

Dear Members

Assalamu Alaikum

In this issue we report on three seminars ADFIMI implemented in Turkey, Tunisia and Northern Cyprus. The participants found them very beneficial for their work. The seminar materials are accessible at our website www.adfimi.org

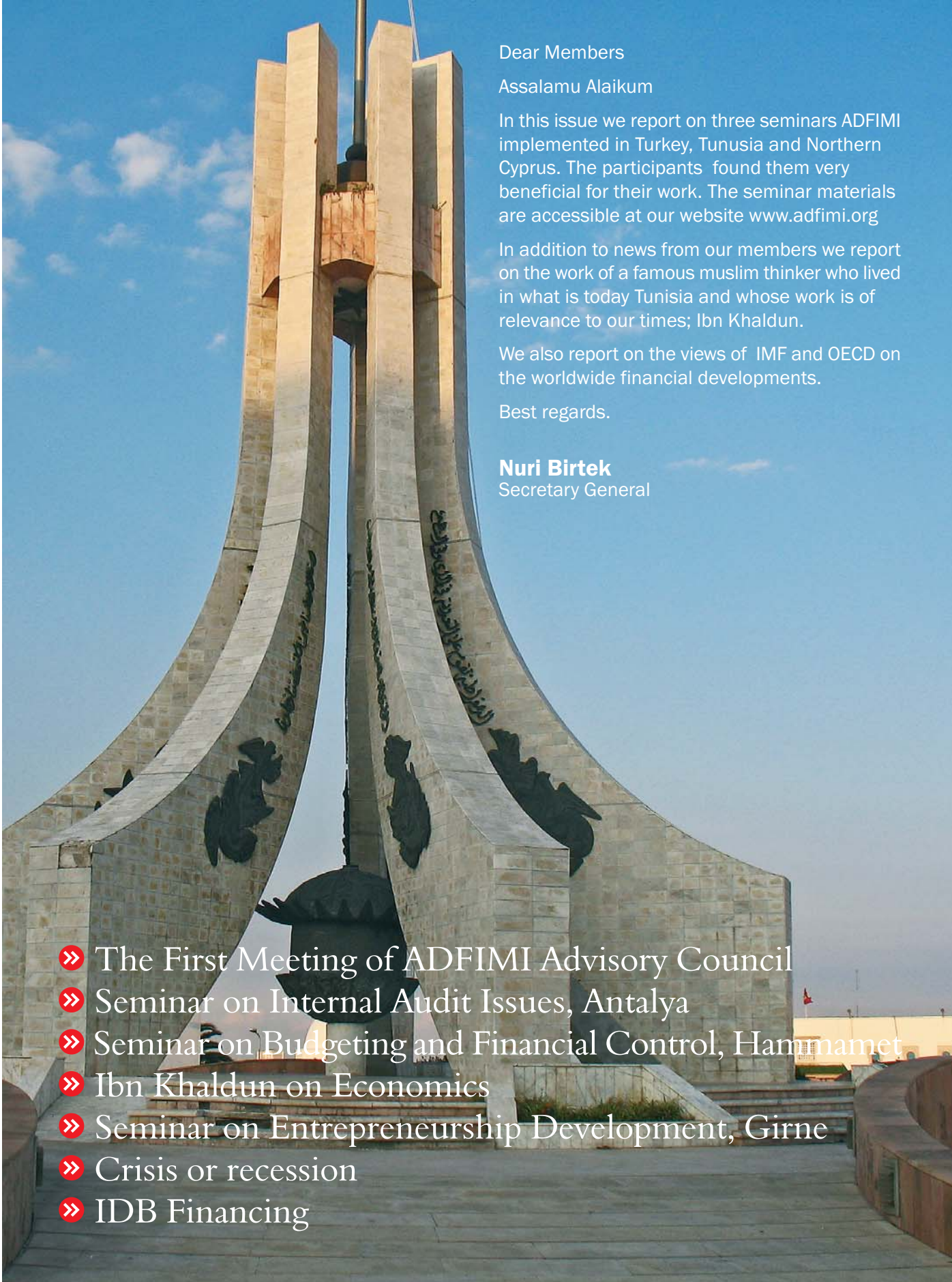
In addition to news from our members we report on the work of a famous muslim thinker who lived in what is today Tunisia and whose work is of relevance to our times; Ibn Khaldun.

We also report on the views of IMF and OECD on the worldwide financial developments.

Best regards.

Nuri Birtek

Secretary General

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- » The First Meeting of ADFIMI Advisory Council
 - » Seminar on Internal Audit Issues, Antalya
 - » Seminar on Budgeting and Financial Control, Hammamet
 - » Ibn Khaldun on Economics
 - » Seminar on Entrepreneurship Development, Girne
 - » Crisis or recession
 - » IDB Financing



Mehmet Emin Özcan
ADFIMI Chairman

Are we in for the “largest financial shock since the Great Depression?”

The IMF has recently reviewed its World Economic Outlook with a warning that America's mortgage crisis could well spiral into “the largest financial shock since the Great Depression”. A Singaporean investor shares this opinion when he comments that “We could be facing a recession which is longer, deeper and wider than any recession that we have encountered in the last 30 years”.

The financial shock that erupted in August 2007, as the U.S. subprime mortgage market was derailed by the reversal of the housing boom, has spread quickly. It has inflicted extensive damage on markets, curtailed liquidity in the interbank market, and prompted the repricing of risk across a broad range of instruments. Liquidity remains seriously impaired, while concern about credit risks has intensified and extended far beyond the subprime mortgage sector. Equity prices have also retreated as signs of economic weakness have intensified, and equity and currency markets have remained volatile.

The global expansion has lost momentum in the face of a major financial crisis. The slowdown has been greatest in the advanced economies, particularly in the United States. The emerging and developing economies have so far been less affected by financial market developments and have continued to grow at a rapid pace, led by China and India, although activity is beginning to slow in some countries.

Global growth is projected to slow to 3.7 percent in 2008, 1¼ percentage points lower than the growth recorded in 2007. Moreover, growth is projected to remain broadly unchanged in 2009. The U.S. economy will tip into a mild recession in 2008

as the result of mutually reinforcing cycles in the housing and financial markets, before starting a modest recovery in 2009. Growth in emerging and developing economies is expected to ease modestly but remain robust in both 2008 and 2009. The IMF staff now sees a 25 percent chance that global growth will drop to 3 percent or less in 2008 and 2009—equivalent to a global recession.

The greatest risk comes from the still-unfolding events in financial markets, particularly the potential for deep losses on structured credits related to the U.S. subprime mortgage market and other sectors to seriously impair financial system balance sheets and cause the current credit squeeze to mutate into a full-blown credit crunch. There is some upside potential from projections for domestic demand in the emerging economies, but these economies remain vulnerable to trade and financial spillovers.

The US is already sliding into what the IMF predicts will be a “mild recession” but there is mounting pessimism about the ability of the rest of the world to escape unscathed and that there will be no early resolution to the global financial crisis.

These financial dislocations and associated deleveraging are affecting both bank and nonbank channels of credit in the advanced economies, and evidence is gathering of a broad credit squeeze—although not yet a full-blown credit crunch. Bank lending standards in the United States and western Europe are tightening, the issuance of structured securities has been curtailed, and spreads on corporate debt have risen sharply.

It was estimated recently that the world's financial firms could end up shouldering USD1 trillion worth of losses from the credit crunch.

In short there is every reason to be vigilant and on the alert.

Best regards,

Br. Mehmet Emin Özcan
Chairman, Member of the Executive Board
T. C. Ziraat Bankasi A.Ş. Ankara TURKEY



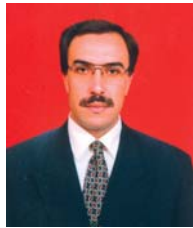
ADFIMI ADVISORY COUNCIL MEETS FOR THE FIRST TIME

The First meeting of ADFIMI Advisory Council took place in Girne, Turkish Republic of Northern Cyprus from 17 to 18 March 2008. The Council, after having adopted ‘Rules of Procedure’ has elected Tun Seri Dato’ Sri Dr.Zainul Ariff Hj.Hussaain, Chairman of Putra University, Malaysia as Chairman and Dr.Murat Yülek, CEO of PGlobal Ltd of Turkey as Vice Chairman for a two-year term. The Council has also adopted a set of recommendations for the Management Committee to be considered at their next meeting to be held in Jeddah in May 2008. The meeting was generously hosted by the Development Bank of the Turkish Republic of Northern Cyprus.

NEWS FROM MEMBERS



SABINCO launches its website Located at www.sabinco.com.bd SABINCO's first ever website was formally opened by the Chairman of the Company Br. Md. Minhaz Zia at its 92nd Board Meeting held on 22nd March 2008.



TIKA has a new Director

Br. Musa Kulaklıkaya has been appointed as the Director of Turkish International Development Agency TIKA . ADFIMI congratulates and wishes him a succesful term of office.

Phoenix Finance and Investment gets a new MD



ADFIMI Vice Chairman Br Abdulquadir Choudhury has retired as the MD of Phoenix Finance and Investments Ltd. (PHIL) of Bangladesh. Br.Intikab Alam has been appointed as the new MD.

ADFIMI Congragulates Br. Alam for being appointed as the MD of PHIL and wishes all the best to Br.Choudhury in his retirement.

Development Bank of Turkey (TKB) adopts a new strategy to finance SMEs

The Law establishing the Bank, TKB only permits loans to be made to joint stock companies. In order to reach SMEs TKB has decided to implement apex lending as a new financial instrument. Since TKB does not have a branch network in February 2008, it has signed an apex lending agreement with Garanti Bank a leading Commercial Bank in Turkey. The goal of the agreement is to finance small enterprises in OSTIM - Ivedik industrial zones – home to 12.000 SMEs and 50.000 workers. It is a pilot project in which TKB will try to raise funds for SMEs both locally and internationally. The budget of the project is USD 16 million and will be used to finance investment and working capital requirements of SMEs where the maximum loan per company is USD 400.000. As of March 2008, loans totalling about 3,5 million have already been disbursed to more than 80 companies.



Sentiasa di sisi Anda

Bank Pertanian Malaysia Changes its name to "Agro Bank"

Sr.Martini Osman becomes the President / CEO



A government-owned bank in Malaysia whose main role is to promote the agricultural sector through mobilization of lending facilities and savings in rural areas Bank Pertanian was established in 1969 under an Act of Parliament as "A development finance institution directly involved in financing the agriculture sector." It commenced operations on Jan 1st, 1970.

On December 12th 2007, Dewan Rakyat (the Lower House of the Parliament) has approved the proposed Bank Pertanian Malaysia 2007 Bill to incorporate Bank Pertanian with a paid-up capital of RM1 billion to enable it to be competitive with other financial institutions and empower it to help develop agriculture as the third engine of growth under the Ninth Malaysia Plan.

The corporatization will enable the bank to offer competitive and comprehensive financial products and venture into new business activities which the bank is currently unable to undertake due to the limitation of the current BPM act. Among the new products and activities will be agriculture, life and general insurance, credit card service, credit guarantee, investment, capital market, internet banking and current account.

After the approval of the bill on December 19th 2007 by Dewan Negara (the Upper House), Bank Pertanian Malaysia changed its name to Agro Bank on 8 April 2008.

ADFIMI congratulates Sr.Martini Osman for becoming the President /CEO of Agrobank.



TKB also supports regional development activities of local administrations

As part of Country Development Strategy Turkey has been divided into regions of different levels of development. Each has a special administrative unit pursuing region specific strategies. In this context TKB is providing expertise in SWOT analysis and sectoral assesment analysis. In the Kırıkkale province located east of Ankara, an underdeveloped region adversely affected by migration and lack of entrepreneurship spirit TKB was recently involved in sectoral SWOT analysis and identification of strategic issues. The strategies will be transformed into new action plans. The results were announced at a regional conference in March.

“BUDGETING AND FINANCIAL CONTROL” was held between 11-13 February 2008 in HAMMAMET, TUNISIA



There were 13 participants from 7 different countries with a considerably homogenous professional background. This homogeneity helped the seminars to take place in a more interactive atmosphere where personal experiences of the participants could be integrated into the discussions.

Main topic of the seminar was budgeting as a process with related aspects of the process as sub-topics. These sub-topics were sales estimates and sales budgets, man-power budget, budget of manufacturing and general and administrative costs, marketing budget, research and development budget and capital expenditures budget. As these topics were presented and discussed break-even and contribution margin analysis were given specific importance with several examples and cases. The budgeting process in financial institutions, basic aspects of which were given through the presentations, was exemplified with professional experiences and applications of the participants.

THE ECONOMIC THEORY of IBN KHALDUN AND THE RISE AND FALL of NATIONS

Dr.Selim Cafer Karatas Executive Board Member of IDB

INTRODUCTION

Ibn Khaldun (d. 1406/808) was a fourteenth century Muslim thinker who wrote on many subjects, including on the rise and fall of nations in his Muqaddima: an Introduction to History. His writings on economics, economic surplus and economic oriented policies are as relevant today as they were during his very own time.

IBN KHALDUN ON ECONOMICS

Ibn Khaldun was the first to systematically analyze the functioning of an economy, the importance of technology, specialization and foreign trade in economic surplus and the role of government and its stabilization policies to increase output and employment. Ibn Khaldun, moreover, dealt with the problem of optimum taxation, minimum government services, incentives, institutional framework, law and order, expectations, production, and the theory of value. Ibn Khaldun again is the first economist to give a biological interpretation of the rise and fall of the nations.

IBN KHALDUN ON THE STATE

For Ibn Khaldun, the role of the State is to establish law and order conducive for economic activities. Moreover, the enforcement of property rights, the protection of trade routes and the security of peace are necessary for any civilized society to engage in trade and production.

For Ibn Khaldun, the State has to take the responsibility to change the expectations of the entrepreneurs by implementing the public works to generate employment and confidence.

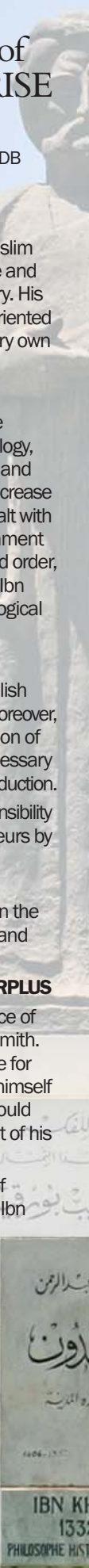
Ibn Khaldun wrote that over-taxation would occur when the demands bureaucracy and mercenary armies would expand beyond “normal” economic surplus.

IBN KHALDUN ON SPECIALIZATION AND ECONOMIC SURPLUS

He indicated the fact that specialization is the major source of economic surplus, almost three centuries before Adam Smith. For Ibn Khaldun, when there is an environment conducive for specialization, the entrepreneur is encouraged to commit himself for further trade and production. Indeed, specialization would occur in a place in which a person is able to get the benefit of his efforts.

Given law and order, for him, specialization is a function of population, trade, production and minimum taxation. For Ibn Khaldun, specialization meant the coordination of different functions of factors of production where, “what is obtained through the cooperation of a group, of human beings satisfies the need of a number many times greater (than themselves).”

Later, on the same subject, Adam Smith had this to say: “Thus, generally, to the value of the materials which he works upon, that of his own maintenance, and of his master’s profit.” However, more succinctly, Ibn Khaldun states the economic rationale behind specialization (and coordination) with this sentence “the combined labor produces more than the needs and necessitates of the workers.” For Ibn Khaldun, providing coordination and cooperation of factors of production is a function that has



to be performed by entrepreneurs according to market forces.

For Ibn Khaldun, it is clear that “the profit human beings make is the value realized from their labor,” but this value, the price of labor, is determined by the law of supply and demand. These points were missed by Karl Marx and his ardent followers.

For Ibn Khaldun, the coordination, cooperation and direction of factors of production in increasing economic surplus is a productive and costly process which is undertaken by entrepreneurs who try hard to make a gain for their economic activities. They spend time, energy and capital to search for goods and services “to buy cheap and sell dear,” in order ‘to make profit.’ As a result, Ibn Khaldun praised the initiative of entrepreneurs for their productive activities in coordinating and directing of factors of production. Then, they very rightly deserved profit from their risky undertakings. Karl Marx, Ricardo and others went astray on this point as well.

IBN KHALDUN ON MONETARY POLICY

Ibn Khaldun defends a stable monetary policy. He is against the policies of the authorities to play with the value of currency. He fears that the authorities may be tempted to debauch with the value of money in order to build palaces and finance mercenary armies. This process will cause inflation and the population will lose confidence in the currency. These developments are considered to be unjust. As a supreme policy for the society, the protection of purchasing power of money has to be implemented as a matter of justice.

IBN KHALDUN ON PROPERTY RIGHTS

After the 1960s, some economists, especially in the United States have started to deal with property rights and its impact on economic development. Ibn Khaldun, on the other hand, centuries ago had dealt firmly with this issue. The protection and the enforcement of property rights had to be defended as a matter of justice for the survival of civilization.

Ibn Khaldun sees a clear connection between property rights and justice. For him, “men persist only with the help of the property. The only way to property is through cultivation. The only way to cultivation is through justice. Justice is a balance set up among mankind.”

Whenever, the violation of property rights occurs, it means the commitment of an injustice act. For Ibn Khaldun, “people who collect unjustified taxes commit an injustice. Those who infringe upon property (rights) commit an injustice. Those who take away property commit an injustice. Those who deny people their rights commit an injustice. Those who, in general, take property by force, commit an injustice,” and “injustice ruins civilization.

CONCLUSIONS

In summary, Ibn Khaldun is one of the few successful theoreticians, who has analyzed the behavior of human beings and of society as an integrated whole in their totality as part of greater humanity in the rise and fall of civilization paralleled to the rise and fall of

economic surplus, respectively. For him, the cycle of the civilization has reached its end with the destruction of superstructure. At the beginning, “the desire for a luxurious mode of life had inspired men to perform heroic deeds, fights, to overcome difficulties, and to build - Now-men fight again, but not for the hopes that they had once entertained. Motivated by the fear of hunger, they fight for mere existence, and like the primordial man who fought out of the same motive, they display the beast in man and return to the life of beasts.”

Full text of this interesting analysis of Ibn Khaldun titled ‘The Economic Theory of Ibn Khaldun and the Rise and Fall of Nations’ by Dr.Selim Cafer Karatas, Executive Board Member of IDB is available at www.muslimheritage.com:80/includes/viewResource.cfm?resourceID=276

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Methods of estimating budgeted items was another important topic for discussion. In this discussion, the theoretical aspects of general estimate methods were presented. In addition to this, the applications of these methods with regard to the countries represented by the participants were discussed.

Within the framework of financial control, both budgeting applications of companies and actuals and individual and institutional performance analyses were discussed at length. Given the fact that all of the participants were executives or managers responsible from the applications of the processes in question at the financial institutions they represented, financial control concepts that were presented included asset-liability management and risk evaluation. Besides these concepts, the similarities and differences between financial control and internal control functions in financial institutions were discussed in detail.

As recently applied techniques in budgeting, the concepts of zero-base budgeting, rolling budgeting, flexible budgeting and activity-based budgeting were presented. On the last day of the seminar, the concept of economical value added (EVA) was discussed with great interest of the participants and was enriched with their own experiences.



Seminar Director
Br. Oğuz Kemal Bulut



JOINT SEMINAR on ENTREPRENEURSHIP DEVELOPMENT 19-21 March 2008, Girne

Joint ADFIMI – Development Bank of Turkish Republic of Northern Cyprus Seminar on “Entrepreneurship Development through the Technical Support of Bankers” was held from 19 to 21 March 2008, at the Acapulco Hotel in Girne - Turkish Republic of Northern Cyprus. There were 18 participants from 7 countries. The resource person was Br. Iqbal M. Khan, the director of the SURE Institute, Lahore, Pakistan. The seminar emphasized the importance of training of entrepreneurs for the purpose of preparing Business Plans in order to be financed by the bankers. After describing the nature and elements of a business plan, Br. Iqbal formed three groups from among the participants. While two of the groups acted as entrepreneurs and prepared business plans the third group acted as the bankers and evaluated the business plans. The seminar ended with a city tour of Girne on 21 March.



ADFIMI Seminar on 'Internal Audit Issues & Challenges' was held in Antalya from 28 to 30 January 2008.



The Seminar was delivered by Br. Abdul Hakim Kanan, Group Chief Internal Auditor, Dubai Islamic Bank. In the inauguration session of the seminar, Secretary General of ADFIMI, Br. Nuri Birtek welcomed the participants. Br. Metin Öztürkcan, Regional Coordinator, Halkbank and Br. Osman Arslan, Deputy General Manager, Halkbank kindly honoured the opening session and also welcomed the participants.

There were 14 participants from 7 countries. 11 of which were from member institutions and 3 were from a non-member local institution.

Participants found the Seminar interesting, informative and relevant to their daily work. Participants were impressed with the hands on knowledge of the lecturer.



The OECD revises its economic outlook

1. Continued turbulence in financial markets have tended to spread to new markets and institutions, reaching beyond the origin of the US sub-prime mortgages and derived products and leading to a generalised wariness and re-pricing of risks. As concerns the real economy, near-term global growth prospects have weakened more than projected in the December 2007. Three sets of factors are at play – especially in the United States but also in a number of other OECD economies – and their effects are unlikely to fade soon:

- The real economy is not sheltered from financial turmoil.
- The global housing cycle has turned; in the United States the direct effect of the residential investment slump has been subtracting around one percentage point from annual real GDP growth over the past two years and will continue to do so this year.

The OECD revised down its economic outlook for its major economies in late March, in light of financial market turmoil and uncomfortably high inflation rates. Following is an excerpt from OECD observer:

- Household real incomes are being squeezed by soaring energy and food prices.
- 2. Short-term forecasting models taking on board the most recent dataflow, suggest that the US economy is now essentially moving sideways, if not contracting outright. It may be premature to declare a recession, but with the pace of activity so far below potential, economic slack is widening rapidly.
- 3. As concerns inflation, both headline and core measures well exceed comfort levels in many economies and on some indicators inflation expectations have been trending up. US headline CPI inflation stood at 4 % last month (february 2008) and the latest core PCE reading, at 2.2%, suggests some pass-through of higher energy and food prices into other prices.
- 4. How macroeconomic policies should react First, oil and other commodity prices may continue to rise for some time from their

- already high levels, despite slowing activity. Second, the extent of any financial turbulence and the magnitude and duration of the restraint exerted on economic activity by banks' and investors' newfound prudence, and by their need to recapitalise, is unclear. Third, short-run trade-offs between inflation and output may have changed in recent years, casting some doubts on the exact extent to which subdued growth will moderate inflation pressures.
- 5. In this light, the case for policy stimulus is stronger in the United States than in Europe or Japan and both US monetary and fiscal policymakers have already acted forcefully. In the euro area, by contrast, the near-term outlook for activity and inflation does not point to a need for stimulus and automatic fiscal stabilisers will provide more support than in other regions. In Japan, there is limited scope for responding to greater weakness.

Upcoming Events

- ADFIMI Management Committee Meeting, 16.00 hrs, Qasr Sharq Meeting Room, the Hilton Hotel, Jeddah, Saudi Arabia, 30 May 2008
- The 24th Annual Meeting of the ADFIMI General Assembly, 10.00 hrs, Al-Qasr Hall (C), the Hilton Hotel, Jeddah, Kingdom of Saudi Arabia, 31 May 2008
- ADFIMI 18th CEO Seminar, 14.15-16.15 hrs, Al Qasr Hall (C), the Hilton Hotel, Jeddah, Saudi Arabia, 31 May 2008
- 33rd Meeting of IDB Group Jeddah, 31 May - 4 June 2008
- ADFIMI Special Seminar on International Financial Standards, 4-6 August 2008, Kuala Lumpur
- Joint IDB – ADFIMI workshop on “Introducing ADFIMI to Sub-Saharan Africa”, 13-15 October 2008, Kampala / Uganda



● **President of Indonesia expresses his full support to the Islamic Solidarity Fund for Development (ISFD)**

A delegation comprised of H.E. Bahruddin Yousef Habibi Former President of Indonesia, H.E. Dr. Abdulrahman Swar Al-Dahab Former President of Sudan member of the Advisory Panel and H.E. Dr. Ahmed Mohamed Ali, President of the IDB. Have visited the President of Indonesia in a bid to mobilize resources for the newly established Islamic Solidarity Fund for Development (ISFD) before the upcoming Organization of Islamic Countries (OIC) summit next week in Dakar, Senegal. The President expressed his utmost support to the ISFD for its noble objectives. The President also expressed his willingness to share Indonesia's experience in poverty alleviation, improving living conditions, job creation and technical training. The ISFD initiative goes back to the OIC extraordinary summit held in Makkah, Saudi Arabia, in December

2005 within the Ten-Year Program of Action adopted by OIC. IDB was entrusted with establishing the fund.

The fund was formally adopted by IDB Board of Governors during the annual meeting last May in Dakar with a U.S. \$10 billion target. Already \$2.6 billion were contributed from 31 member countries and IDB resources.

● **International Investment Conference in Kazan, Republic of Tatarstan**

An international Conference exploring the investment opportunities in the Republic of Tatarstan and that will include a Trade Fair and site visits will be organised in the City of Kaan, the Capital of Tatarstan, Russian Federation from 07 June to 10 June 2008. The event is coordinated by Operations 1 Department of the IDB and the contact person Mr. Mohammed Alsayed (IICT@isdb.org)

● **The Islamic Development Bank (IDB) to Host the 11th Meeting of the Heads of Financial Institutions and Funds (Coordination Group-CG)**

The 11th meeting of CG is expected to be attended by heads of the Arab Development Fund (Riyadh), the Kuwait Fund for Arab Economic Development (Kuwait), the Arab Fund for Economic and Social Development (Kuwait), the Abu Dhabi Development Fund (Abu Dhabi), the Arab Monetary Fund (Abu Dhabi), the Arab Bank for Economic Development in Africa (BADEA) (Khartoum), AGFUND (Riyadh), the

OPEC Fund for International Development (OFID) (Vienna) and the Islamic Development Bank (Jeddah).

Many issues will be addressed during the meeting through several working papers on the role of the CG in boosting development efforts in Palestine, the Group's greater efforts to assist least developed African countries in achieving the Millennium Development Goals (MDGs), ways of strengthening trade finance cooperation within the Group to promote development, increase the efficiency of development finance in general, setting up of a suitable Arab assistance promotion mechanism and ways of strengthening projection execution cooperation with the Group.

Since the Coordination Group was established over three decades ago, it has provided overall US\$ 80 billion worth of financing designed to boost socio-economic development efforts in developing countries worldwide like - the Trans-Saharan Highway (Algiers - Lagos) and the road link between Dakar, Senegal and Port Sudan, Sudan, - the Djama - Manantali dams construction project designed to harness water flow along River Senegal.

The Coordination Group has also helped to coordinate many development project finance efforts in Central Asia worth nearly US\$ 1 billion in sectors such as transport, communication, electricity, industry, water, agriculture, housing, health, education, training and institutional capacity building.