vision. So far great momentum has been achieved. Now chairing the OIC Water Council moves to Egypt and Egypt is expected to maintain that momentum and guide the OIC Water Council in the execution of the implementation plan.

9.2 Education

Goal 2.11.1

[2.11.1] Ensure inclusive and equitable quality education at the primary, secondary and tertiary levels and promote life-long learning opportunities that advance knowledge and skills needed for gainful employment, entrepreneurship, innovation and sustainable development.

Rationale

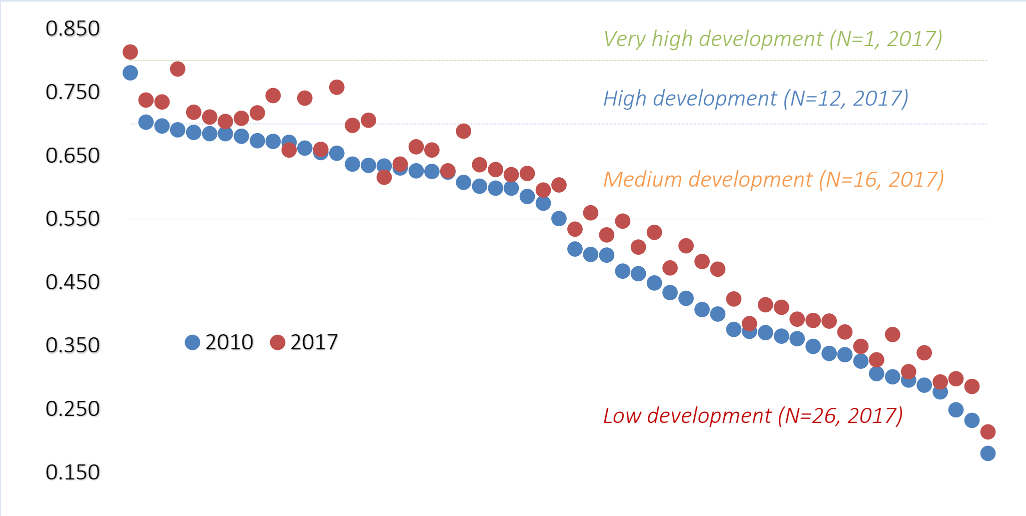
One of the top challenges facing the Islamic world today is education and skills development, which are the fundamental building blocks for reducing poverty and inequality, improving people's prosperity and health, as well as ensuring sustainable development and sustaining peace of society. For that reason, educational achievements are considered among important indicators for measuring national development.

Failures in education threats young people, particularly those in developing economies, to face the prospect of lost opportunity and lower wages in later carrier. Further, fast-advancing digital technology is generating new skill demands and lifelong learning needs, thus creating additional challenges to both national education systems and individuals. To address these challenges, goal 2.11.1 of the OIC-2025 Programme of Action aims to "Ensure inclusive and equitable quality education at the primary, secondary and tertiary levels and promote life-long learning opportunities that advance knowledge and skills needed for gainful employment, entrepreneurship, innovation and sustainable development".

Current State and Progress towards Realization of the Goals

According to the Education Index, which is a component of UNDP Human Development Index, in 2017, 26 OIC Member States fall under category of low development in education, 16 under

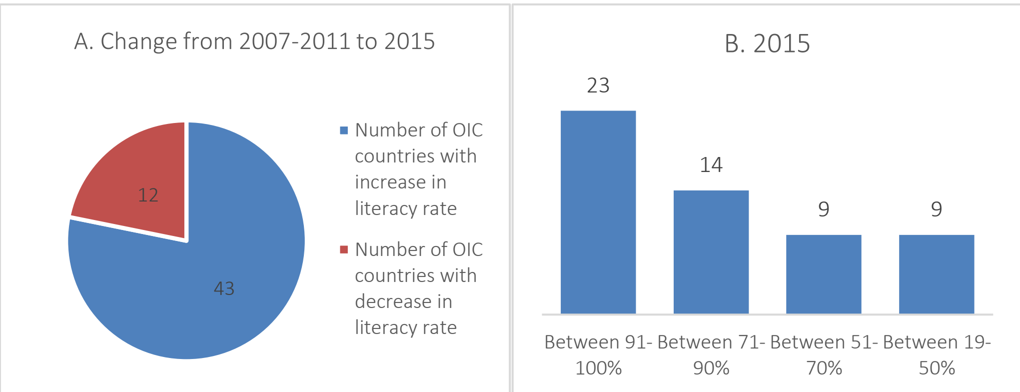
Figure 9.9: Education Index



Source: UNDP, Human Development Report database.
Notes: Education index is calculated using Mean Years of Schooling and Expected Years of Schooling. Values are less than 0.550 for low human development, 0.550–0.699 for medium human development, 0.700–0.799 for high human development and 0.800 or greater for very high human development (OIC: N = 55)

medium development, 12 under high development and only one (Kazakhstan) under category of very high development in education (Figure 9.9). Although this picture is not very satisfactory, the encouraging think is that between 2010 and 2017 in the 55 OIC Member States for which data is available, the Education Index values have increased in different degrees, with the exception of Libya and Tajikistan. Thus, the number of OIC Member States falling under high

Figure 9.10: Literacy Rates in OIC Member States



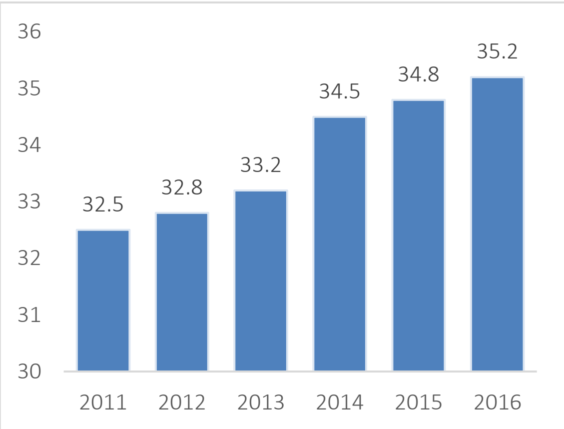
Source: UNESCO Institute for Statistics database.
Notes: 2007-2011 data refer to the most recent year available during the period specified. Values for 2015 are UNESCO estimates (OIC: N = 55).

development in education category has jumped from two in 2010 to twelve in 2017, comprising of Saudi Arabia, Bahrain, Albania, Iran, United Arab Emirates, Kyrgyzstan, Malaysia, Uzbekistan, Jordan, Azerbaijan, Oman and Brunei. Unfortunately, compared to 2010, number of OIC Member States falling under low development in education category remained almost unchanged, where average number of completed years of education of a country's population aged 25 years and older is low, compared to the average of developing countries.

Adult literacy rates (15+) are the test of an educational system, and the overall trend in OIC is positive, thanks to the expansion of educational opportunities. Figure 9.10A illustrates that from 2007-2011 to 2015, in 43 OIC Member States adult literacy rates have increased, however, in 12 decreased - most probably due to rapid increases in population growth rates. Literacy is lowest in Sub-Saharan Africa and higher among males than females.

By 2015, the OIC was home to around 273 million adults aged 15 and over – 16% of OIC total population, including 170 million females, who were not able to read and write. Females accounted for 62% of the total illiterate adults in the OIC area in 2015. In 2015 world was home to at least 750 million adults, what means that around 36% of world adult illiterate population is living in the OIC Member States.

Figure 9.11: Number of New Entrants to Grade 1 of Primary Education in OIC Countries



Source: UNESCO Institute for Statistics database.
Notes: OIC - N = 48. Data not available for Gabon, Guinea Bissau, Guyana, Iraq, Libya, Nigeria, Somalia and Turkmenistan.

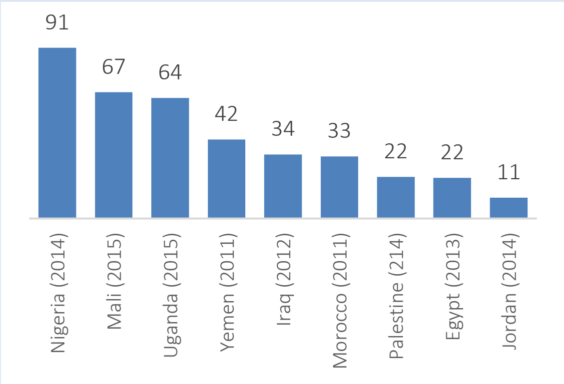
Literacy rates are between 91-100% in 23 OIC Member States, between 71-90% in 14 and between 51-70% in 9 of them (Figure 9.10B). In 2015, according to UNESCO estimates, the lowest literacy rates (between 19-50%) are in 9 OIC Member states, namely in Niger (19.1%), Chad (22.3%), Guinea (30.4%), Mali (33.1%), Burkina Faso (36.0%), Afghanistan (38.2%), Benin (38.4%), Cote d'Ivoire (43.1%) and Sierra Leone (48.1%). In Niger, Chad, Guinea, Benin and Cote d'Ivoire literacy rates have dropped compared to the 2007-2011 period.

Figure 9.11 illustrates that from 2011 to 2016 -in 48 OIC countries for which data is available- number of children entering grade 1 of primary education was in constant increase. However, number of out of school children of primary school age remained almost stable, whose number slightly increased from 19.4 million in 2007-2011 period to 19.5 million in 2015-2016 period.

The UNICEF estimates for 2016 indicates to around 63 million out of school children of primary school age in the world. Unfortunately, approximately 31% of those children are residing in the 48 OIC Member States that are subject to Figure 9.8. The situation is particularly worrying in OIC

Member States such as Indonesia, Mali, Sudan, Niger, Senegal and Togo, where the number of out of school children of primary school age has increased in the period from 2007-2011 to 2015-2016. According to UNESCO data, in 2015-2016 period greatest numbers of out of school children of primary school age were in Pakistan (4.8 million), Sudan (2.5 million), Indonesia (2.4 million), Niger (1.3 million) and Mali (1.2 million).

Figure 9.12: Percent of Grade Two Students who could Not Read a Single Word of a Short Text



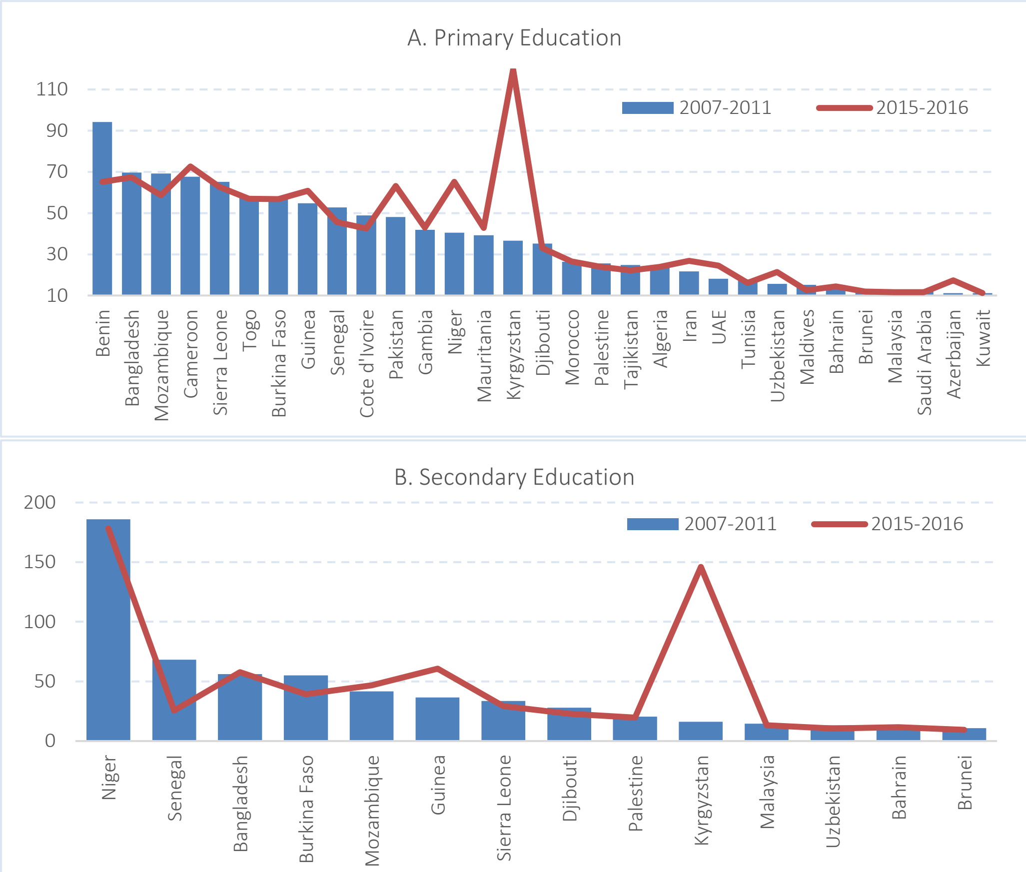
Source: USAID, Early Grade Reading Barometer.
Notes: These data typically pertain to selected regions in the countries and are not necessarily nationally representative. Data for Egypt pertain to Grade 3 students.

Quantitative data is useful in presenting the general picture of state of education in OIC region. However, indicators related to quality of education makes this picture more complicated. Figure 9.12 points out to schooling without learning, i.e. presence of children that are not achieving minimum proficiency levels in reading. In Nigeria for example, 91% of grade 2 students could not read a single word of a short text, while for Mali, Uganda and Yemen values of this indicator were 67%, 64% and 42% respectively. These values pay the way for questioning whether the primary schools are failing to educate children to succeed in life. Unfortunately, lack of data for OIC Member States makes difficult to elaborate in depth on this topic. Still, such qualitative data indicates to challenges that should be considered seriously, including the issues related to education and training of teachers.

Teachers are at the epicentre of educational reform, and they have to be the agent and key bearer of changes in education. The training that teachers receive can significantly affect the quality of education. Most advanced education systems in the world have put much emphasis on making sure teachers have deep content knowledge in the subject they will teach and the craft knowledge to teach that subject well. Figure 9.13 shows that particularly in the OIC Member States from Sub-Saharan Africa, number of pupil per trained teacher remains to be quite high, indicating to possible deficit in quality of education. It is generally assumed that a lower pupil-trained teacher ratio enables the teacher to pay more attention to individual students, which may in the long-term result in a better performance and skills of the students.

Within the given sample of OIC Member states presented in Figure 9.10, between 2007-2011 and 2015-2016, Benin, Mozambique, Senegal and Cote d'Ivore where most successful in lowering the number of children per trained teacher in primary education, although their pupil-trained teacher ratios remains to be significantly high. According to UNESCO data, between given periods greatest worsening in pupil-trained teacher ratio took place in Kyrgyzstan, Niger and Pakistan. When it comes to secondary education, pupil-trained teacher ratio has significantly improved in Senegal and more significantly worsened in Kyrgyzstan (Figure 9.13).

Figure 9.13: Pupil-Trained Teacher Ratio (Headcount Basis)

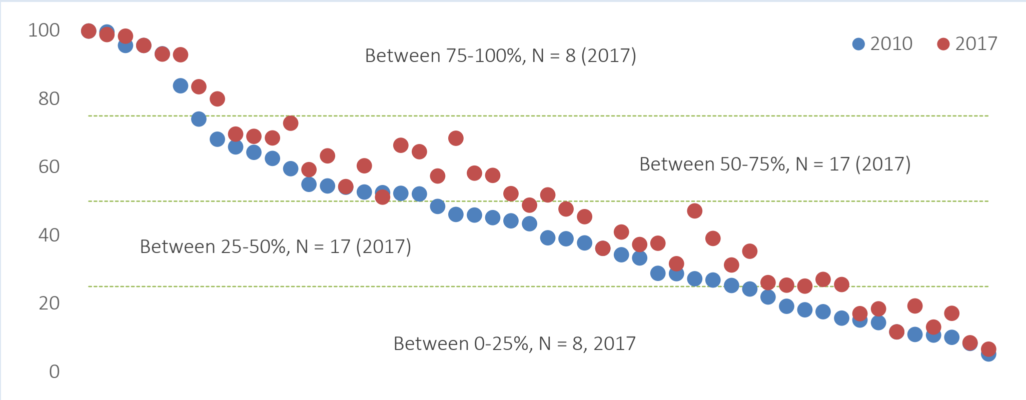


Source: UNESCO Institute for Statistics database.
Notes: A high pupil-trained teacher ratio suggests that each trained teacher has to be responsible for a large number of pupils. In other words, the higher the pupil- trained teacher ratio, the lower the relative access of pupils to trained teachers.

On the other hand, in the period from 2010 to 2017, out of 50 OIC Member States for which data is available, rates of population with at least some secondary education has increased in 43, decreased in three and remained same in four cases. Despite this progress, population with at least some secondary education remains between 20-50% in 17 and between 0-25% in 8 countries (Figure 9.14). Within this sample of OIC Member States, most challenging cases are in Niger (6.6%), Burkina Faso (8.5%), Guinea (11.7%), Mali (13.1%), Sudan (17%), Mauritania (18.4) and Mozambique (19.3%) where population with at least some secondary education remains to be very low. Contrary, Uzbekistan (99.9%), Kazakhstan (98.8%), Kyrgyzstan (98.4%), Azerbaijan (95.6%) and Tajikistan (93.1%) have very high levels of population with at least some secondary education.

Figure 9.15 is encouraging since in given sample of OIC Member States indicates to increase in total number of graduates from tertiary education – which plays primary role in knowledge producing. Slight decreases are registered only in four countries (Egypt, Tunisia, Uzbekistan and

Figure 9.14: Population with At Least Some Secondary Education (% ages 25 and over)



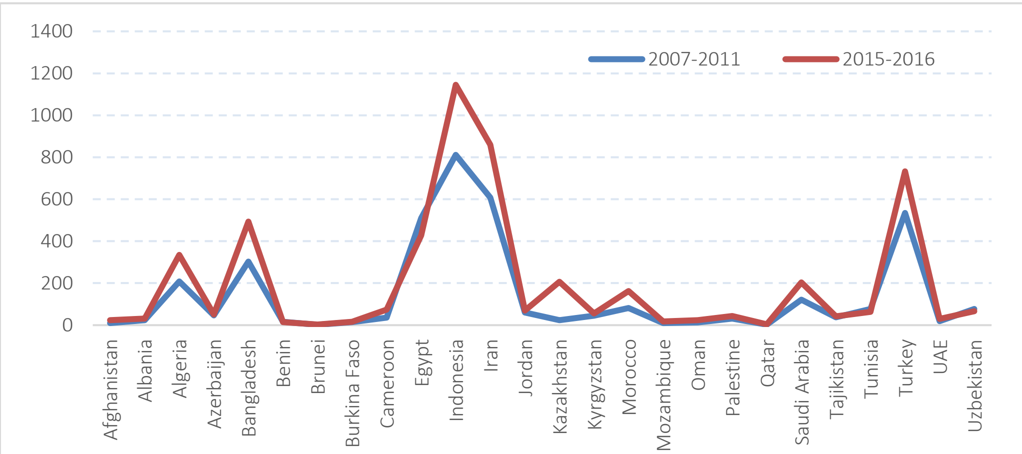
Source: UNDP, Human Development Report database.
Notes: Percentage of the population ages 25 and older that has reached at least a secondary level of education, but not necessarily completed (OIC: N = 50, data not available for Chad, Comoros, Djibouti, Guinea Bissau, Nigeria, Somalia and Turkmenistan)

Benin), while Indonesia, Iran, Turkey, Bangladesh and Kazakhstan have witnessed to greatest increases in tertiary education graduates between periods from 2007-2011 to 2015-2016.

Issues and Challenges in Achieving the Goals

Failures in education are not just a wasted development opportunity, but also a livelihood challenge that particularly affect young people, women and other disadvantaged groups. The future development agenda of OIC Member States should recognize the central role of education and set more clearly education-related targets. In this regard, equitable access to quality education should be provided for all, at any stage of life. Further, initial and continuous teacher training should regularly be conducted to help teachers cope with the changing demands and realities of transforming societies, thus improve performance of education system. The OIC

Figure 9.15: Graduates from Tertiary Education (Thousands)



Source: UNESCO Institute for Statistics database.
Notes: 2007-2011 and 2015-2016 data refer to the most recent year available during the period specified.

Member States should also be encouraged to develop education systems that are more responsive to the needs of the economy and labour market. For that to happen, harmonization of employment policies with education system is crucial.

9.3 Science, Technology and Innovation

Goal 2.10.1

[2.10.1] Advance the development and utilization of science, technology and innovation for sustainable development through encouraging research, technological capabilities in all sectors, innovation and domestic technology development by ensuring a conducive policy environment, in line with the decisions of the relevant OIC organs and fora, including the COMSTECH and the OIC Vision 1441H for Science and Technology.

Rationale

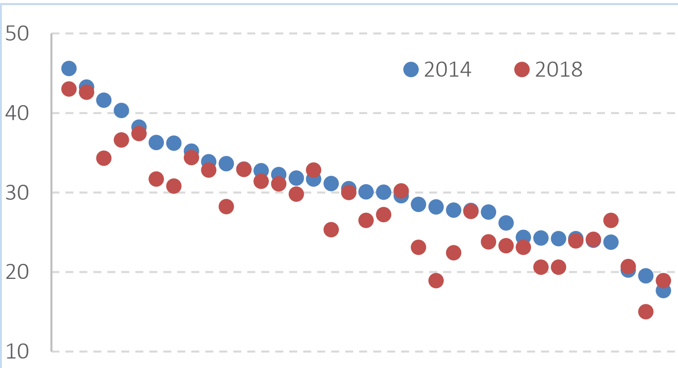
Science, technology and innovation (STI) are among most important drivers of economic and social development. Changes in productivity and competitiveness are closely associated to technological progress and innovation. Without investments in STI, results of the efforts aimed at addressing urgent societal challenges and building productive capacities in developing countries will remain limited.

Through goal 2.10.1 of the OIC-2025 Programme of Action, the OIC aims to advance the development and utilization of science, technology and innovation for sustainable development through encouraging research, technological capabilities in all sectors, innovation and domestic technology development, by ensuring a conducive policy environment, in line with the decisions of the relevant OIC organs.

Current State and Progress towards Realization of the Goals

Global innovation index (GII) is an annual ranking of countries, parameterised by their capacity and success for innovation. According to GII in 2018 Malaysia, United Arab Emirates, Turkey, Qatar, Kuwait and Saudi Arabia were the most innovative OIC countries, within the sample 35 OIC Member States covered by index. Meanwhile, in 2018 Yemen, Togo, Burkina Faso, Benin, Niger and Guinea are ranked as least innovative countries in OIC area. Unfortunately, overall scores of many OIC Member states

Figure 9.16: The Global Innovation Index

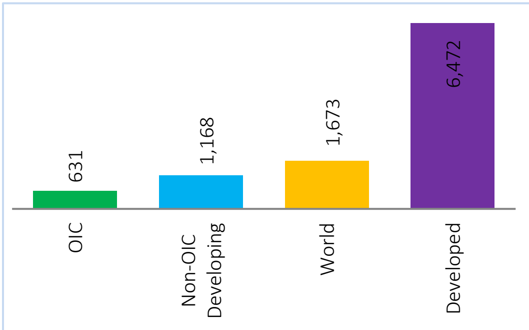


Source: Cornell University, INSEAD and WIPO, Global Innovation Index database. *Notes:* The index gathers data from more than 30 sources, covering a large spectrum of innovation drivers. Scores are between 0-100, were bigger score indicates to greater innovation.

are below world average. For example, Malaysia, which emerges as the most innovative OIC Member State in 2018, holds only 35th place in global ranking. Further, compared to 2014, scores of five OIC Member States (Azerbaijan, Guinea, Pakistan, Tajikistan and Togo) have slightly improved in 2018, while scores of rest have decreased (Figure 9.16).

OIC Member States on average fall well behind the world average in terms of researchers per million people. Researchers are professionals engaged in the conception or creation of new knowledge, products, processes, methods and systems, as well as in the management of the projects concerned. There are just 631 researchers per million people in OIC, compared to 1673 per million people in the world and 6472 per million people in developed countries. Even in non-OIC developing countries, average number of researchers is higher than in the OIC area (Figure 9.17).

Figure 9.17: Researchers per Million People (1997-2016)

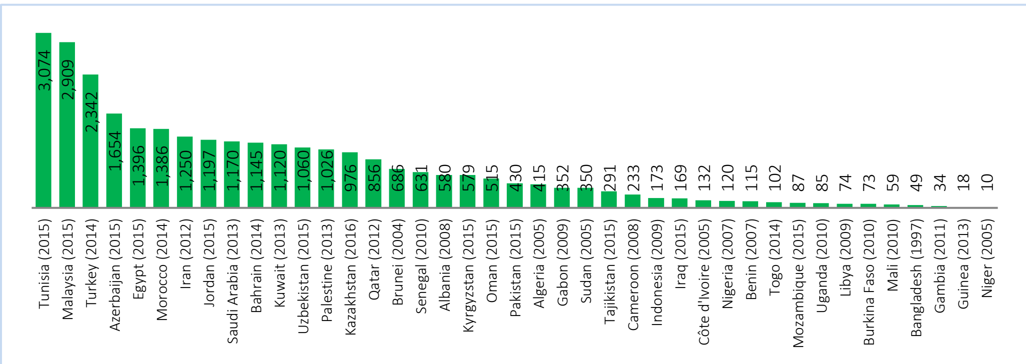


Source: UNESCO Institute for Statistics.
Notes: Data refer to the most recent year available during the period 1997-2016 (OIC: N = 41; Non-OIC developing: N = 74; Developed: N = 33; World: N = 148)

In OIC geography, the number of researchers per million inhabitants is greatest in Tunisia (3074), Malaysia (2909) and Turkey (2342). Further, in the given sample of OIC Member States for which data is available, only these three countries have values above world average. As it is shown in Figure 9.18, 24 OIC Member States fall below average of OIC region. Researchers per million people are significantly lower in Sub-Saharan Africa. Number of OIC Member States with less than 300 researchers per million is 17, and includes Niger (10), Guinea (18) and Gambia (34) where situation is worse.

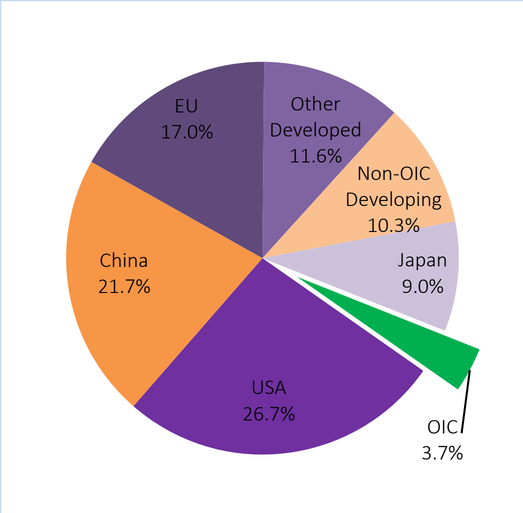
Today, nearly 65% of the global R&D expenditures are spent by developed countries, of which 27% by the USA, 17% by the EU Member States, and 9 % by Japan (Figure 9.19). Gross domestic expenditure on R&D (GERD) of China account for 21.7% of global spending. China has established

Figure 9.18: Distribution of Researchers per Million People in OIC Member States



Source: UNESCO Institute for Statistics

Figure 9.19: Gross domestic expenditure on R&D (% of world total)



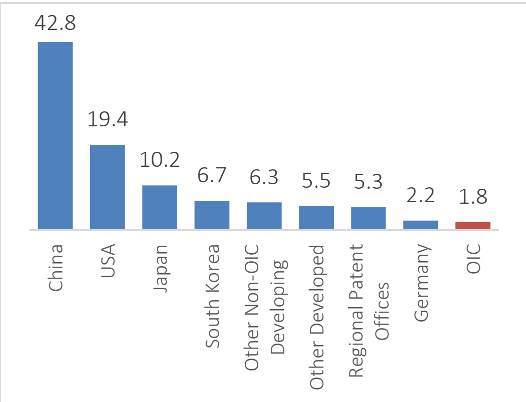
Source: UNESCO Institute for Statistics.
Notes: Data refer to the most recent year available (OIC: N = 35; Non-OIC developing: N = 63; Developed: N = 37; World: N = 135)

dozens of new high-tech industrial parks and incubators aimed at promoting technologies such as artificial intelligence and robotics. Share of other non-OIC developing countries is 10.3%, while total R&D spending in the OIC Member states is only 69.7 billion PPP dollars, about 3.7% of the global R&D expenditures.

Among 35 OIC Member States for which data is available, Turkey had the most R&D spending, at 15.3 billion PPP dollars, followed by Saudi Arabia (12.5 billion PPP dollars) and Malaysia (10.6 billion PPP dollars). In volume terms, spending of these three countries is equivalent to 55.2% of the OIC. Egypt, United Arab Emirates and Iran are other important OIC Member States with GERD over 4 billion PPP dollars. Among the lower spenders are Gambia, Brunei, Kyrgyzstan, Tajikistan, Togo, Albania and Burkina Faso, where annual GERD spending is below 40 million PPP dollars.

Intellectual property rights, especially patents, are among the key factors contributing to advances in innovation and scientific development. As a product of R&D activities, patents strengthen the link between science and technology, as output of research translates into new products or services. In this regard, while not all inventions are patented, the number of patent applications may be considered as a proxy for the degree of innovative capability in a country.

Figure 9.20: Patent Applications in 2016 (% of world total)



Source: WIPO statistics database
Notes: OIC: N = 40; Non-OIC developing: N = 85; Developed: N = 37; World: N = 172, Regional patent offices: N = 5.

According to statistics from the World Intellectual Property Organization (WIPO), the total number of patent applications around the World in 2016 is estimated to be 3.1 million. 81.2% of global patents are filed by five countries, namely China, USA, Japan, South Korea and Germany.

With over 54 thousands patents, in 2016, 40 OIC Member States accounted for nearly 1.7% of total patent applications.

At the country level, Iran demonstrated the highest patent activity in OIC, with over 15.6 thousand applications in 2016. It was followed by Indonesia with applications reaching 9,596. Adding the patent applications of Malaysia (7236) and Turkey (6848), these four OIC Member States alone constituted 70% of the OIC total. Saudi Arabia (3266), Egypt (2149), United Arab Emirates (1753), Morocco (1303) and Kazakhstan (1224) are other member countries that filed over 1000 applications each.

Issues and Challenges in Achieving the Goals

It is obvious from the data presented above that many OIC Member States are mostly observers of global developments in the area of STI. On average the OIC region is not innovative, and its competition in global economy is largely based on labour costs, rather than value-added. For that reason, there is an urgent need to channel effective technical assistance and capacity building tailored to the specific needs of OIC Member States, to address technology infrastructure gaps as well as capacity constraints.

The experience of successful developing countries shows that STI policies should be integrated into national development strategies, supported by sufficient national and international investments, committed to cooperation that involves both public and private bodies, as well as supported by mechanisms that ensure effective implementation. Targeted investments in education and raising the absorptive capacity of business and research communities to use existing technologies and develop new ones should be at the focus of STI policies.

Increased STI cooperation within OIC area and between OIC and the other relevant regional and international stakeholders could help many OIC Member States to develop research infrastructure and capacity for innovation, thus shift to a more sustainable development path. Adopting open science policies, i.e. supporting open access to scientific publications and data resulting from publicly funded research, may be a significant step in promoting science and increasing transfer of scientific knowledge among OIC Member States.

Annex: Country Classifications

A. Major Country Groups used in the Report

OIC Countries (56+1):

Afghanistan
Albania
Algeria
Azerbaijan
Bahrain
Bangladesh
Benin
Brunei
Darussalam
Burkina Faso
Cameroon
Chad
Comoros
Cote d'Ivoire
Djibouti
Egypt
Gabon
Gambia
Guinea
Guinea-Bissau
Guyana
Indonesia
Iran
Iraq
Jordan
Kazakhstan
Kuwait
Kyrgyz Republic
Lebanon
Libya
Malaysia
Maldives
Mali
Mauritania
Morocco
Mozambique
Niger
Nigeria
Oman
Pakistan
Palestine
Qatar
Saudi Arabia
Senegal
Sierra Leone
Somalia
Sudan
Suriname
(Syria)
Tajikistan
Togo
Tunisia
Turkey
Turkmenistan
Uganda
United Arab
Emirates
Uzbekistan
Yemen

Non-OIC Developing Countries:

Angola
Antigua and
Barbuda
Argentina
Armenia
Bahamas
Barbados
Belarus
Belize
Bhutan
Bolivia
Bosnia and
Herzegovina
Botswana
Brazil
Bulgaria
Burundi
Cabo Verde
Cambodia
Central African Rp.
Chile
China
Colombia
Dem. Rep. of the
Congo
Rep. of Congo
Costa Rica
Croatia
Dominica
Dominican Rep.
Ecuador
El Salvador
Equatorial Guinea
Eritrea
Ethiopia
Fiji

Georgia
Ghana
Grenada
Guatemala
Haiti
Honduras
Hungary
India
Jamaica
Kenya
Kiribati
Kosovo
Lao P.D.R.
Lesotho
Liberia
FYR Macedonia
Madagascar
Malawi
Marshall Islands
Mauritius
Mexico
Micronesia
Moldova
Mongolia
Montenegro
Myanmar
Namibia
Nauru
Nepal
Nicaragua
Palau
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Poland
Romania
Russia
Rwanda
Samoa
São Tomé and Príncipe
Serbia
Seychelles
Solomon Islands
South Africa
South Sudan
Sri Lanka
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
Swaziland
Tanzania
Thailand
Timor-Leste
Tonga
Trinidad and Tobago
Tuvalu
Ukraine
Uruguay
Vanuatu
Venezuela
Vietnam
Zambia
Zimbabwe

Developed Countries* (39):

Australia
Austria
Belgium
Canada
Cyprus
Czech Rep.
Denmark
Estonia
Finland
France
Germany
Greece
Hong Kong
Iceland
Ireland
Israel
Italy
Japan
Rep. of Korea
Latvia
Lithuania
Luxembourg
Macao SAR
Malta
Netherlands
New Zealand
Norway
Portugal
Puerto Rico
San Marino
Singapore
Slovak Rep.
Slovenia
Spain
Sweden
Switzerland
Taiwan
United Kingdom
United States

(Based on the list of advanced countries classified by the IMF. Last update 20 April 2018.)*

B. Geographical Classification of OIC Countries

(Based on World Bank Classification)

Sub-Saharan Africa (21): OIC-SSA

Benin	Gabon	Mozambique	Sudan
Burkina Faso	Gambia	Niger	Togo
Cameroon	Guinea	Nigeria	Uganda
Chad	Guinea-Bissau	Senegal	
Comoros	Mali	Sierra Leone	
Côte d'Ivoire	Mauritania	Somalia	

Middle East and North Africa (18+1): OIC-MENA

Algeria	Iran	Morocco	(Syria)
Bahrain	Jordan	Oman	Tunisia
Djibouti	Kuwait	Palestine	United Arab Emirates
Egypt	Lebanon	Qatar	Yemen
Iraq	Libya	Saudi Arabia	

East and South Asia and Latin America (9): OIC-ESALA

Afghanistan***	Brunei Darussalam*	Indonesia*	Pakistan***
Bangladesh***	Guyana**	Malaysia*	Suriname**
		Maldives***	

ESALA is combination of countries in (*) East Asia and Pacific, (**) Latin America and Caribbean, and (***) South Asia.

Europe and Central Asia (8): OIC-ECA

Albania	Kazakhstan	Tajikistan	Turkmenistan
Azerbaijan	Kyrgyzstan	Turkey	Uzbekistan

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