OIC ECONOMIC OUTLOOK 2024

Supporting Private Sector and SME Development in OIC Countries

SESRIC

ORGANISATION OF ISLAMIC COOPERATION

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

Organization of Islamic Cooperation

Statistical, Economic and Social Research
and Training Centre for Islamic Countries

OIC Economic Outlook 2024

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Acronyms

ADB	Asian Development Bank
BRIC	Brazil, Russia, India, and China
COMCEC	Standing Committee for Economic and Commercial Cooperation of the OIC
CPI	Consumer Price Index
DOTS	Direction of Trade Statistics
EPR	Employment-to-Population Ratio
EU	European Union
FDI	Foreign Direct Investment
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GNI	Gross National Income
GVA	Gross Value Added
GVC	Global Value Chain
ICCD	Islamic Chamber of Commerce for Development
ICD	Islamic Corporation for the Development of Private Sector
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFS	International Financial Statistics
ILO	International Labour Organisation
IMF	International Monetary Fund
IsDB	Islamic Development Bank
ISIC	International Standard Industrial Classification
ITC	International Trade Centre
ITU	International Telecommunication Union
LAC	Latin America and the Caribbean
LAYS	Learning adjusted years of schooling
LDCs	Least Developed Countries
MENA	Middle East and North Africa
MLC	Management and Lease Contract
MNE	Multinational Enterprise
MSME	Micro, Small and Medium Enterprises
MVA	Manufacturing Value Added
NLP	Non-performing Loan
ODA	Official Development Assistance

OECD	Organisation for Economic Co-operation and Development
OIC	Organisation of Islamic Cooperation
OPEC	Organization of the Petroleum Exporting Countries
PPI	Private Participation in Infrastructure
P-PP	Public-Private Partnership
PPP	Purchasing Power Parity
R&D	Research and Development
SDG	Sustainable Development Goal
SEZ	Special Economic Zone
SME	Small and Medium-sized Enterprise
SSA	Sub-Saharan Africa
STI	Science, Technology and Innovation
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
UNSD	United Nations Statistics Division
US$	United States Dollar
WB	World Bank
WBES	World Bank Enterprise Surveys
WDI	World Development Indicators
WEF	World Economic Forum
WEO	World Economic Outlook
WTO	World Trade Organization

Preface

Achieving the objectives of sustainable development, peace and prosperity has been at the heart of the Organisation of Islamic Cooperation (OIC) since its establishment. Today, intra-OIC cooperation is growing in both scale and scope, with socio-economic progress and prosperity of Islamic world being the key focus of the OIC development agenda. The OIC has strengthened cooperation among its members through high-level political declarations, regular technical meetings with representatives of the Member States and the establishment and supporting of numerous OIC institutions. Thanks to the efforts of these institutions, concrete actions and significant results have been achieved in many areas of cooperation. One of the main achievements of OIC Member States in recent years is the continuous strengthening of functional and sectoral cooperation.

The past few years have shown how quickly various shocks can affect the global economy, especially due to pandemic and geopolitical conflicts. The evolving trade and investment dynamics necessitate better economic resilience with a stronger focus on developing a robust private sectors and SMEs in OIC countries. SMEs, in particular, are the backbone of economies, driving innovation, job creation, and economic diversification. However, these enterprises often face challenges such as limited access to finance, regulatory barriers, and inadequate infrastructure. Addressing these issues is critical to fostering an environment in which SMEs can thrive and contribute significantly to economic growth. In this context, this report provides comprehensive insights into the issues and challenges faced by OIC countries along with policy options to overcome these challenges.

The OIC recognizes the critical role that the private sector and SMEs play in achieving economic growth and development. Efforts to improve access to finance through conventional and Islamic financial instruments, streamline regulatory processes, and invest in infrastructure are critical to support the growth of these enterprises. By fostering a favourable business environment, OIC countries can improve the competitiveness of their private sector, promote economic diversification, and ensure inclusive growth that benefits all segments of society.

With their unique economic structures, resource endowments, and demographic profiles, OIC countries are navigating global developments in their own distinct ways. The private sector, and particularly SMEs, has become a key driver for many OIC countries, offering pathways to economic growth, diversification, and inclusion. The rise of SMEs presents both opportunities and challenges for OIC countries. On the one hand, SMEs have the potential to drive economic diversification, improve competitiveness, and empower young and dynamic populations. On the other hand, they face significant challenges in terms of access to finance, regulatory burden, and market access. Addressing these challenges requires coordinated efforts to develop supportive policies, provide financial incentives, and create a business-friendly environment.

In the ever-evolving global economic landscape, the OIC recognizes the importance of strengthening the private sector and SMEs development as essential components of our commitment to socioeconomic development and prosperity. We hope that this report will serve as a valuable resource for policymakers, businesses, researchers, and all stakeholders interested in understanding the changing global economic dynamics and the role of the private sector and SMEs in shaping the future. In an increasingly interconnected world, knowledge and informed decision-making are crucial, and we trust that this report will contribute to a deeper understanding of these critical issues.

I would like to express my sincere appreciation to SESRIC for producing this report, and encourage our Member States to engage with its contents, drawing inspiration and guidance to shape their own national strategies to support the development of the private sector and SMEs as they work towards a better future.

Hissein Brahim TAHA
Secretary General
Organization of Islamic Cooperation

Foreword

It is with great pleasure that I present to you this report titled "*OIC Economic Outlook 2024: Supporting Private Sector and SME Development in OIC Countries*". The report provides a detailed analysis of recent developments in the global economy and offers valuable perspectives on the economic landscape of OIC countries, using a wide range of comparative statistics and information.

Over the past three years, the global economy has felt the profound impact of compounding supply shocks, with growth now stabilising at levels below those seen before 2020, following the disruptions from the pandemic, conflicts, inflation, and monetary tightening. Facing significant challenges during this period, the private sector and SMEs showed particular resilience and played a crucial role in sustaining economic growth, fostering innovation, and maintaining employment opportunities. Recognizing their pivotal role, this year's *OIC Economic Outlook* focuses on the essential contributions of the private sector and SMEs, providing a comprehensive understanding of the current challenges and opportunities faced by them, and identifies the strategies needed to overcome existing challenges and unlock their full potential.

To support technological advancement, productivity growth, job creation and improved living standards across the OIC region, it is necessary to foster economic dynamism. Economic dynamism means creating an environment where innovation can thrive, where businesses can grow and succeed, and where every individual has the opportunity to benefit from economic progress. It can be instrumental in addressing the unique challenges faced by OIC countries, such as high unemployment rates, lack of economic diversification, and socioeconomic disparities, and enable them to diversify their economies, boost competitiveness, and achieve inclusive growth that benefits all segments of society.

As discussed throughout the report, the private sector and SMEs are emerging as pivotal engines of economic activity, but they face significant obstacles, such as limited access to finance, regulatory hurdles, inadequate infrastructure, and a shortage of skilled labour. Addressing these barriers is critical for fostering a vibrant and sustainable economic environment where SMEs can thrive and expand. Moreover, the disparities in development and access to resources between different regions call for collaborative efforts to share best practices and support lagging areas. The report rightly underscores the importance of developing policies that ensure a conducive business environment, enhance access to finance, simplify regulatory processes, and improve infrastructure and education systems.

We should also remember that Islam encourages the pursuit of economic activities that are just, equitable, and beneficial to society. The private sector plays a vital role in promoting economic dynamism, creating jobs, and fostering innovation while adhering to Islamic ethical standards such as fairness, honesty, and transparency. By embracing responsible business practices, the private sector can contribute to the overall welfare of the community, reduce poverty, and ensure wealth distribution, aligning with the Islamic principles of justice (*adl*) and social equity. Therefore, the private sector not only drives economic growth but also serves as a means to achieve balanced and inclusive economic development in accordance with Islamic values.

With these observations, I invite policymakers, business leaders, and stakeholders to explore the rich findings of this report and join in the collective effort to enhance the economic landscape of OIC countries through the strategic development of the private sector and SMEs. Together, we can build a more inclusive, dynamic, and sustainable economic future.

Zehra Zümrüt SELÇUK
Director General
SESRIC

Executive Summary

RECENT DEVELOPMENTS IN THE WORLD ECONOMY

ECONOMIC GROWTH

Despite uneven growth, the global economy remains resilient amidst looming obstacles. The COVID-19 pandemic led to a global economic contraction of 2.7% in 2020, with developed economies shrinking by 3.9% and developing countries by 1.8%. The easing of restrictions saw a robust recovery in 2021, with global growth reaching 6.5%, driven by both developed (5.7%) and developing (7.0%) nations. However, this rapid growth was partly due to the base effect. Global economic growth moderated to 3.5% in 2022 and stood at 3.3% in 2023, as central banks focused on cooling inflation. Challenges such as the Russia-Ukraine conflict, Israeli war on Gaza and financial sector vulnerabilities continue to impact the outlook.

UNEMPLOYMENT

The global unemployment rate decreased by 0.6 percentage points to 6.0% in 2021, following a peak of 6.6% in 2020 due to the pandemic. This marked the highest level since 1991. In 2022, the rate further declined by 0.7 percentage points to 5.3%. In 2023, the rate fell to 5.0%, and in 2024, it is projected to be 4.9%. Women continue to have higher unemployment rates, particularly in developing regions. Despite a general economic slowdown, labour markets show resilience, with strong job creation efforts reducing the unemployment rate and surpassing pre-pandemic levels.

PRICES & INFLATION

Commodity prices saw a 33.7% increase in 2022, followed by a 23.3% decrease in 2023, with a further anticipated decline of 4.5% in 2024. Global inflation also decreased to 6.7% in 2023, down from 8.7% in 2022. In developing countries, inflation rate fell from 9.8% to 8.3%, while in developed countries, it decreased from 7.3% to 4.6%. Looking ahead to 2024, projections suggest that global inflation will continue to slow down, reaching 5.9%, thanks to tighter monetary policies.

INTERNATIONAL TRADE

The containment measures and lockdowns implemented to curb the pandemic had a detrimental impact on both demand and supply, significantly disrupting international transportation and global value chains (GVCs). The unprecedented effects of the pandemic resulted in a staggering collapse of 8.3% in global trade volume in 2020. However, the recovery was swift, particularly in merchandise trade, while trade in services remained sluggish primarily due to a slow resurgence in travel activities. Following a 4.9% decline in 2020, *trade in goods* rebounded and expanded in 2021 and 2022 by 11.3% and 3.2%, respectively, but it contracted again in 2023 by -0.9%. It is forecasted to grow by 2.8% in 2024 and 3.3% in 2025. Similarly, *trade in goods and services* showed notable growth of 11.0% in 2021 and an increase of 5.6% in 2022, followed by a modest increase of 0.8% in 2023. The latest projections indicate that growth in world trade volume in goods and services is expected to increase by 3.1% in 2024 and 3.4% in 2025.

CURRENT ACCOUNT BALANCE

In 2022, the global current account balance stood at US$ 454.7 billion. Developed countries recorded a deficit of US$ 193.9 billion, while developing countries had a surplus of US$ 648.6 billion. By 2023, the global balance increased to US$ 563.9 billion, with developed countries moving to a surplus of US$ 286.8 billion and developing countries seeing their surplus decrease to US$ 277.1 billion. Projections for 2024 indicate a further increase in the global current account balance to US$ 568.4 billion. Developed countries are expected to see their surplus rise to US$ 439.9 billion, while developing countries' surplus is projected to diminish significantly to US$ 128.5 billion. As a percent of GDP, developed countries are forecasted to have a 0.7% surplus in 2024, up from 0.5% in 2023, while developing countries' surplus-to-GDP ratio is expected to fall to 0.3% in 2024 from 0.6% in 2023.

FOREIGN DIRECT INVESTMENT

In 2023, global foreign direct investment (FDI) decreased by 1.8% to US$ 1.33 trillion due to trade tensions and geopolitical uncertainties in a sluggish global economy. FDI flows to developing countries dropped by 8.1% to US$ 658 billion, with tight financing conditions leading to a 26% reduction in international project finance, significantly impacting infrastructure investments, especially in the least developed countries (LDCs). Developing Asia experienced an 8.4% decrease in FDI to US$ 621 billion, with notable declines in China and India, while South-East Asia saw a slight increase of 1.4% to US$ 226 billion. Latin America and the Caribbean (LAC) region also experienced a 1.4% decrease to US$ 193 billion. FDI in Europe underwent a significant shift, rising from a negative US$ 106 billion in 2022 to a positive US$ 16 billion in 2023. North America also experienced decline in FDI inflows by 4.6% to US$ 361 billion. FDI to Africa totalled US$ 53 billion in 2023, down 3.4% from the previous year.

FISCAL BALANCE

Fiscal deficits in developed countries were recorded at 3.2% of GDP in 2022. However, deficits are estimated to have worsened to 5.6% in 2023, with projections indicating a slight improvement to 4.4% in 2024 and 4.2% in 2025. In developing countries, deficits were at 4.9% of GDP in 2022 but expanded to 5.4% in 2023. Projections signal a further deterioration of deficits to 5.5% in 2024 before improving to 5.3% in 2025. Persistent fiscal challenges include rising expenditures on pensions, health, and climate change mitigation, complicating efforts to manage future fiscal sustainability.

Recent Economic Developments in OIC Countries

PRODUCTION AND ECONOMIC GROWTH

At current prices, the total GDP of the OIC countries amounted to US$ 8.9 trillion in 2023, slightly (1.4%) above the preceding year. With this economic size, the OIC countries, as a group, accounted for 8.5% of global GDP in 2023, down 0.2 percentage points from the previous year. This share is expected to further decline to 8.3% in 2024. In terms of Purchasing Power Parity (PPP) expressed in international dollars, the total GDP of the OIC countries reached 26.4 trillion dollars and accounted for 15.0% of global GDP in 2023, the same as the previous year.

GDP per capita

Given the ongoing growth in output, per capita GDP values at current prices continued to increase worldwide in 2023. However, the increase in the OIC group was rather small due to limited output growth. In US dollar terms, the global average rose by 3.9% from the previous year to US$ 13,402. The OIC countries recorded a growth of 1.3%, with GDP per capita averaging at US$ 4,571 in 2023, compared to US$ 4,514 in 2022. In PPP terms, GDP per capita averaged globally at 22,452 dollars in 2023, up 6.5% from a year earlier. In the OIC countries, it increased by 6.7% to 13,595 dollars. Consequently, GDP per capita continued to be lower in the OIC countries, both in US dollars and in PPP, and the gap widened to some extent in 2023.

Economic Growth

The average growth rate in the OIC group moderated to 3.3% in 2023, compared with 5.5% in 2022, the highest rate achieved since 2011. However, it is expected to rebound to 3.6% in 2024 and further increase to 4.2% in 2025. While the average growth rate registered by the OIC countries in 2023 was the same as the global average, growth in the next two years is projected to be higher in the OIC group than the global average. Guyana, with a growth rate of 33%, was by far the fastest growing economy in the OIC and the second in the world in 2023. Libya, also with a double-digit growth rate of 10.2%, and Tajikistan, with a rate of 8.3%, appeared among the fastest growing five economies in the world that year. On the other hand, 7 out of 54 OIC countries with available data recorded a negative growth rate in 2023: Sudan (-18.3%), Palestine (-6.1%), Kuwait (-2.2%), Iraq (-2.2%), Yemen (-2.0%), Saudi Arabia (-0.8%), and Pakistan (-0.2%).

Structure of GDP: Value Added by Sector

The latest available data for 2022 show that, constituting only 1.3% of total value added in developed countries, *agricultural activities* have a high share of 10.1% in total value added in the OIC countries, which is even higher than that in non-OIC developing countries (8.6%). The share of the *non-manufacturing industry* rebounded to 25.2% in 2022 after falling from 27.4% in 2010 to a record low of 19.1% in 2020. The *manufacturing sector* has a share of 16.2% in total value added of OIC countries, which is higher than that of developed countries (13.1%) but significantly below that of non-OIC developing countries (22.7%). The *services* sector continues to play a key role in the majority of OIC economies, contributing an average of 48.5% to total value added in the OIC group. This share is still low though, considering that the sector has a share of three quarters (76.2%) in total value added in developed countries and 55.4% in non-OIC developing countries, averaging at 66.6% worldwide.

Structure of GDP: Expenditures

As of 2022, final consumption expenditures by both households and government continue to hold the highest share in GDP in OIC countries as well as the rest of the world. *Household consumption* accounted for 53.7% of GDP in OIC countries, which is higher than in non-OIC developing countries (48.7%) but lower than in developed countries (59.5%). The share of *general government final consumption expenditures* in GDP was low in OIC countries (12.3%) compared to both developed and non-OIC developing countries. The share of *gross capital formation* averaged at 27.9% for OIC countries, lower than the average for non-OIC developing countries but higher than the average for developed countries. International trade in goods and services continued to make up a higher share of GDP in OIC countries than in both developed and developing countries. For OIC countries, the share of *exports* and *imports* in GDP averaged at 39.0% and 33.9%, respectively.

LABOUR MARKET

The employment-to-population ratio (EPR), which fell to a historically low level of 55.3% worldwide in 2020 due to employment losses, recovered to 57.7% in 2023. Throughout the last five-year period (2019-2023), EPR remained significantly lower in the OIC countries compared to the rest of the world. After bottoming out at 51.4% in 2020, EPR in the OIC countries registered a slower recovery, barely reaching the pre-pandemic level by 2023 (52.8%). According to the estimates of International Labour Organization (ILO), the number of unemployed individuals in OIC countries decreased by approximately 35 thousand (0.1%) to 43.2 million in 2023. Additionally, the unemployment rate in the OIC group continues to remain higher than the global average, although it dropped from 6.8% in 2020 to 5.7% in 2023 for the OIC group.

INFLATION

Consumer price inflation decreased across the world in 2023 after reaching record-high levels in 2022. Inflation in OIC countries dropped to 17.3% in 2023, down from 17.7% in 2022. Considering that the inflation rate decreased to 4.6% in developed countries and to 5.3% in non-OIC developing countries –averaging at 6.7% worldwide– the OIC countries, on average, continued to have a much higher inflation rate in 2023. This trend is expected to continue in 2024, as well. Among OIC countries, Sudan recorded the highest annual inflation rate of 171.5% in 2023, ranking third globally. Following Sudan were Türkiye (53.9%), Suriname (51.6%), Sierra Leone (47.7%), and Iran (41.5%), all among the top 10 countries with the highest inflation rates in the world.

INTERNATIONAL TRADE

Merchandise Trade

Global merchandise trade decreased by 5.1% in 2023, the first decrease since the pandemic-hit year of 2020. Both exports and imports of OIC countries followed a similar trend, with exports declining more sharply than imports. Falling by 10.4%, merchandise exports of the OIC countries amounted to US$ 2.51 trillion in 2023, compared to US$ 2.81 trillion in 2022. This resulted in a lower share of OIC countries in global exports: 10.6% in 2023 compared with 11.3% in the preceding year. Merchandise imports that decreased only by 1.1% amounted to US$ 2.42 trillion in 2023 compared to US$ 2.45 trillion in 2022. This led to a higher share in global imports, rising from 9.6% in 2022 to 10.1% in 2023. Overall, OIC countries, on aggregate terms, remained net exporters in merchandise trade during the 2021-2023 period, although the surplus decreased significantly in 2023.

Services Trade

The value of global trade in services grew by 8.9% in 2023, following a 15.5% growth in 2022. The OIC countries, as a group, recorded higher growth rates than the global average after 2020 and increased their share in global services trade. Their services exports reached US$ 630 billion in 2023, up 14.1% from US$ 552 billion in the previous year and more than double the 2020 level of US$ 290 billion. Thus, their share in global services exports increased from 5.6% in 2020 to 8.1% in 2023. Similarly, OIC services imports, which bottomed out at US$ 411 billion in 2020, increased to US$ 596 billion in 2022, and further went up by 11.2% to 663 billion in 2023. This resulted in raising their share in global services imports from 8.4% in 2020 to 9.0% in 2022 and 9.1% in 2023. Overall, OIC countries remained net importer in services trade over the last 5-year period of 2019-2023, although the deficit narrowed significantly in the last two years thanks to higher export growth.

Intra-OIC Merchandise Trade

Intra-OIC exports followed a similar trend to the total exports and decreased in 2023 for the first time since 2020. After peaking at US$ 483 billion in 2022, intra-OIC exports decreased by 6.2% to US$ 453 billion in 2023. Nevertheless, exports to the rest of the world decreased by a higher rate of 11.3%, leading to an increase in intra-OIC exports share from 18.5% in 2022 to 19.4% in 2023.

Among the OIC countries, Saudi Arabia was the largest exporter to OIC countries in 2023, with intra-OIC exports valued at US$ 75.5 billion. In terms of intra-OIC export share, however, The Gambia took the lead by directing 99.5% of its total exports to OIC countries. Meanwhile, the United Arab Emirates was the largest importer from OIC countries in 2023, with intra-OIC imports valued at US$ 80.7 billion. In terms of intra-OIC import share, Mali took the lead receiving approximately two-thirds (65.0%) of its imports from OIC countries.

CURRENT ACCOUNT BALANCE

In 2023, OIC countries recorded a current account surplus of US$ 134 billion compared to US$ 349 billion in the previous year. The surplus as a percentage of GDP also decreased from 4.0% in 2022 to 1.5% in 2023. Looking ahead, the IMF projections signal a further shrinking of surplus to US$ 45 billion or 0.5% of GDP in 2024. Among the OIC countries, Kuwait registered the largest current account surplus in nominal terms in 2023 (US$ 53.0 billion), while Türkiye recorded the largest deficit (US$ 45.2 billion). As a percentage of GDP, the surplus reached as high as 32.8% in Kuwait, while the deficit reached as high as 30.4% in Kyrgyzstan.

FISCAL BALANCE

Government deficits in the OIC countries, on average, expanded to 1.9% of GDP in 2023, after falling from the historically high level of 6.6% in 2020 to 0.1% in 2022. This expansion resulted largely from increased expenditures and a slight decrease in revenues as percentage of GDP. Current projections for 2024 signal a continuation of this trend, with expenditures rising, revenues falling, and deficits further expanding to 2.8% of GDP. At the country level, 23 of the 54 OIC countries with available data witnessed an improvement in their fiscal balance in 2023 compared to the previous year, while the number of countries with a surplus decreased from 13 in 2022 to nine in 2023.

INTERNATIONAL FINANCE

FDI Flows and Stocks

Net FDI inflows to the OIC countries amounted to US$ 150 billion in 2023, down 11.1% from the historically high level of US$ 169 billion in 2022. In consequence, the share of OIC countries in global FDI inflows declined from a three-decade high of 12.4% in 2022 to 11.3% in 2023. Similarly, their share in flows to developing countries was measured at 22.8% in 2023, down from 23.6% in 2022, the highest level observed since 2009. In the 5-year period from 2019 to 2023, FDI stocks increased by 14.8% to US$ 2.4 trillion in the OIC countries while they increased by 42.9% in non-OIC developing countries and by 35.8% in developed countries. Thus, the OIC countries hosted a slightly lower share of the global inward FDI stocks in 2023 (4.9%) than in 2019 (5.7%). Developed countries continued to host the bulk of global stocks be hosted by, with a share of 75.8% in 2023.

External Debt

The total external debt stock of OIC countries increased by US$ 41 billion or 2.0% to US$ 2,127 billion in 2022 from US$ 2,086 billion in 2021. This increase was driven by a rise in short term debt, while other components of total debt stock decreased. *Short-term debt* reached US$ 384 billion in 2022, with an increase of US$ 65 billion or 20.5% from the previous year, and thus, its share in total external debt stock increased from 15.3% to 18.0% over this period. Overall, *long-term debt* stock, comprising public, publicly guaranteed, and private nonguaranteed debt, amounted to US$ 1,626 billion in 2022, down US$ 19.9 billion or 1.2% from the previous year, and accounted for 76.5% of the total external debt stock, compared to 78.9% in 2021. *Use of IMF credit* decreased by US$ 4.4 billion or 3.6% to US$ 116.9 billion, remaining the smallest component of the total external debt stock of OIC countries.

International Reserves

After dropping by 6.5% to US$ 14.8 trillion in 2022, the world's total international reserves rebounded to US$ 15.5 trillion in 2023, marking an increase of US$ 705 billion or 4.8% from the previous year. Nearly two-thirds (62%) of the increase in global reserves in 2023 originated from developing countries, where reserves grew by US$ 440 billion, or 5.5%, to US$ 8.5 trillion. In developed countries, reserves increased by US$ 265 billion, or 3.9%, to US$ 7.0 trillion. The 2023 data available for a set of 32 OIC countries that represents 84% of total OIC GDP indicate an increase in reserves by 5.8% to US$ 1.68 trillion. Moreover, most of these countries improved their reserves and reserve adequacy with respect to imports.

Official Development Assistance (ODA)

The latest available data show that net ODA flows received by the developing world reached US$ 245.9 billion in 2022, the highest level ever recorded, with a notable increase of US$ 41.6 billion, or 20.4%, from the previous year. Individual country level reported ODA (about one-third of the total ODA flows are not reported at the country level) decreased by 11.7% to US$ 151.3

billion in 2022, representing 61.6% of the total flows. ODA flows to OIC countries, however, decreased by 12.3% to US$ 69.3 billion in 2022, compared to US$ 79.0 billion in 2021. The share of OIC countries in total ODA flows to individual developing countries also decreased in 2022, dropping to 45.8% from the previous year's (58.3%).

Personal Remittances

Globally, officially recorded remittance flows reached US$ 849 billion in 2023, up 7.3% from US$ 791 billion in the previous year. Inflows to OIC countries, however, decreased by 3.8% or US$ 7.5 billion to US$ 192 billion, reducing their share in world total remittance flows to 22.7% in 2023, while it was sustained slightly above 25% over the preceding four years.

Supporting Private Sector and SME Development in OIC Countries

Private Sector Development in OIC Countries

A robust and dynamic private sector can drive sustainable economic growth, generate employment, and improve living standards. However, the contributions that private firms can make to the economy are significantly determined by the underlying investment climate, which shapes the opportunities and incentives for firms to invest productively, expand, and create jobs. In this context, the report focuses on private sector development in OIC countries from a broader perspective, starting with its definition and importance for economic development. By utilizing World Bank survey data, it assessed different aspects of the enabling environment for private sector development, covering regulatory frameworks, access to finance, and infrastructure, among others. Key challenges such as political stability, governance issues, and labour market constraints are examined for firms in OIC countries.

To foster private sector growth in OIC countries, several strategic priorities must be comprehensively addressed. These include enhancing access to finance through diverse financial mechanisms and improving financial literacy among entrepreneurs. Investing in reliable electricity and infrastructure, particularly through public-private partnerships, is crucial for operational efficiency. Addressing political instability and corruption by strengthening governance and enforcing anti-corruption measures will create a stable business environment. Supporting human capital development through vocational training and continuous professional development initiatives will bridge skill gaps. Promoting innovation and technology adoption, enhancing market competition, simplifying business licensing processes, ensuring fair access to land, and updating labour regulations are essential steps to facilitate business growth. Strengthening export facilitation and trade promotion efforts will further bolster economic competitiveness in the global market.

These recommendations are not all-encompassing, as individual countries may have additional issues and challenges that need to be addressed. However, they present a general framework on how to support private sector development in most OIC countries.

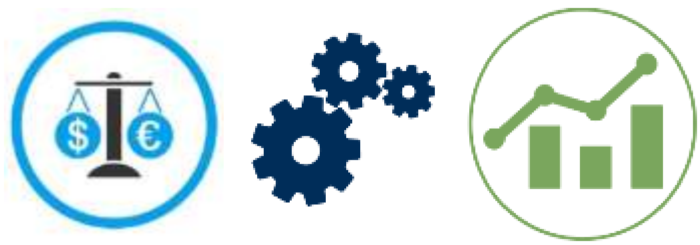
SME Development in OIC Countries

Small and medium sized enterprises (SMEs) are recognised as an engine for economic growth, a means of poverty alleviation, and a vehicle for increasing employment. Together with micro enterprises, SMEs dominate the business landscape across all regions, accounting for 99.9% of all firms in OIC countries and worldwide. Micro, small and medium sized enterprises (MSMEs) in OIC countries contribute 93.4% to employment, much higher than the global average of 79.0%. In terms of value added, MSMEs in OIC countries contribute 84.9%, surpassing the global average of 80.1%, indicating that smaller firms in OIC economies contribute more significantly to economic output.

Although MSMEs play a vital role in most economies, they often are unable to benefit from economies of scale, are engaged in less productive activities, and provide fewer stable, quality jobs compared to large firms. It has emerged that enhancing access to finance should be a priority for SME development. Additionally, addressing infrastructural deficiencies requires investment in reliable energy sources and transportation modalities. SMEs would also benefit significantly from regulatory reforms that streamline business licensing and reduce bureaucratic complexities. Moreover, investing in education and vocational training programs can help bridge the skills gap, ensuring that the workforce is adequately prepared to meet the demands of growing businesses. Even though these recommendations resemble those made for general private sector development, they target a subset of private sector actors, requiring more targeted interventions.

CHAPTER ONE

Recent Developments in the World Economy: Trends and Prospects



Recent fluctuations in economic activity have narrowed the disparities in output among countries as cyclical factors weaken and economic performance aligns more closely with potential levels. The resilience in global economic activity during the disinflation of 2022-23 was surprising. Global efforts to curb inflation are losing momentum, influenced by varied sector dynamics: persistently high inflation in services countered by stronger disinflation in goods prices. As inflation converges towards target levels and central banks shift towards policy easing, a tightening of fiscal policies aimed at reducing high government debt levels, with higher taxes and lower government spending, is expected to weigh on growth.

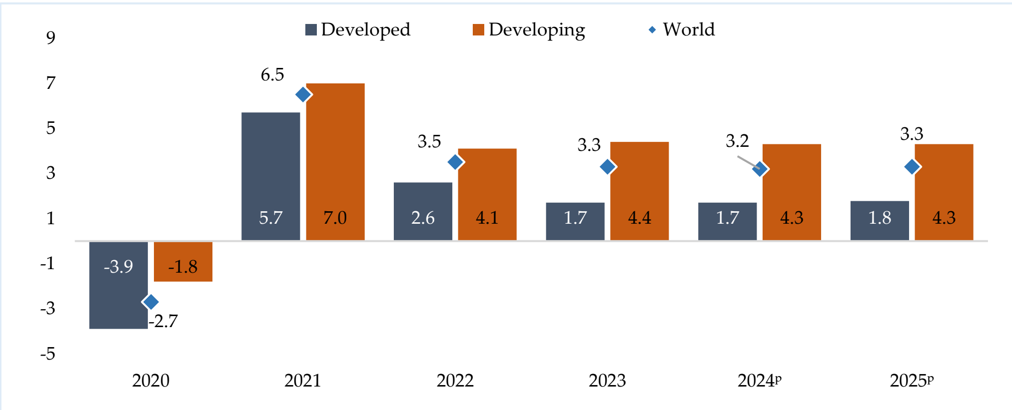
Against this background, this chapter provides a thorough examination of key global economic indicators, drawing on insights from leading international organizations such as the International Monetary Fund (IMF), the United Nations Conference on Trade and Development (UNCTAD), the World Bank, the Organization for Economic Co-operation and Development (OECD), and the International Labour Organization (ILO).

ECONOMIC GROWTH

Despite uneven growth, the global economy remains resilient amidst looming obstacles

The COVID-19 pandemic and its associated containment measures led to an unprecedented global economic slowdown in 2020. According to the IMF (2024b), the world's real GDP contracted by -2.7% that year, with developed economies experiencing a more significant decline at 3.9% compared to 1.8% for developing countries. Following the easing of pandemic restrictions, a strong economic recovery ensued worldwide, with global economic growth reaching 6.5% in 2021. This recovery was driven by robust rebounds in both developed countries (5.7%) and developing countries (7.0%) (*Figure 1.1*). However, this rapid recovery in 2021 should be interpreted with caution, primarily due to the base effect. The severe output contractions witnessed worldwide in 2020 resulted in a low comparison base and significant statistical carry-over, inflating the year-over-year growth rates in 2021 (UN, 2021).

Figure 1.1: Real GDP Growth (%)



Source: IMF, World Economic Outlook Database, April 2024 and Update July 2024. Note: P= Projection

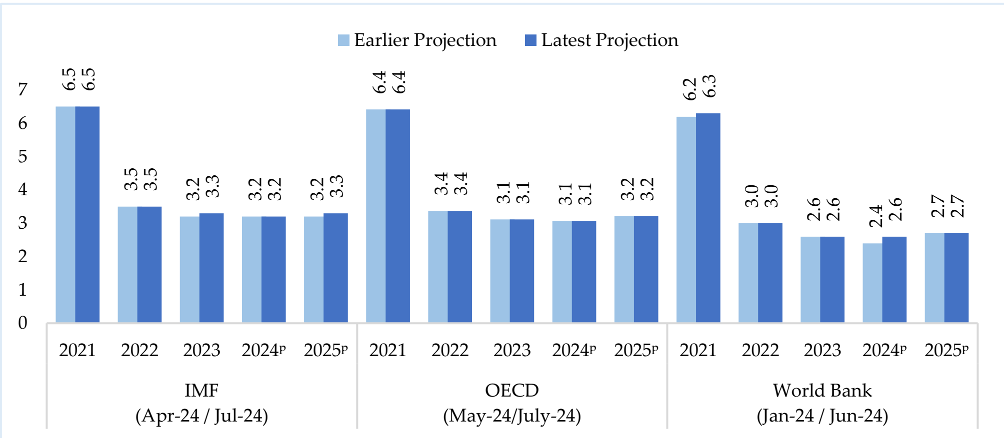
With the normalization of the base effect in 2022, real GDP growth rates returned to pre-pandemic levels. A moderate growth rate of 3.5% was recorded in 2022, followed by an estimated slight deceleration to 3.3% in 2023. The global economic growth is anticipated to sustain at 3.3% in 2025, following a slight decline to 3.2% in 2024, reflecting restrictive monetary policies, reduced fiscal support, and subdued productivity growth (IMF, 2024a; 2024b).

Several challenges continue to cloud the global economic outlook. Ongoing conflicts such as the Russia-Ukraine war and the attacks of Israel on Gaza, along with their repercussions in the region, are expected to significantly impact global economic recovery post-pandemic, introducing uncertainties. Moreover, measures by central banks may constrain financial sector growth, potentially exacerbating banking sector vulnerabilities in 2023-2024 (IMF, 2023a; 2023b). Despite these challenges, global demand remains resilient, contributing to sustained inflationary pressures.

Advanced economies are expected to converge at growth rates in the coming quarters. Economic activity in the euro area appears to have bottomed out, with a forecasted modest growth rate of 0.9% for 2024, slightly revised upward by 0.1 percentage points from previous estimates. This growth is driven by stronger services momentum and better-than-expected net exports in the first half of the year. Consumption is expected to strengthen in 2025 due to rising real wages and increased investment facilitated by relaxed financing conditions amid gradual monetary policy easing. However, weaknesses persist in manufacturing, particularly in countries like Germany (IMF, 2024b).

In Japan, a strong wage settlement is expected to boost private consumption recovery in the second half of the year. However, the growth forecast for 2024 has been revised downward by 0.2 percentage points, primarily due to temporary supply disruptions and weak private investment in the first quarter (IMF, 2024a). Emerging market and developing economies are likely to experience upward revisions in growth projections, driven by increased activity in Asia, particularly in China and India. China's growth forecast for 2024 has been raised to 5%, driven by

Figure 1.2: World Real GDP Growth Projections (%)

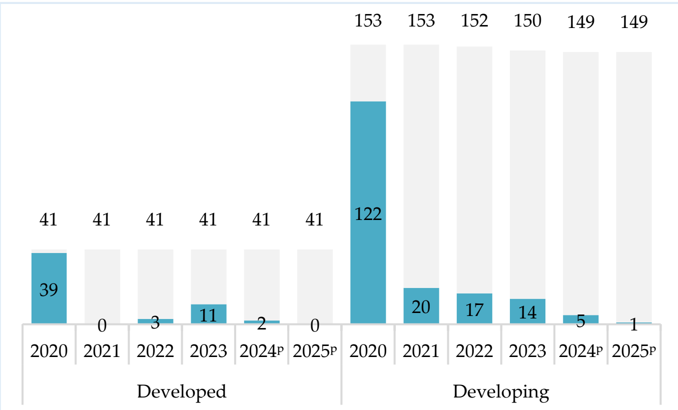


Source: IMF, World Economic Outlook, April 2024 update and July 2024 update; World Bank, Global Economic Prospects, January 2024 and June 2024; OECD, OECD Economic Outlook May 2024 and July 2024.

a rebound in private consumption and robust exports in the first quarter. Growth is projected to slow to 4.5% in 2025 and further to 3.3% by 2029, influenced by aging demographics and declining productivity growth. India's growth forecast for 2024 has also been revised upward to 7%, reflecting carryover effects from growth revisions in 2023 and improved prospects for rural private consumption. In Latin America and the Caribbean (LAC) region, Brazil's 2024 growth forecast has been lowered due to near-term flooding impacts, while Mexico faces demand moderation. However, Brazil's 2025 outlook has improved due to post-flood reconstruction efforts and supportive structural factors such as increased hydrocarbon production. In the Middle East and Central Asia, challenges persist from oil production cuts and regional conflicts, with Saudi Arabia's 2024 growth forecast downgraded by 0.9 percentage points due to extended production cuts. Sub-Saharan Africa's growth outlook for 2024 has been revised downward, largely influenced by weaker-than-expected activity in Nigeria during the first quarter. Global trade is expected to recover, with world trade growth projected to return to approximately 3.3% annually in 2024–25 after stagnation in 2023, despite ongoing cross-border trade restrictions affecting geographically distant blocs (IMF, 2024b).

The OECD and World Bank, like the IMF, have revised their global economic growth projections upward. The IMF's July 2024 update anticipates stable growth but has modestly revised upward the 2025 projection by 0.1 percentage points compared to its forecasts in April. In contrast, the World Bank has significantly upgraded its 2024 growth forecast from 2.4% to 2.6% in its recent Global Economic Prospects Report. However, it has maintained its global growth projections for 2025 at 2.7% in both the January and June 2024 updates. The OECD's projections for January 2024 and June 2024 maintain consistent estimates for 2024 and 2025 *(Figure 1.2)*.

Figure 1.3: Number of Countries with a Negative GDP Growth Rate



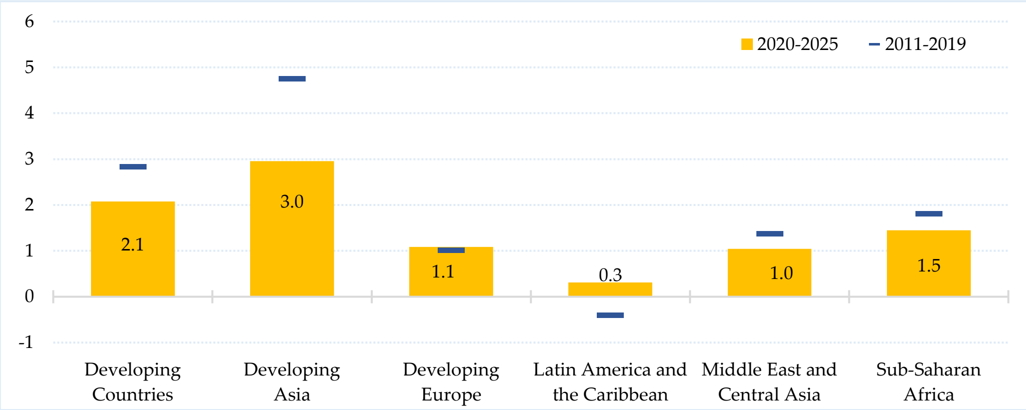
Source: IMF, World Economic Outlook Database, April 2024. Note: P= Projection

According to the World Economic Outlook (WEO) Database of the IMF, in 2020, nearly all developed economies reported negative GDP growth rates, while 122 out of 153 developing countries experienced economic contraction. In 2021, all developed countries returned to positive growth rates, indicating an economic recovery, while 20 developing countries still experienced contractions in GDP. While most developed and developing economies reported positive growth in 2022, 11 out of 41 developed countries and 14 out of 150 developing countries experienced economic contraction in 2023. Looking ahead, forecasts for 2024 and 2025 indicate that only a small number of developed and developing nations are expected to experience negative growth rates *(Figure 1.3)*.

Divergence in economic prospects across countries remains a major concern

The slowdown in the per capita GDP growth rate since the onset of the pandemic in developing countries has adversely affected their overall pace of growth. This disruption has been particularly pronounced in terms of per capita income catch-up with developed countries, as noted by SESRIC (2022). From 2011 to 2019, developing countries exhibited stronger growth in GDP per capita compared to developed nations, with an average differential of 2.8 percentage points. Notably, Developing Asia led this trend significantly with a growth differential of 4.8%, reflecting robust economic expansion outpacing that of developed countries. In contrast, LAC region faced a slight decline in their GDP per capita growth relative to developed nations by -0.4%, indicating economic challenges during this period *(Figure 1.4)*.

Figure 1.4: Per Capita Income Growth Relative to Developed Countries (percentage points)*

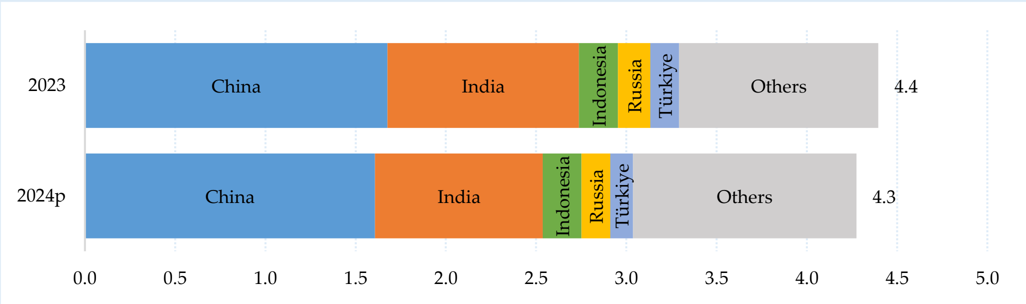


Source: SESRIC staff calculation based on data from IMF, World Economic Outlook Database, April 2024. Note: * Annual average difference in GDP per capita growth rate at constant prices between developing country groups and developed countries.

Looking ahead, the per capita growth differentials with developed countries are expected to narrow across most developing regions over the 2020-2025 period. Developing countries are projected to maintain a positive differential of 2.1 percentage points compared to developed nations, a reduced rate compared to the previous decade. Developing Asia continues to lead with a projected differential of 3.0 points, indicating continued strong economic performance but at a moderated pace. The Middle East and Central Asia and Sub-Saharan Africa may also experience a slight decrease in growth differentials to 1.0 and 1.5 points, respectively, indicating a relative slowdown in their economic catch-up with developed nations during the period under consideration. Meanwhile, the LAC region is anticipated to recover slightly with a positive differential of 0.3 points, suggesting a tentative improvement in their economic convergence with developed economies after the decline observed in the earlier period. Developing Europe is expected to maintain its growth differential of 1.1 percentage points relative to developed countries.

The growth rates of per capita income vary widely across developing economies, resulting in diverse rates of catch-up largely driven by disparities in real GDP growth. Within these economies, certain countries play pivotal roles as primary drivers of economic dynamism, often referred to as growth engines. Looking ahead, the economic expansion of developing nations is expected to receive significant boosts from select countries. Leading this cohort, China and India contributed almost two-thirds of the economic growth of developing countries in 2023. Although their weight is expected to slightly diminish in 2024, they will continue to contribute substantially to economic growth in the developing world, reflecting their ongoing economic momentum and developmental impact. Indonesia, Russia, and Türkiye, though to a lesser extent, were the other top contributors in 2023, and they are expected to maintain their positions in 2024, too *(Figure 1.5)*.

Figure 1.5: Major Contributors to Growth of Developing Countries (percentage points)



Source: SESRIC staff calculation based on IMF, World Economic Outlook Database, April 2024 and July 2024 Update.
Note: P= Projection

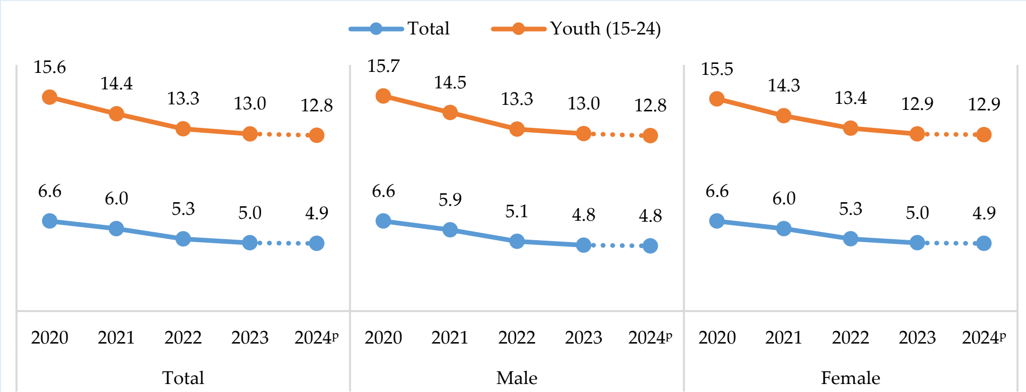
UNEMPLOYMENT

Unemployment rate continued to decline in 2023

The global unemployment rate saw a notable decrease of 0.6 percentage points in 2021, dropping to 6.0% from its peak of 6.6% in 2020, due to the onset of the pandemic, marking the highest level since 1991, the inception of available data. Building on this progress, 2022 witnessed a further decline, with the global unemployment rate decreasing by 0.7 percentage points to 5.3%. This downward trend is anticipated to persist into 2023 and 2024, reflecting ongoing improvements in global labour market dynamics (*Figure 1.6*).

According to ILO (2024a), with the exception of low-income countries, unemployment rates in 2023 were consistently below the pre-pandemic levels of 2019. Although the jobs gap has improved in recent years, it remained at nearly 435 million in 2023. Since peaking during the pandemic in 2020, the jobs gap has been on a downward trend and is now below its 2019 level. Globally, the jobs gap in 2023 is estimated to be 434.8 million, corresponding to a jobs gap rate of 11.1%. This represents a decrease of 5.6 million from 2022. For women, the jobs gap in 2023 is expected to be 220.7 million, while for men it is 214.1 million. The jobs gap rate for women was 13.7% in 2023, compared to 9.3% for men. Women's jobs gap is higher than men's across all income groups, with the most significant differences in low-income and lower-middle-income countries, where the gap is nearly 7 percentage points wider for women. In upper-middle-income and high-income countries, the jobs gap rate for women exceeded that of men by 3.0 and 2.3 percentage points, respectively. Since 2020, the jobs gap rate has decreased across all income groups, with the most notable decline (3.0 percentage points) observed in high-income countries.

Figure 1.6: World Unemployment Rate (%)

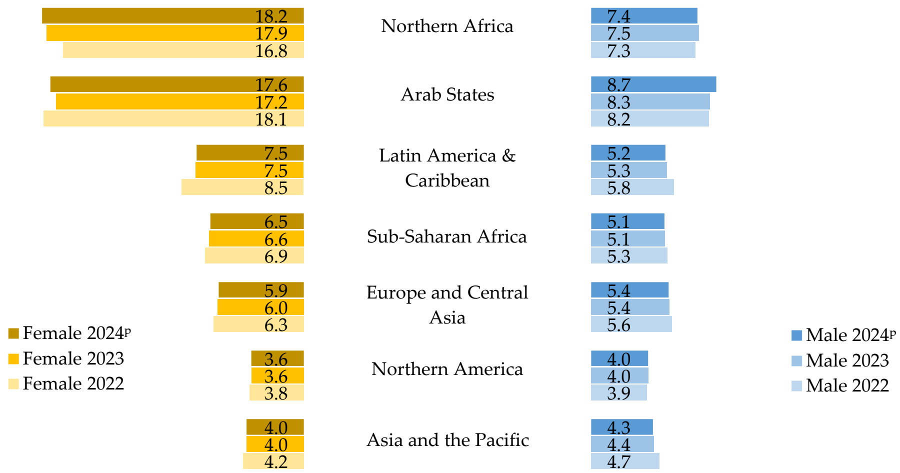


Source: ILOSTAT, ILO Modelled Estimates, May 2024.

The severe contraction in the world economy in 2020 has had disproportionate adverse impacts on employment and earnings of certain groups such as youth, women, workers with relatively lower educational attainment, seasonal migrant workers, and the informally employed. Constituting large segments of the population, particularly in developing countries, these groups have been more vulnerable to negative economic aspects of the pandemic and containment measures and, therefore, have generally been the hardest hit. Young people – aged 15 to 24 – constituted a particularly vulnerable segment of the global population, with an unemployment rate about twofold compared to that of adults. Limited employment opportunities for the youth, already a global challenge, have further deteriorated because of the pandemic-induced economic collapse. The gap opened by the pandemic needs to be closed through targeted skills initiatives to prevent further erosion of job resilience. Moreover, many individuals in employment are confronted with several barriers to decent work, including declining real wages, elevated levels of informal employment and deteriorating working conditions (ILO, 2024a). Nevertheless, youth unemployment has shown a consistent decrease, falling from 15.6% in 2020, amidst the height of the pandemic, to 14.4% in 2021, and subsequently to 13.3% in 2022 as containment measures were gradually eased. Estimates suggest a further decline to 13.0% in 2023 and 12.8% in 2024 *(Figure 1.6)*.

The total male unemployment rate saw a continuous decrease from 6.6% in 2020 to 4.8% in 2023 and is projected to remain at this level in 2024. Similarly, the female unemployment rate dropped from 6.6% to 5.0% over the 2020-2023 period, with a slight expected decrease to 4.9% in 2024 (*Figure 1.6*). On the other hand, according to ILO estimates, global labour force participation rate (LFPR) exhibited similar trends for males and females, though female LFPR continued to be much lower than that of males. In 2020, amidst the challenges of the pandemic, both males and females experienced a decline in LFPR, to 71.7% for males and 46.8% for females. By 2022, there was a notable resurgence, with LFPR increasing to 72.9% for males and 47.9% for females. This positive momentum continued into 2023, when LFPR stood at 73.0% for males and 48.7% for females. Closing this gap remains a critical objective for fostering inclusive economic participation worldwide.

Figure 1.7: Male and Female Unemployment Rate by Region (%)



Source: ILOSTAT, ILO modelled estimates, May 2024. Note: Regional classification is based on ILO country groupings. Regions are ordered by the difference between female and male unemployment rate in 2023.

When comparing male and female unemployment rates across regions, Northern Africa witnessed a significant increase in female unemployment in 2023, rising to 17.9% from 16.8% in 2022. Male unemployment in the region also saw a marginal uptick from 7.3% to 7.5% over the same period. Conversely, LAC region experienced declining unemployment rates for both males and females in 2023. According to ILO projections for 2024, the region is expected to have minor fluctuations with female unemployment projected to at 7.5%, while male unemployment expected to decrease slightly to 5.2%.

In the Arab States, female unemployment rates slightly decreased in 2023, while male unemployment rates slightly increased. Female unemployment declined to 17.2% from 18.1%, while male unemployment increased to 8.3% from 8.2%. Sub-Saharan Africa also experienced a slight decrease in both male and female unemployment in 2023, with female unemployment dropping to 6.6% from 6.9% and male unemployment dropping to 5.1% from 5.3%. (*Figure 1.7*).

PRICES & INFLATION

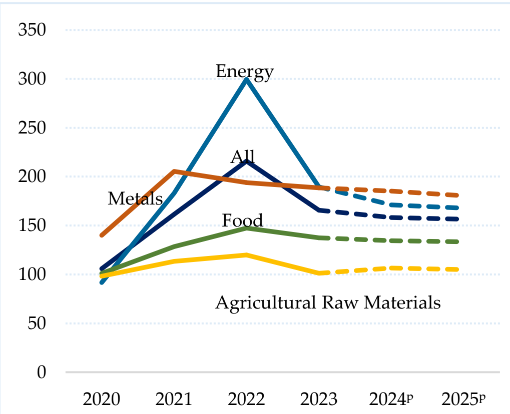
Commodity prices and inflation rates persisted in a downward trend throughout 2023

Throughout 2023, most commodity prices experienced varying degrees of weakening, yet they persist above pre-pandemic levels. Despite recent volatility, primarily driven by the conflict in the Middle East, average oil prices in 2024 are forecasted to slightly decrease. This is expected to occur as a result of a global economic slowdown and an increase in oil production, unless there is further escalation of hostilities. Despite recent volatility spurred mainly by the recent Middle East conflict, and barring further escalation of hostilities, average oil prices in 2024 are forecasted to slightly decrease due to a global economic slowdown and increased oil production. Metal prices are expected to decline once more, influenced by China's sluggish growth, which dampens demand for metals. Although ample supplies for major crops are expected to further lower food prices this year, they are projected to remain high (World Bank, 2024b).

While commodity prices increased, on average, by 33.7% and reached new heights in 2022, as measured by the IMF's Commodity Price Index, they decreased by 23.3% in 2023 and are projected to cool down by 4.5% in 2024. This decline is attributed to a combination of factors, including slowing economic activity, favourable winter weather, and shifts in global commodity trade flows. Projections indicate a continued decline in commodity prices post-2024 *(Figure 1.8)*.

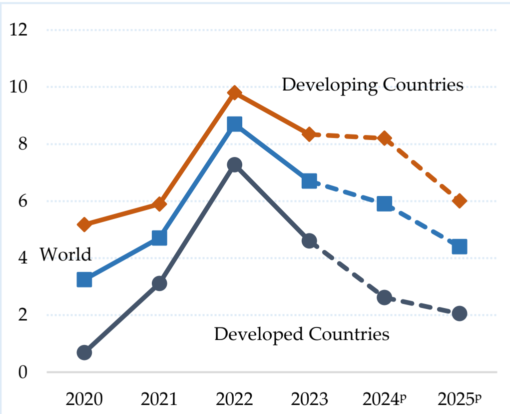
Resilient growth and faster disinflation points toward favourable supply developments, including the fading of earlier energy price shocks and the striking rebound in labour supply supported by strong immigration flows in many advanced economies (IMF, 2024a). In 2021, energy prices surged by 99.6%. Although the pace of increase slowed in 2022, prices continued to climb by 63.6%. However, they began to decline significantly in 2023, dropping by 36.7%, and are projected to continue decreasing, with a reduction of 9.7% in 2024 and 1.9% in 2025. This is because, on the supply side, the impacts of Western sanctions on Russian crude oil exports eased as Russian exports remained steady when the country redirected its oil to non-sanctioned countries, mainly India and China, selling at a discount to Brent prices. Additionally, OECD member countries releasing strategic petroleum reserves helped balance oil markets, partially offsetting underproduction and output cuts by the members of Organization of the Petroleum Exporting Countries (OPEC) and partners, known as OPEC+ (IMF, 2023a). The decline in energy prices reflects not only increased global energy supply, but also the effect of tight monetary policies (IMF, 2024a). Metal prices increased by 46.7% in 2021 but decreased by 5.6% in 2022. The prices continued to decline by 2.8% in 2023. According to the IMF, the forecast for nonfuel commodity prices is broadly stable in 2024, with prices for base metals expected to fall by 1.8% due to weaker industrial activity in Europe and China (IMF, 2024a) *(Figure 1.8)*.

Figure 1.8: World Commodity Prices (2016=100)



Source: IMF, World Economic Outlook Database, April 2024. Note: P= Projection

Figure 1.9: Inflation (%)



Source: IMF, World Economic Outlook Database, April 2024 and July 2024 Update. Note: Annual average change in consumer prices (CPI); P= Projection

Compared to the January 2024 World Economic Outlook Update, forecasts for food prices have been slightly revised downward, driven by expectations of abundant global supplies for wheat and maize (IMF, 2024a). Food prices increased by 27% in 2021 and further rose by 14.8% in 2022. A consistent decline in food prices was projected to commence in 2023, with a decrease of 6.8% during the year. This downward trend is expected to continue until 2025, with a projected decline of 2.2% in 2024 and 0.8% in 2025. *(Figure 1.8).*

Regarding agricultural raw materials, prices increased by 15.5% in 2021 and by 5.7% in 2022. However, there was a significant decline of 15.6% in 2023, which is expected to be reversed by an increase of 5.3% in 2024 before cooling down a bit in 2025. The decline in global food prices and agricultural raw materials can be partially attributed to the Black Sea grain deal signed in July 2022, along with its subsequent renewal in November 2022. This agreement facilitated the flow of food supplies from Ukraine and Russia, major producers of wheat and corn, and ensured that Russian fertilizer could reach global markets (UN, 2022 and IMF, 2023a).

In conjunction with the decline in commodity prices and the efforts of central banks worldwide, the global inflation outlook has improved. Global inflation, which peaked at 8.7% in 2022, dropped to 6.7% in 2023. Projections indicate a gradual slowdown in the coming years, with rates expected to drop to 5.9% in 2024 and further to 4.4% in 2025. In developed countries, inflation was at 7.3% in 2022, but then experienced a notable decrease to 4.6% in 2023. Forecasts indicate a continued easing, with rates projected to fall to 2.6% in 2024 and 2.0% in 2025 (IMF, 2024a; 2024b). Developing countries also experienced notable decline in inflation, dropping from 9.8% in 2022 to 8.3% in 2023. Projections show a slight decrease to 8.2% in 2024, with a further decline to 6.0% by 2025 *(Figure 1.9).* According to the IMF (2024a), as the global economy approaches a soft landing, the primary focus for central banks is to ensure a smooth touchdown of inflation, avoiding premature policy easing or prolonged delays that could lead to target undershoots.

The decline in global inflation in 2024 reflects a broad-based reduction in global core inflation, which differs from the trends observed in 2023. During that period, core inflation saw a modest annual decline, primarily driven by lower fuel and food price inflation. According to the IMF (2024a), the factors contributing to reduced core inflation have varied among major economies. Notably, the rapid waning of pass-through effects from previous energy price shocks has played a more significant role in lowering core inflation rates in the euro area and the United Kingdom compared to the United States.

While global disinflationary momentum is showing signs of slowing, potential challenges lie ahead. This slowdown reflects varying dynamics across sectors, with services prices experiencing persistent inflation above average, counterbalanced by stronger disinflation in goods prices. Meanwhile, nominal wage growth remains brisk in several countries, surpassing price inflation levels, partly due to recent wage negotiations and lingering above-target short-term inflation expectations. In the United States, an uptick in sequential inflation during the first quarter has postponed policy normalization, contrasting with the euro area and Canada, where underlying inflation is aligning more closely with expectations, positioning them ahead in the easing cycle. Concurrently, central banks in emerging market economies are exercising caution in rate cuts, wary of external risks stemming from shifts in interest rate differentials and resulting currency depreciation against the dollar (IMF, 2024b).

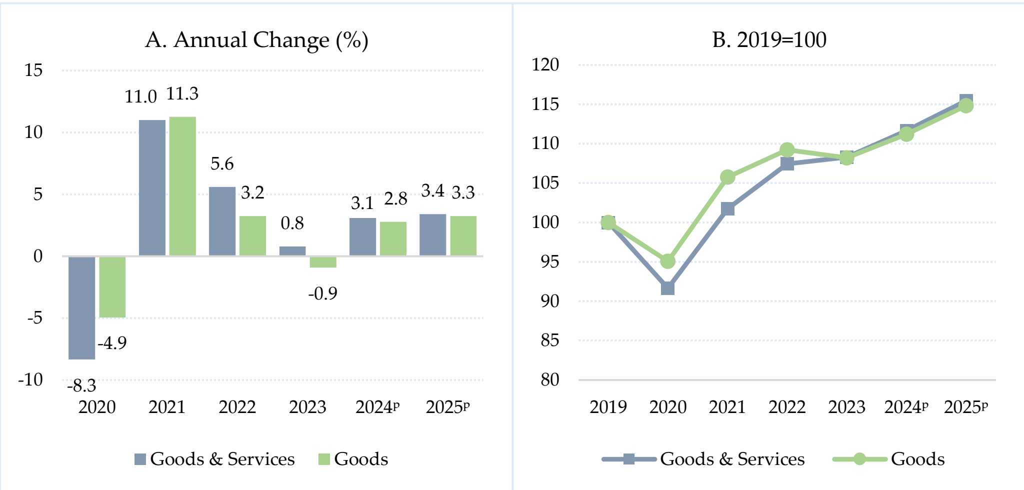
INTERNATIONAL TRADE

Trade volume continues to grow but at a slower pace

Reflecting the considerable slowdown in overall economic activity, geopolitical tensions, and the lingering effects of the pandemic, global trade growth decelerated in 2022. Sanctions imposed to pressure Russia to end the war are constraining financial and trade linkages between Russia and other countries, with far-reaching repercussions. The IMF reported a decrease in the growth rate of world trade volume in goods and services from 11.0% in 2021 to 5.6% in 2022. Similarly, growth in trade volume in goods experienced a slowdown, dropping from 11.3% in 2021 to 3.2% in 2022. This downward trend continued into 2023, with figures further plummeting to 0.8% for goods and services, and -0.9% for goods only. The IMF's latest projections indicate that world trade volume in goods and services is expected to increase by 3.1% in 2024 and 3.4% in 2025. Trade volume growth in goods is forecasted to reach 2.8% in 2024 and 3.3% in 2025 (*Figure 1.10.A*). With these growth rates, global trade volumes are approximately 8% higher than pre-pandemic levels as of 2023 and are projected to be 15% higher by 2025 (*Figure 1.10.B*). Despite challenges such as high energy prices and ongoing regional conflicts, factors such as reduced inflation expectations and potential diplomatic progress between Ukraine and Russia may contribute to an increase in global trade volumes and reduced transportation costs.

In terms of nominal US dollars, global merchandise trade contracted in 2023. Global merchandise exports witnessed a decrease of 4.6%, following an 11.6% increase in the previous year. This decline was felt across all regions, with the Middle East and Africa experiencing the most significant drops at 13.2% and 9.1%, respectively. Imports also decreased across all regions except

Figure 1.10: World Trade Volume



Source: IMF, World Economic Outlook Database, April 2024. Note: P= Projection the Middle East. South and Central America and the Caribbean saw the most substantial decline at 9.6%, followed closely by Asia at 8.3% (*Table 1.1*).

In contrast to merchandise trade, commercial services trade continued to expand in 2023. Global commercial services exports increased by 8.4% in 2023, following a 15.4% rise in the previous year. Similarly, global commercial services imports witnessed a parallel trend with growth rates of 15.7% in 2022 and 9.5% in 2023 (*Table 1.1*).

Regional trends in commercial services trade paint a detailed picture of economic activity and regional dynamics. For example, Africa experienced significant growth rates in exports, increasing from 21.8% in 2021 to 30.1% in 2022, but dropping to 10.5% in 2023. However, imports to Africa slowed down to a much larger extent in 2023, rising only by 0.6% after a notable 14.9% increase in 2022. Such fluctuations could reflect both internal and external factors affecting trade dynamics within the continent. The growth in imports seen in Asia, Europe, the Middle East, and North America in 2022 also tapered off in 2023, while a decline of 0.3% in 2023 is seen in South and Central America and the Caribbean. Meanwhile, Europe stood out with the highest percentage year-to-year change in commercial services imports at 11.1% (*Table 1.1*).

Table 1.1: Annual Change in Global Trade Values by Selected Region (%)

Exports				Imports		
2021	2022	2023	Region	2021	2022	2023
			Merchandise			
26.4	11.6	-4.6	World	26.4	13.7	-5.7
42.1	16.8	-9.1	Africa	25.6	21.8	-7.7
26.6	7.2	-6.0	Asia	30.0	9.4	-8.3
22.4	8.9	-0.7	Europe	23.8	15.4	-5.2
42.8	36.6	-13.2	Middle East	25.1	23.6	3.8
23.5	17.6	-1.9	North America	23.1	15.6	-4.7
34.0	17.1	-4.0	South and Central America and the Caribbean	40.6	22.7	-9.6
			Commercial services			
20.6	15.4	8.4	World	16.4	15.7	9.5
21.8	30.1	10.5	Africa	13.8	14.9	0.6
21.6	15.3	7.3	Asia	14.5	15.1	10.4
22.2	11.2	8.8	Europe	15.3	12.3	11.1
27.4	47.4	8.0	Middle East	25.8	23.3	10.2
12.2	17.3	8.3	North America	20.7	25.0	5.8
19.4	41.5	13.1	South and Central America and the Caribbean	24.8	34.2	-0.3

Source: SESRIC staff calculation based on data from WTO STATS.

The global trade landscape experienced a significant downturn in 2020, mainly due to stringent measures implemented to combat the spread of COVID-19. Sectors heavily reliant on travel and transportation services bore the brunt of this downturn, facing sharp declines in 2020 but showing signs of gradual recovery in subsequent years. With the gradual lifting of restrictions, all regions witnessed a remarkable rebound in services imports, surpassing pre-pandemic levels by 2022, signalling a robust resurgence in global trade dynamics.

CURRENT ACCOUNT BALANCE

Developed countries yield a surplus in 2023, while surpluses of developing countries narrow

The global current account balance, which includes both surpluses and deficits, has displayed intricate fluctuations, mirroring both regional inequalities and overarching economic trajectories. In 2021, the balance surged dramatically to US$ 918.6 billion, reflecting a period of robust economic activity and trade. However, this meteoric rise was followed by a sharp contraction in 2022, with the balance dropping to US$ 454.7 billion, indicative of a recalibration in global economic dynamics. Despite this downturn, the balance rose again in 2023 to US$ 563.9 billion, suggesting a resurgence in economic momentum. Looking ahead, projections for 2024 and 2025 indicate continued fluctuations, with the balance expected to hover around US$ 568 billion before slightly dipping to US$ 554 billion (*Table 1.2*). According to the IMF, high gross external liabilities in some economies remain large from a historical perspective and can increase risks of external stress (IMF, 2024b).

Table 1.2: Current Account Balance

	Billion US$					Percent of GDP				
	2021	**2022**	**2023**	**2024P**	**2025P**	**2021**	**2022**	**2023**	**2024**	**2025P**
World (Global Disparity)	**918.6**	**454.7**	**563.9**	**568.4**	**554.0**	**0.9**	**0.5**	**0.5**	**0.5**	**0.5**
Developed Countries	546.3	-193.9	286.8	439.9	449.5	1.0	-0.3	0.5	0.7	0.7
United States	-831.4	-971.6	-812.7	-732.6	-758.4	-3.5	-3.8	-3.0	-2.5	-2.5
Germany	329.8	180.1	303.2	321.7	329.1	7.7	4.4	6.8	7.0	6.9
Japan	196.4	84.5	144.7	142.6	149.7	3.9	2.0	3.4	3.5	3.5
Developing Countries	372.3	648.6	277.1	128.5	104.5	0.9	1.5	0.6	0.3	0.2
Developing Asia	287.5	294.9	241.1	180.1	192.6	1.2	1.2	1.0	0.7	0.7
China	352.9	401.9	264.2	235.7	275.5	2.0	2.3	1.5	1.3	1.4
Developing Europe	66.7	127.9	-23.0	-17.0	-25.0	1.5	2.7	-0.5	-0.3	-0.5
Latin America and the Caribbean	-99.9	-137.7	-76.6	-72.9	-84.4	-1.9	-2.4	-1.2	-1.0	-1.2
Middle East and Central Asia	136.5	403.8	189.5	90.7	74.0	3.4	8.4	4.0	1.8	1.4
Sub-Saharan Africa	-18.51	-40.32	-53.84	-52.39	-52.75	-1.0	-2.0	-2.8	-2.8	-2.6

Source: IMF, World Economic Outlook Database, April 2024. Note: P= Projection

The disparity between developed and developing countries is particularly notable. The aggregated current account balance of developed countries was in deficit at US$ 193.9 billion in 2022, but it returned to a surplus of US$ 286.8 billion in 2023. Meanwhile the massive surplus of developing countries declined from US$ 648.6 billion in 2022 to US$ 277.1 billion in 2023. As a percentage of GDP, developed countries as a group had current account surpluses of 0.5% in 2023, which is projected to increase to a higher surplus of 0.7% in both 2024 and 2025. In developing countries, the surpluses decreased from 1.5% in 2022 to 0.6% in 2023, with projections signalling further weakening to 0.2-0.3% over 2024-2025.

Among the developed countries, the United States consistently reports substantial negative balances, although showing signs of improvement over the period under consideration. The deficit (as a percent of GDP) is expected to fall from 3.0% in 2023 to 2.5% through 2024-2025. Germany and Japan generated significant trade surpluses in 2023, contributing to their current account surplus of 6.8% and 3.4%, respectively. In 2024, the current account surpluses of these countries are projected to increase to US$ 321.7 billion and US$ 142.6 billion, or 7.0% and 3.5% of GDP, respectively. Germany and Japan are expected to maintain strong surpluses in 2025.

The current account balance of Developing Asia has displayed a nuanced trajectory over the span of the specified years, reflecting the region's evolving economic dynamics and external influences. Amounting to US$ 287.5 billion in 2021, the surplus saw a modest uptick to US$ 294.9 billion in 2022, indicating initial stability and economic activity within the region. However, this trend showed a notable downturn in subsequent years, with the surplus declining to US$ 241.1 billion in 2023 and further to an estimated US$ 180.1 billion in 2024, signalling a period of economic recalibration and potential challenges. Here, the narrowing surpluses of China over 2023 and 2024 are notable. China's surplus-to-GDP ratio decreased from 2.3% in 2022 to 1.5% in 2023, and is projected to further decrease to 1.3% in 2024, before slightly increasing to 1.4% in 2025. Despite these setbacks, there are signs of a tentative recovery in the region, with the surplus edging up to US$ 192.6 billion in 2025, suggesting potential stabilization and resilience within the region's economy.

Aggregate balances of the developing countries in Europe have fluctuated over recent years. After recording a surplus of 2.7% of GDP in 2022, the region yielded a deficit of 0.5% in 2023, with projections indicating that it will maintain a deficit both in 2024 (0.3%) and in 2025 (0.5%).

The economic landscape of the Middle East and Central Asia experienced significant shifts in recent years, as reflected by its current account balance as a percentage of GDP. In 2022, there was a notable surge in surpluses to 8.4%, marking a substantial increase from the 3.4% recorded in 2021. However, in 2023, this surplus diminished to 4.0% and is projected to continue its decline to 1.8% in 2024 and further to 1.4% in 2025.

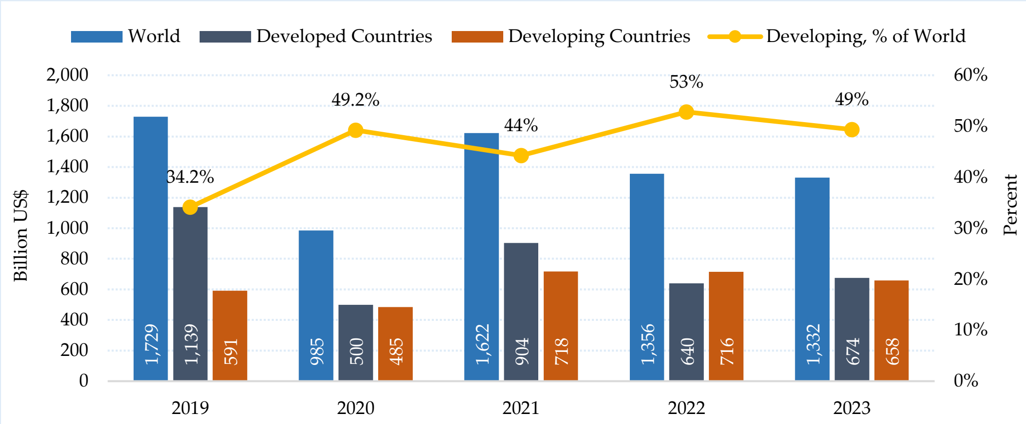
The impact of the pandemic reverberated across regions, particularly affecting Sub-Saharan Africa and the Latin America and Caribbean region. In 2021, LAC region faced a deficit of 1.9%, which further increased to 2.4% in 2022. However, in 2023, the region managed to narrow this deficit to 1.2%, indicating a positive shift. Conversely, Sub-Saharan Africa experienced a deficit of 1.0% in 2021, which deepened to 2.0% in 2022 and further to 2.8% in 2023. Looking ahead, projections suggest a continuation of deficit patterns for both regions.

FOREIGN DIRECT INVESTMENT

Global FDI flows declined in 2023

According to the World Investment Report by UNCTAD (2024), global foreign direct investment (FDI) declined by 1.8% to US$ 1.33 trillion in 2023, influenced by trade tensions and geopolitical uncertainties amid a sluggish global economy (*Figure 1.11*). Excluding a few European economies

Figure 1.11: World FDI Inflows

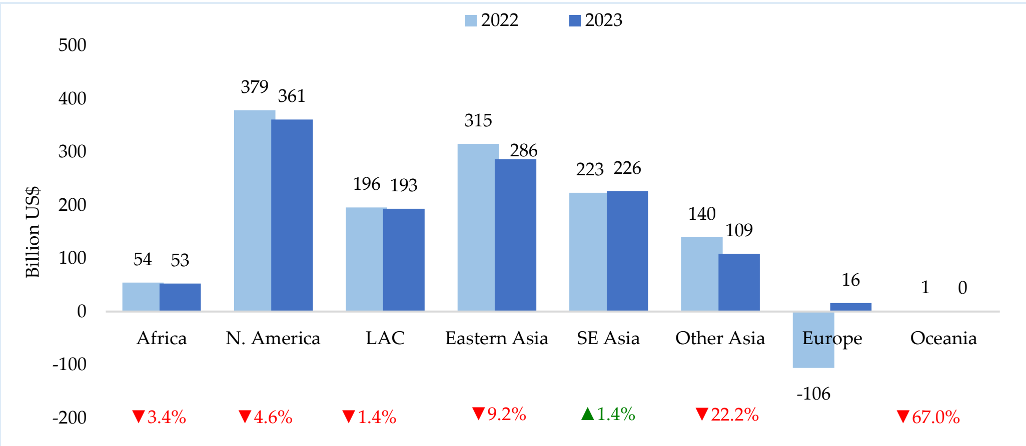


Source: UNCTAD, World Investment Report 2024, Annex Tables.

with significant investment swings, the decline exceeded 10%. FDI flows to developing nations decreased by 8.1% to US$ 658 billion, with stringent financing conditions leading to a 26% drop in international project finance, which is crucial for infrastructure investments particularly affecting the LDCs.[1]

Crises, protectionist measures, and regional shifts are disrupting global trade networks, regulatory frameworks, and supply chains, undermining the stability of global investment flows. Looking ahead, UNCTAD (2024) suggests that modest growth remains feasible, citing easing financial conditions and efforts to facilitate investment through national policies and international agreements. Investments are increasing in sectors reliant on global value chains (GVCs), such as automotive and electronics, in regions with access to major markets. However, many developing nations still face challenges in attracting foreign investment and integrating into global production networks.

Figure 1.12: World FDI Inflows by Region, 2022 vs. 2023



Source: UNCTAD, World Investment Report 2024, Annex Tables. N. America: Northern America; LAC: Latin America and the Caribbean; SE Asia: South Eastern Asia.

In developing Asia, FDI flows fell by 8.4% to US$ 621 billion. China, the world's second-largest FDI recipient, experienced an unusual decline, with significant decreases also observed in India and West and Central Asia, while South-East Asia remained stable (UNCTAD, 2024). In 2023, Eastern Asia experienced a 9.2%decrease in FDI inflows, while other Asia saw a more significant decline of 22.2% (*Figure 1.12).*

The LAC region saw a 1.4% decrease in FDI flows, amounting to US$ 193 billion. Meanwhile, landlocked developing countries and small island states saw increases, though FDI remains concentrated in a few countries within each group.

FDI inflows into Europe shifted dramatically from negative US$ 106 billion in 2022 to positive US$ 16 billion in 2023. Several economies, including Ireland, Luxembourg, the Netherlands, Switzerland and the United Kingdom, reported large negative numbers when inflows from both 2022 and 2023 are taken into consideration. Lower negative flows in 2023 had a net positive effect on FDI flows of about US$ 180 billion. Excluding these countries, inflows to the rest of Europe declined by 14% (UNCTAD, 2024).

FDI inflows into North America declined, reflecting similar decreases in other developed countries. Oceania recorded the second-largest decrease (67%), while FDI flowing into Africa amounted to US$ 53 billion, down 3.4% from the previous year (*Figure 1.12*).

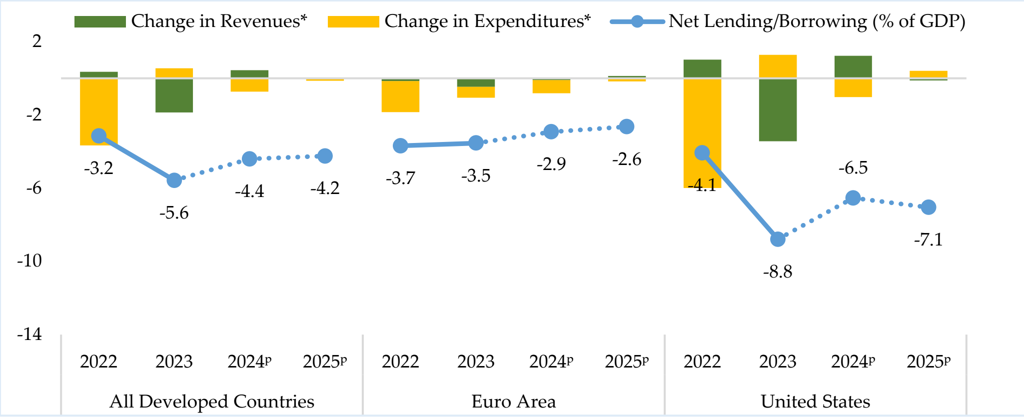
FISCAL BALANCE

The prospects for fiscal sustainability remain challenging

The COVID-19 pandemic has exacerbated fiscal risks in the least developed nations, where economic growth has declined, expenses have increased, and income has shrank, leading to heightened public debt vulnerabilities (World Bank, 2023). According to the OECD (2024a), future fiscal pressures are expected to intensify without corresponding adjustments in fiscal policy. By 2040, the median G7 country could see a 70 percentage point increase in the ratio of net government financial liabilities to GDP, according to OECD projections. This increase is largely attributed to growing expenditures on pensions, health, and long-term care as a result of population aging, which are expected to significantly contribute to higher debt-to-GDP ratios. Persistent structural budget deficits and potentially higher refinancing costs also pose additional challenges to managing future debt levels. Moreover, planned increases in defence spending across many nations and the costs associated with climate change mitigation and adaptation are likely to further complicate efforts to strengthen fiscal buffers.

Historically, sustained reductions in public debt-to-GDP ratios have required governments to curb spending growth and maintain primary budget surpluses for extended periods, often alongside economic growth rates that exceed the interest rates on public debt. Achieving such reductions has typically involved limiting spending in sensitive areas such as pensions, civil service wages, subsidies, and public investments. However, achieving fiscal consolidation through these measures may prove more challenging for countries facing increasing spending pressures in the future, particularly if real interest rates do not return to historically low levels

Figure 1.13: General Government Fiscal Balance in Developed Countries



Source: IMF, World Economic Outlook Database, April 2024. Note: P= Projection; * Percentage points difference from the previous year in their ratio to GDP.

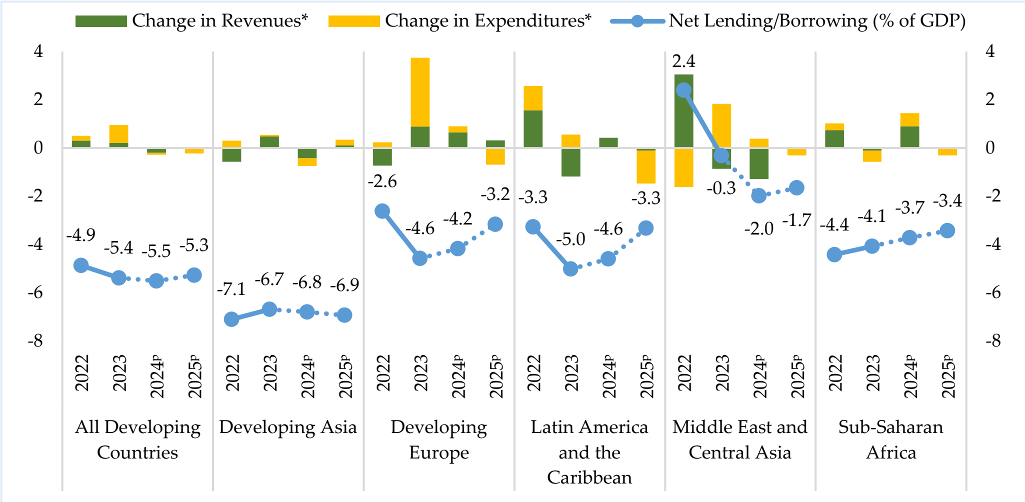
compare to GDP growth. As of 2025, most OECD economies are projected to continue running primary budget deficits, including major economies like the United States, Japan, and the euro area as a whole. To put debt ratios on a sustainable downward path, many countries will need to implement more robust consolidation efforts than currently planned, especially as inflation stabilizes and monetary policies gradually become less restrictive (OECD, 2024a).

According to the IMF (2024a), among major advanced economies, the structural fiscal balance to GDP ratio is expected to rise by 1.9 percentage points in the United States and by 0.8 in the Euro Area in 2024. In emerging markets and developing economies, the projected fiscal stance is expected to be, on average, broadly neutral in 2024, with a tightening of about 0.2 percentage points projected for 2025.

Figure 1.13 shows that in 2022, all developed countries collectively faced a challenging economic environment, with a government fiscal deficit of 3.2% of GDP. This figure increased to 5.6% in 2023 but is projected to decrease to 4.4% in 2024 and 4.2% in 2025. Within the Euro Area, there is a gradual improvement, with the deficit decreasing from 3.7% in 2022 to 3.5% in 2023, and projections signal further reductions to 2.9% in 2024 and 2.6% in 2025. The United States, a key player in the global economy, is facing notable fiscal challenges in the upcoming years. The country's deficit worsened significantly from 4.1% in 2022 to 8.8% in 2023 mainly due to falling revenues but is projected to improve to 6.5% in 2024. Concurrently, changes in revenues and expenditures reflect a mix of volatility and stability, underscoring the need for strategic fiscal management to navigate uncertain economic conditions and promote long-term financial health.

The economic outlook for all developing countries reflects a challenging fiscal landscape, characterized by persistent deficits as a percentage of GDP. In 2022, the collective deficit stood at 4.9%, with a slight worsening to 5.4% in 2023 and further to 5.5% in 2024 before stabilizing somewhat at 5.3% in 2025 (*Figure 1.14*). According to the OECD, sovereign debt is elevated in many emerging-market economies and is expected to rise further in the coming years. Rising interest payments and revenue shortfalls limit the capacity to undertake the investment necessary for sustainable development. Additionally, debt sustainability might be endangered in a number of emerging-market economies facing elevated spreads, especially if debt issuance remains sizeable, as the average maturity of their government debt is comparatively low (OECD, 2024a).

Figure 1.14: General Government Fiscal Balance in Developing Countries



Source: IMF, World Economic Outlook Database, April 2024. Note: P= Projection; * Percentage points difference from the previous year in their ratio to GDP.

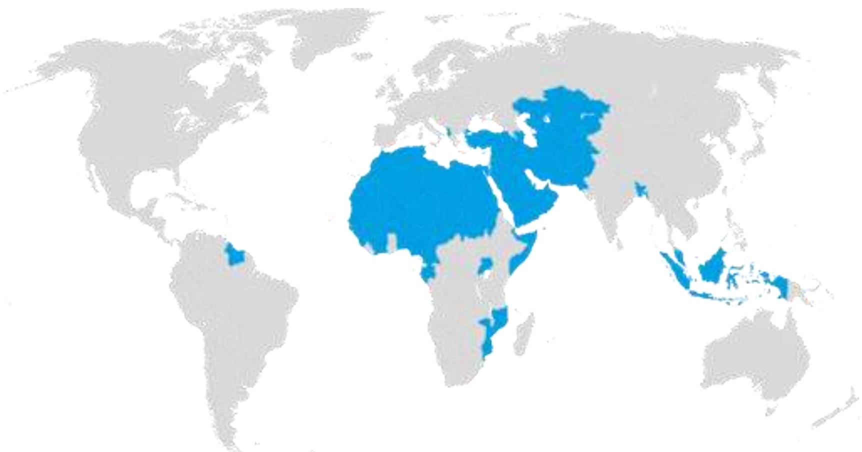
Prospects for fiscal balance (as a percent of GDP) vary across developing regions (*Figure 1.14*). Developing Asian economies are facing significant fiscal challenges, with fiscal deficits persisting over the forecast period. In 2022, the region recorded a deficit of 7.1%, which marginally improved to 6.7% in 2023 and is expected to remain relatively stable at 6.8% in 2024 and 6.9% in 2025 (*Figure 1.14*). While changes in revenues and expenditures exhibit modest fluctuations, proactive fiscal management strategies are imperative to mitigate fiscal vulnerabilities and sustain economic resilience in the face of evolving global dynamics.

In developing Europe, fiscal dynamics are marked by ongoing efforts to manage the deficits. The region's deficit expanded to 4.6% in 2023 from 2.6% of GDP in 2022, with projections indicating a gradual improvement to 4.2% in 2024 and 3.2% in 2025. LAC region continue to grapple with fiscal challenges, as evidenced by persistent deficits. Similar to developing Europe, the region recorded increasing deficits, from 3.3% in 2022 to 5.0% in 2023, with projected improvement to 4.6% in 2024 and 3.3% in 2025.

In the Middle East and Central Asia region, economic indicators show a shifting fiscal landscape from 2022 to projected figures in 2025. Starting with a surplus of 2.4% of GDP in 2022, the region moved into a slight deficit of 0.3% in 2023, which is expected to further increase to 2.0% in 2024 due to deteriorating revenues before moderating to 1.7% in 2025. Sub-Saharan Africa grapples with fiscal challenges, with deficits persisting over the forecast period but gradually improving. In 2022, the region recorded a deficit of 4.4%, with projections indicating a gradual improvement down to 3.4% by 2025 (*Figure 1.14*).

CHAPTER TWO

Recent Economic Developments in OIC Countries



The global economy has been navigating a complex and turbulent landscape in recent years, marked by slow recovery and persistent structural issues. The lingering effects of the COVID-19 pandemic, rising geopolitical tensions, particularly in regions critical to global food and energy supplies, and persistent inflationary pressures, coupled with the impacts of climate change and increasing inequalities, have created a challenging environment for policymakers and businesses alike. While some economies have shown resilience, others continue to grapple with the fallout from these interconnected crises. Against this backdrop, this section delves into the recent macroeconomic performance of the OIC countries, examining key indicators to assess their standing and prospects within the global economy.

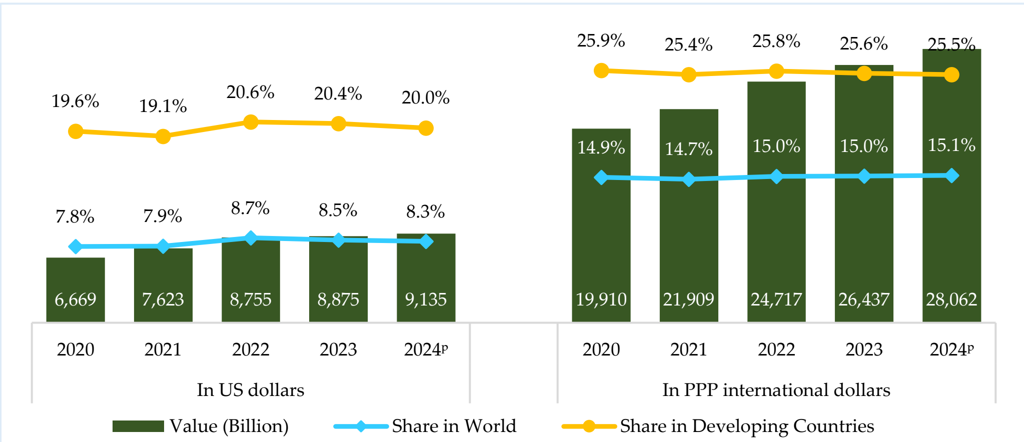
PRODUCTION AND ECONOMIC GROWTH

Output reaches US$ 8.9 trillion in 2023, but losing ground globally

At current prices, the total GDP of the OIC countries amounted to US$ 8.9 trillion in 2023, slightly (1.4%) above the preceding year. In 2024, it is projected to increase by 2.9% to US$ 9.1 trillion. With this economic size, the OIC countries, as a group, accounted for 8.5% of global GDP in 2023, down 0.2 percentage points from the previous year. This share is expected to further decline to 8.3% in 2024. The share of the OIC countries in the total GDP of developing countries also decreased from 20.6% in 2022 to 20.4% in 2023, with a projected additional decline to 20.0% in 2024, indicating that the growth of current output has recently been slower in the OIC countries relative to the rest of the world (*Figure 2.1, left*).

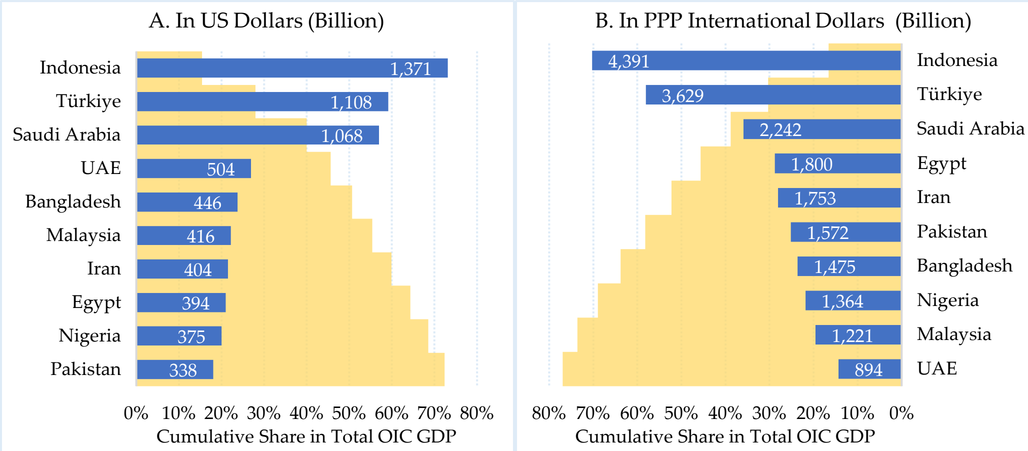
In terms of Purchasing Power Parity (PPP) expressed in international dollars, the total GDP of the OIC countries reached 26.4 trillion dollars in 2023, and is expected to reach 28.1 trillion dollars in 2024. With these amounts, the OIC countries, as a group, accounted for 15.0% of global GDP in 2023, the same as the previous year. Projections show that this share will reach 15.1% in 2024. However, their share in the total GDP of developing countries decreased to 25.6% in 2023 from

Figure 2.1: Total GDP and World Shares of OIC Countries (at current prices)



Source: SESRIC staff calculation based on IMF, World Economic Outlook Database, April 2024. Note: P= Projection; Data exclude Syria.

Figure 2.2: Top 10 OIC Countries by GDP, 2023



Source: IMF, World Economic Outlook Database, April 2024.

25.8% in 2022, and is expected to be 25.5% in 2024 (*Figure 2.1, right*). Considering the estimated share of the OIC countries in the world population (25.3%) and in the population of developing countries (29.3%) in 2023, their share in GDP, whether in current US dollars or in current PPP international dollars, remains below the desired levels.

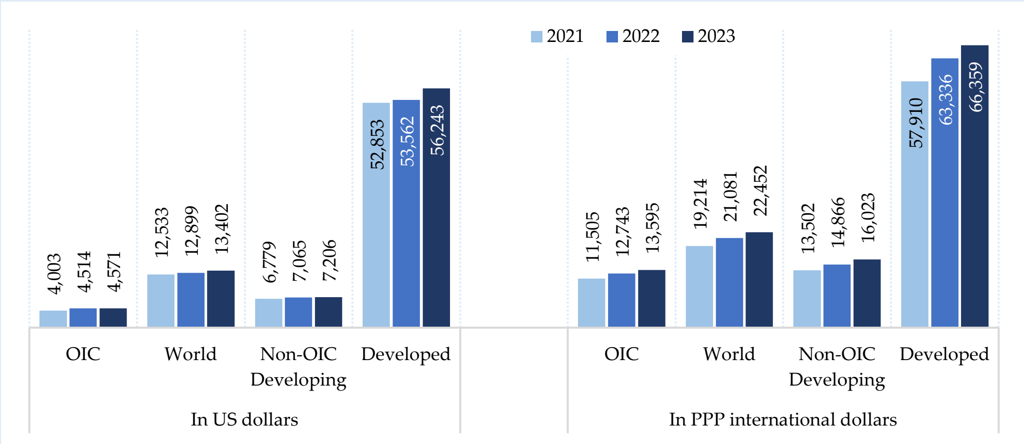
Furthermore, it is observed that a significant portion of the total GDP of the OIC countries is still generated by a few member countries, reflecting wide differences in economic size. In 2023, the top five OIC countries accounted for half (50.7%) of the total GDP measured in current US dollars, while this share reached as high as 72.4% for the top ten countries (*Figure 2.2. A*). Indonesia, with a GDP of almost US$ 1.4 trillion, had the highest share in OIC GDP (15.5%), followed by Türkiye (12.5%), Saudi Arabia (12.0%), United Arab Emirates (5.7%), and Bangladesh (5.0%).

Figure 2.2 shows that the largest ten countries remain unchanged when GDP is expressed in PPP international dollars, though the ranking of countries changes due to the difference in purchasing power stemming from relative price differentials between countries. Indonesia was the largest economy, with a PPP equivalent of 4.4 trillion dollars that constituted 16.6% of OIC GDP in 2023. Together with Türkiye (13.7%), Saudi Arabia (8.5%), Egypt (6.8%), and Iran (6.6%), these five countries accounted for 52.3% of the total OIC GDP while, for the largest ten countries, this share reached as high as 76.9% (*Figure 2.2.B*).

Slight increase in GDP per capita in 2023, resulting in widening gaps

Given the ongoing growth in output, per capita GDP values at current prices continued to increase worldwide in 2023. However, the increase in the OIC group was rather small due to limited output growth (*Figure 2.3*). In US dollar terms, the global average rose by 3.9% from the previous year to US$ 13,402, driven largely by developed countries where GDP per capita increased by 5.0% to US$ 56,243. The OIC countries recorded a growth of 1.3%, with GDP per capita averaging at

Figure 2.3: Average GDP per Capita (at current prices)



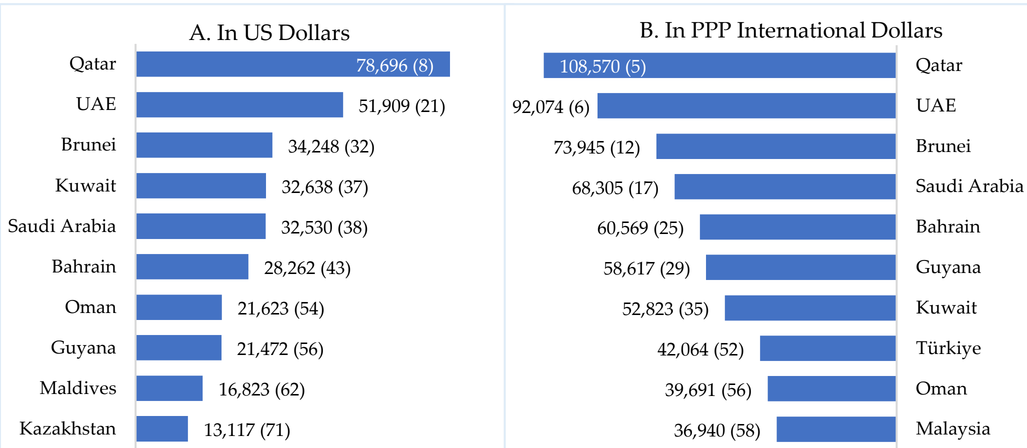
Source: SESRIC staff calculation based on IMF, World Economic Outlook Database, April 2024. Note: Data exclude Syria for the entire period under consideration and Afghanistan and Lebanon for 2023.

US$ 4,571 in 2023, compared to US$ 4,514 in 2022. Non-OIC developing countries also recorded a higher growth rate than the OIC group, with their GDP per capita increasing by 2.0% to US$ 7,206. Thus, GDP per capita continued to be lower in the OIC countries, and the gap widened to some extent in 2023 (*Figure 2.3, left*).

In PPP terms, GDP per capita averaged globally at 22,452 dollars in 2023, up 6.5% from a year earlier. In OIC countries, it increased by 6.7% to 13,595 dollars, remaining below that of non-OIC developing countries, which rose 7.8% to 16,023 dollars (*Figure 2.3, right*).

Among OIC countries, Qatar had the highest GDP per capita in 2023, ranking eighth globally with a value exceeding US$ 78 thousand. This value was more than 17 times the OIC average and 170 times the lowest GDP per capita recorded by an OIC member, indicating the wide disparity among member countries. Following Qatar were United Arab Emirates, Brunei Darussalam, Kuwait,

Figure 2.4: Top 10 OIC Countries by GDP per Capita, 2023 (at current prices)



Source: IMF, World Economic Outlook Database, April 2024. Note: The numbers in brackets indicate the global rank of the relevant country among 191 countries. Data exclude Afghanistan, Lebanon, and Syria.

Saudi Arabia, Bahrain, Oman, Guyana, Maldives, and Kazakhstan in descending order (*Figure 2.4.A*). It is worth noting that most of these countries are rich in fossil fuel. In terms of PPP, the list of countries remained the same, except Türkiye and Malaysia replaced the Maldives and Kazakhstan. The ranking of countries shifted slightly, with Qatar maintaining the top spot with a GDP per capita value of over 108 thousand dollars, ranked fifth globally (*Figure 2.4.B*).

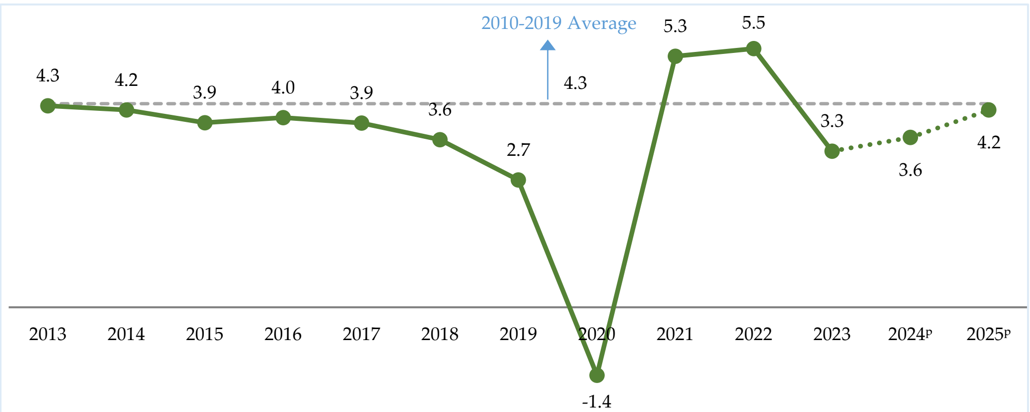
Real GDP growth moderates to 3.3% in 2023, followed by projected recovery

Prior to the outbreak of the COVID-19 pandemic, economic growth in the OIC countries followed a decelerating trend, dropping from 6.0% in 2010 to 2.7% in 2019, averaging annually at 4.3%. Under the pandemic conditions in 2020, the OIC countries, on average, contracted by 1.4%, but in parallel with the global economic recovery, they grew by 5.3% in 2021 and 5.5% in 2022, the highest rate achieved since 2011. In 2023, the average growth rate in the OIC group moderated to 3.3%, which is expected to rebound to 3.6% in 2024 and further increase to 4.2% in 2025 (*Figure 2.5*). It is noteworthy that the average growth rate registered by the OIC countries in 2023 was the same as the global average. As mentioned in the previous chapter, developing economies grew by 4.4% and developed ones by 1.7%, with global economic growth averaging at 3.3% in 2023 (see *Figure 1.1*). Nevertheless, growth in the next two years is projected to be higher in the OIC group than the global average.

The growth performance of the OIC countries varied among income groups in 2023 (*Figure 2.6*). Economies of resource-rich high-income countries, which registered the highest growth rate of 7.4% in 2022, only grew by 0.8% in 2023. A rebound is expected in 2024 with a growth rate of 2.4%, followed by a rate of 4.4% in 2025, surpassing the pre-pandemic average (3.8%).

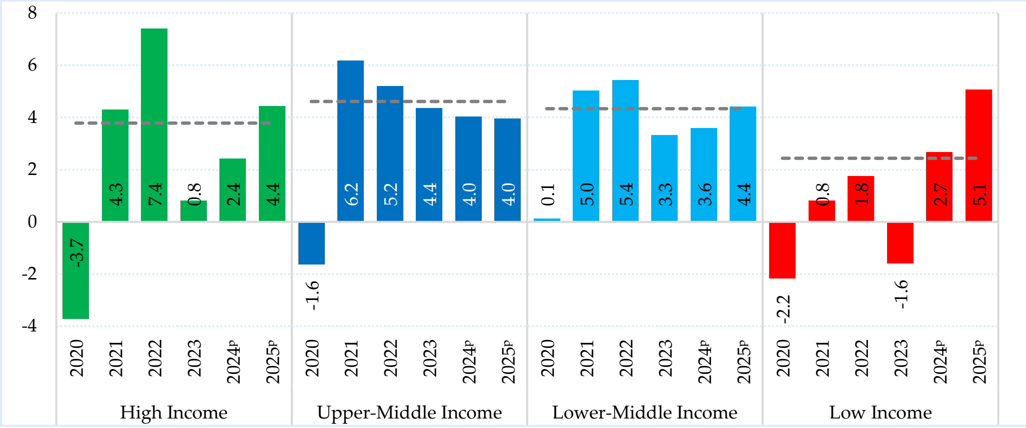
Having recorded a higher average economic growth (4.6%) during the past ten years prior to the pandemic as compared to the other groups, the upper-middle income economies have had decelerating growth rates since 2021. While they recorded the strongest recovery in 2021 (6.2%), the real GDP growth of the group slowed down to 5.2% in 2022 and to 4.4% in 2023. Economic growth for this group is expected to further slowdown to 4.0% in 2024-2025.

Figure 2.5: Real GDP Growth in OIC Countries



Source: SESRIC staff calculation based on IMF, World Economic Outlook Database, April 2024, and World Economic Outlook Update, July 2024. Note: P= Projection

Figure 2.6: Economic Growth in the OIC by Income Group (%)



Source: SESRIC staff calculation based on IMF, World Economic Outlook Database, April 2024, and World Economic Outlook Update, July 2024. Note: P= Projection; Dashed lines represent the annual average growth rate during 2010-2019 for the related income group. See Annex B for the income classification of OIC countries.

Least affected by the pandemic (+0.1% in 2020), economic growth in the lower-middle income economies remained above the 2010-19 average of 4.3% in both 2021 (5.0%) and 2022 (5.4%). However, it moderated to 3.3% in 2023, though projections indicate a recovery in the next two years with a growth rate of 3.6% in 2024 and 4.4% in 2025.

The group of low-income countries, which registered a slower average growth rate (2.4%) as compared to the other income groups during 2010-19, shows different growth patterns. After contracting by 2.2% in 2020, the growth rate in this group remained below the pre-pandemic average in 2021 (0.8%) and 2022 (1.8%). Moreover, unlike in the other income groups, economies in low-income countries contracted in 2023, by 1.6%. Nonetheless, with the expected recovery, growth in the group of low-income countries is projected to be above the pre-pandemic average in the next two years: 2.7% in 2024 and 5.1% in the subsequent year.

Figure 2.7: Real Output Growth in OIC Countries by Income Group (2019=100)

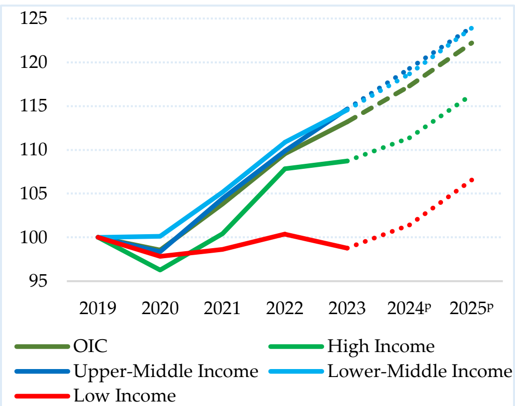
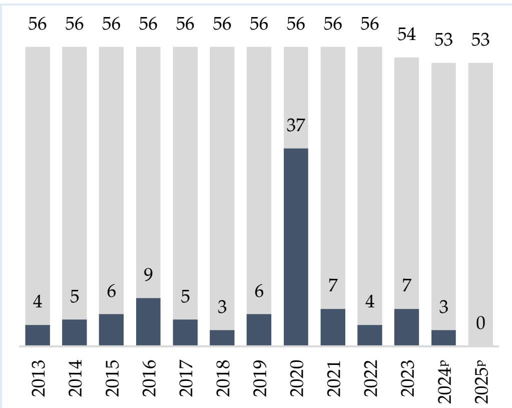


Figure 2.8: The Number of OIC Countries with a Negative Growth Rate*



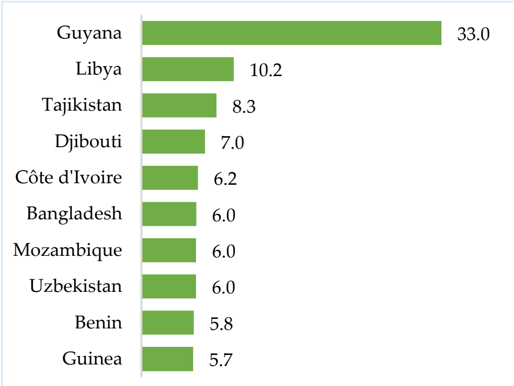
Source: SESRIC staff calculation based on IMF, World Economic Outlook Database, April 2024, and World Economic Outlook Update, July 2024. Note: P= Projection. * Excluding Syria for the entire period under consideration, Afghanistan and Lebanon for 2023-2025, and Palestine for 2024-2025.

As of 2023, the real output of the OIC countries, as a group, was about 13% higher than the 2019 level, mostly driven by the performance of middle-income countries. Given the expected growth rates for the next two years, output is projected to sustain its upward trajectory. Meanwhile, low-income countries continued to perform below the pre-pandemic output level, with expectation for a noteworthy recovery only in 2025 (*Figure 2.7*).

At the individual country level, 7 out of 54 OIC countries with available data recorded a negative growth rate in 2023: Sudan (-18.3%), Palestine (-6.1%), Kuwait (-2.2%), Iraq (-2.2%), Yemen (-2.0%), Saudi Arabia (-0.8%), and Pakistan (-0.2%). Current projections indicate that the economies of three OIC countries (Sudan, Kuwait, and Yemen) are expected to contract in 2024, while all OIC countries with available data are expected to record a positive growth rate in 2025 (*Figure 2.8*).

Guyana was the fastest growing economy in the OIC and the second in the world in 2023. IMF data shows that the Guyanese economy continues to record exceptional growth rates, estimated at 33.0% in 2023, driven by accelerating oil production. Libya, also experiencing a double-digit growth rate of 10.2%, and Tajikistan, with a rate of 8.3%, were among the top five fastest growing economies in the world that year. In addition to these three countries, Djibouti, Côte d'Ivoire, Bangladesh, Mozambique, Uzbekistan, Benin, and Guinea made it to the top ten list of the fastest growing OIC economies in 2023 (*Figure 2.9*).

Figure 2.9: The Fastest Growing OIC Economies in 2023 (%)



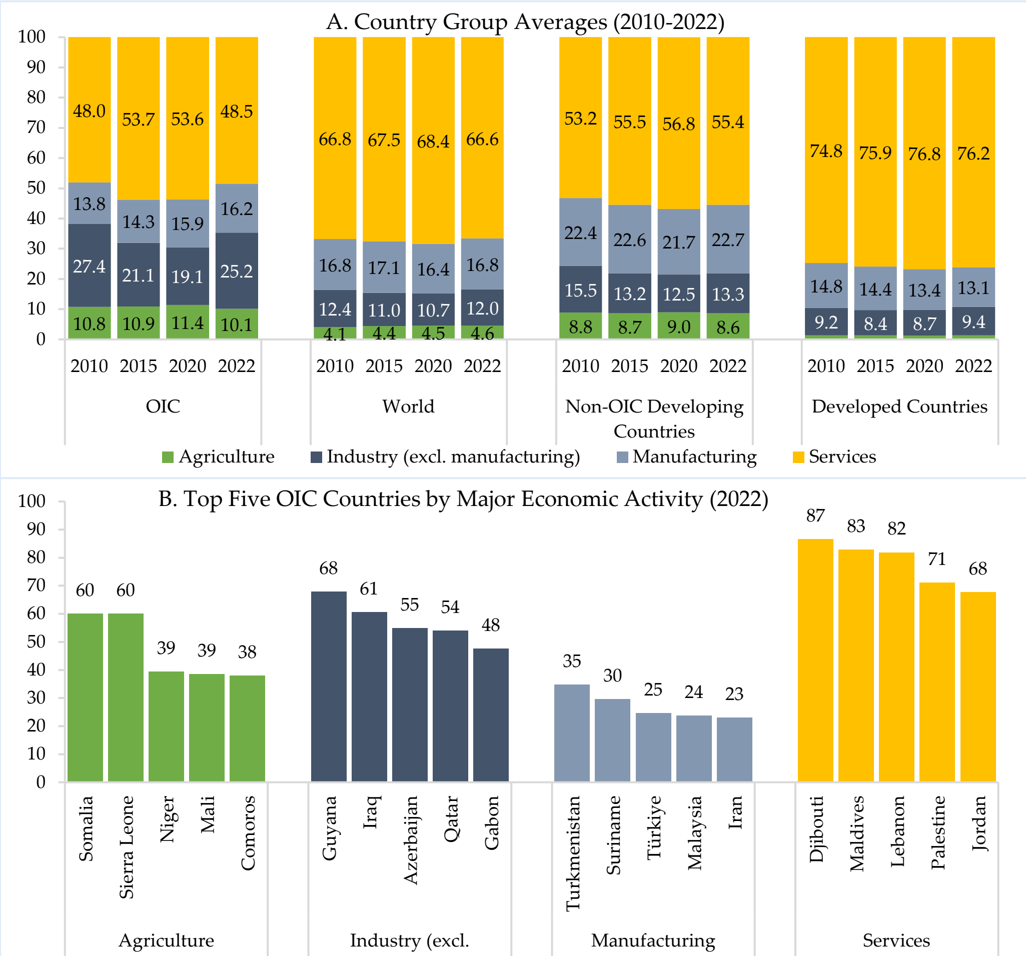
Source: IMF, World Economic Outlook Database, April 2024, and World Economic Outlook Update, July 2024.

Industrial activities regain weight in GDP

The composition of GDP reveals important insights into the structure of economies (*Figure 2.10*). The latest available data for 2022 shows that agricultural activities, constituting only 1.3% of total value added in developed countries, have a high share of 10.1% in total value added in the OIC countries, which is even higher than that in non-OIC developing countries (8.6%). The agriculture sector is particularly important for the OIC countries in Sub-Saharan Africa; its share in total value added reaches as high as 60% in Somalia and Sierra Leone, 39% in Niger and Mali, and 38% in Comoros.

The share of the non-manufacturing industry is much higher in the group of OIC countries compared to the rest of the world, largely due to substantial fossil fuel extractive industries in many OIC countries. Although this share fell slowly over the 2010-2020 period worldwide, it witnessed a significant increase in 2022. For the OIC countries, it averaged at 25.2% in 2022 after falling from 27.4% in 2010 to a record low of 19.1% in 2020. The sector accounts for about two-thirds (68%) of the total value added in Guyana, 61% in Iraq, 55% in Azerbaijan, 54% in Qatar, 48% in Gabon, and over one-third of the total value added in eight other member countries heavily

Figure 2.10: Distribution of Value Added by Major Economic Activity (% of total)



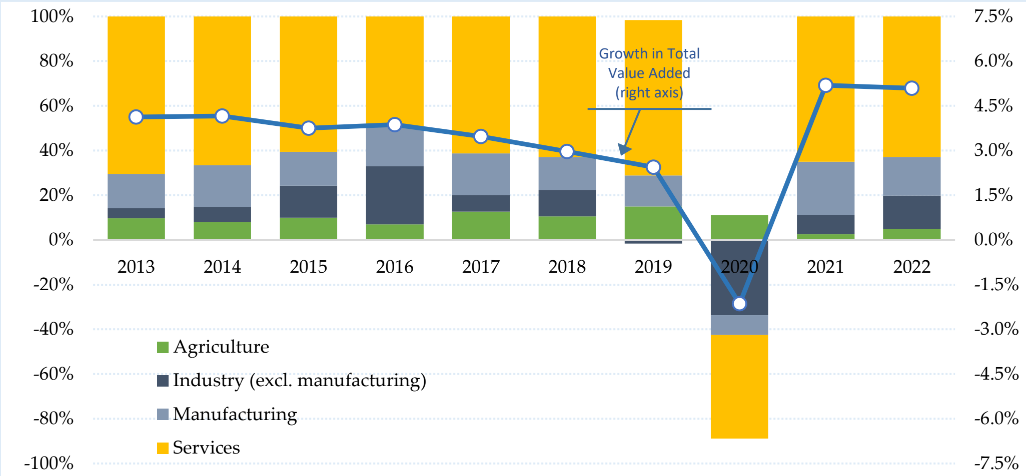
Source: SESRIC staff calculation based on data –at current prices in US dollars– from UNSD, National Accounts - Analysis of Main Aggregates (AMA). Note: "Agriculture" comprises agriculture, hunting, forestry, fishing (ISIC A-B), "Industry" comprises mining, manufacturing, utilities, and construction (ISIC C-F), and "Services" comprises services activities (ISIC G-P). Data coverage: 57 OIC countries, 115 non-OIC developing countries, and 40 developed countries.

engaged in oil & gas extraction: Brunei Darussalam, United Arab Emirates, Libya, Saudi Arabia, Kuwait, Oman, Chad, and Algeria.

The manufacturing sector, which has greater potential to promote productivity and competitiveness, has a share of 16.2% in total value added of the OIC countries, which is higher than that of developed countries (13.1%) but significantly below that of non-OIC developing countries (22.7%). The sector accounts for 35% of the total value added in Turkmenistan, 30% in Suriname, and 20-25% in six other member countries, namely Türkiye, Malaysia, Iran, Bangladesh, Brunei Darussalam, and Uzbekistan.

Despite losing ground to industrial activities, the services sector continues to play a key role in the majority of OIC economies, accounting for an average of 48.5% of the total value added in the OIC

Figure 2.11: Sectoral Contribution to Growth in Value Added in OIC Countries



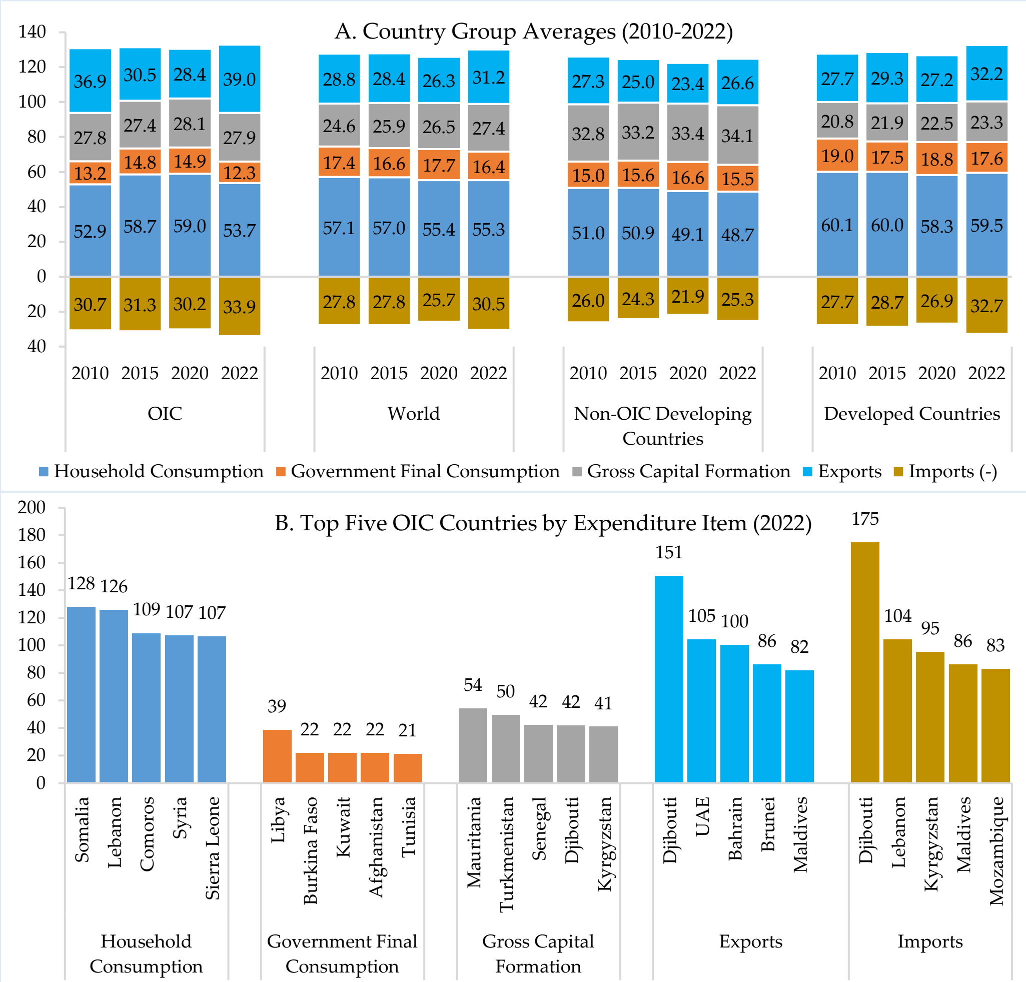
Source: SESRIC staff calculation based on data –at constant 2015 prices in US dollars– from UNSD, National Accounts - Analysis of Main Aggregates (AMA). Note: "Agriculture" comprises agriculture, hunting, forestry, fishing (ISIC A-B), "Industry" comprises mining, manufacturing, utilities, and construction (ISIC C-F), and "Services" comprises services activities (ISIC G-P). Data coverage: 57 OIC countries.

group. This share is still low, considering that the sector has a share of three quarters (76.2%) in total value added in developed countries and 55.4% in non-OIC developing countries, averaging at 66.6% worldwide. In the OIC countries, this share reaches as high as 87% in Djibouti, 83% in Maldives, 82% in Lebanon, 71% in Palestine, and 68% in Jordan, while it is at least 50% in 25 other member countries.

The services sector, growing at an annual average of 3.9% during the past decade, has also been the dominant contributor to economic growth in the OIC countries, usually accounting for over 60% of the growth in total value added at constant prices (*Figure 2.11*). Likewise, growing by 5.8% in 2022, this sector was the largest contributor to the growth in total value added (5.1%) in that year: almost two-thirds (63%) of the growth in total value added stemmed from the services sector. The non-manufacturing industry, which was largely responsible for the contraction in 2020, grew by 4.0% in 2022 and contributed to the growth in value added by about 15%, compared to 8.7% in 2021. The manufacturing industry, on the other hand, grew by as high as 5.8% and contributed 17%. The contribution of the agriculture sector increased from a mere 2.6% in 2021 –the lowest in the past decade– to 4.8% in 2022, given the doubling of the growth in agricultural value added to 2.2% in 2022.

The analysis of the composition of GDP from the expenditures side reveals that final consumption expenditures, by both households and the government, continued to have the highest share in GDP over the years in OIC countries as well as in the rest of the world (*Figure 2.12.A*). In 2022, household consumption accounted for 53.7% of GDP in OIC countries, which was higher than that in non-OIC developing countries (48.7%) but lower than that in developed countries (59.5%). This ratio was above 125% in Somalia and Lebanon and over 100% in Comoros, Syria, Sierra Leone, Yemen, and Palestine. This indicates that a significant proportion of the private domestic

Figure 2.12: GDP by Expenditure (% of total)



Source: SESRIC staff calculation based on data –at current prices in US dollars– from UNSD, National Accounts - Analysis of Main Aggregates (AMA). Data coverage: 57 OIC countries, 114 non-OIC developing countries, and 40 developed countries.

demand was allocated to imported goods and services. In three other OIC countries, namely Guinea-Bissau, Afghanistan, and Gambia, this ratio was over 90%, but as low as 11% in Turkmenistan and 19% in Qatar.

The share of general government final consumption expenditures in GDP has been low in OIC countries relative to both developed and developing countries. In 2022, this share averaged at 12.3% for the OIC countries, 15.5% for non-OIC developing countries, and 17.6% for developed countries, with a global average of 16.4%. The highest ratio among the OIC countries was recorded in Libya at 39%, followed by Burkina Faso, Kuwait, and Afghanistan, each with 22%, while it was as low as 4.4% in Nigeria and less than 10% in twelve other countries: Bangladesh, Sierra Leone, Egypt, Chad, Somalia, Indonesia, Sudan, Turkmenistan, Uganda, Comoros, Gabon, and Gambia.

Gross capital formation (GCF), also called "investment", is an important indicator for an economy as it shows the total value of additions to productive assets, which are intended for use in the production of other goods and services. Thus, a high share of GCF in GDP is desirable for long-term economic growth as current investment leads to greater future production. *Figure 2.12.A* shows that this share has been relatively stable over the past decade and averaged at 27.9% in 2022 for the OIC countries, lower than the average for non-OIC developing countries (34.1%) but higher than the average for developed countries (23.3%). GCF accounted for as high as 54% of GDP in Mauritania and half (50%) of GDP in Turkmenistan, both in the top five in the world. This ratio was at least 40% in four other countries (Senegal, Djibouti, Kyrgyzstan, and Iran) and less than 10% in three countries (Guinea Bissau, Guyana, and Syria).

International trade –in goods and services– continued to account for a higher share of GDP in the OIC countries than in both developed and developing countries in 2022. Moreover, both exports and imports had a higher share of GDP in 2022 compared to 2020 in all these groups of countries, as the pandemic-induced severe disruptions to global supply chains and travel services phased out. The share of exports increased by 10.6 percentage points and averaged at 39.0% for the OIC countries, while it rose to 26.6% for non-OIC developing countries and to 32.2% for developed countries. The share of imports increased by 3.7 percentage points to 33.9% for the OIC countries and it was higher than the average of both country groups in comparison (*Figure 2.12.A*).

Among the OIC countries, Djibouti had the highest exports share in GDP at 151%, ranking sixth globally. This share reached 105% in the United Arab Emirates, 100% in Bahrain, 86% in Brunei Darussalam, and 82% in Maldives. In terms of imports share in GDP, Djibouti (175%) also ranked highest in the OIC and fourth in the world. This share was as high as 104% in Lebanon, 95% in Kyrgyzstan, 86% in Maldives, 83% in Mozambique, and over 50% in 16 other member countries. On the other side of the spectrum, the imports to GDP ratio was as low as 16% in Sudan and less than 20% in Nigeria and Gabon.

UNEMPLOYMENT

Unemployment rate falls to 5.7% in 2023, expected to stabilize at 5.6%

Labour markets have demonstrated a promising recovery in the past three years following the pandemic. However, the pace of recovery is expected to reverse after 2023, with recent trends indicating a levelling off.

After dropping to a historically low level of 55.3% worldwide in 2020 due to employment losses, the employment-to-population ratio (EPR)[2] has recovered over the subsequent years to 57.7% in 2023. However, due to the gloomy economic outlook worldwide, it is projected to slightly decrease in the next two years, regressing to 57.3% by 2025. Although all country groups have followed a similar recovery path, both developed countries and non-OIC developing countries have maintained a higher EPR than the global average. In comparison, EPR has remained significantly lower in the OIC countries than in the rest of the world throughout the period under

Figure 2.13: Employment-to-Population Ratio (%)

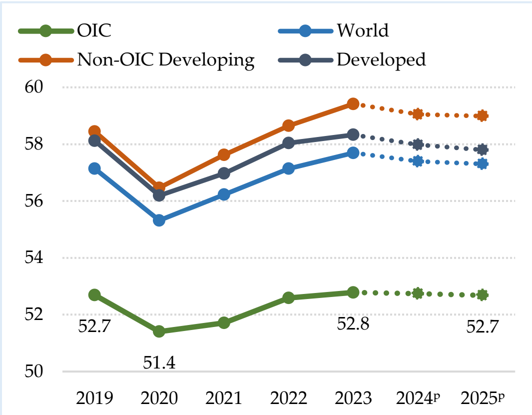
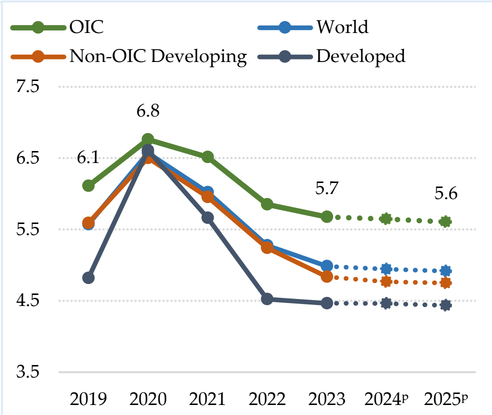


Figure 2.14: Unemployment Rate (%)



Source: SESRIC staff calculation based on ILOSTAT, ILO Modelled Estimates, May 2024.

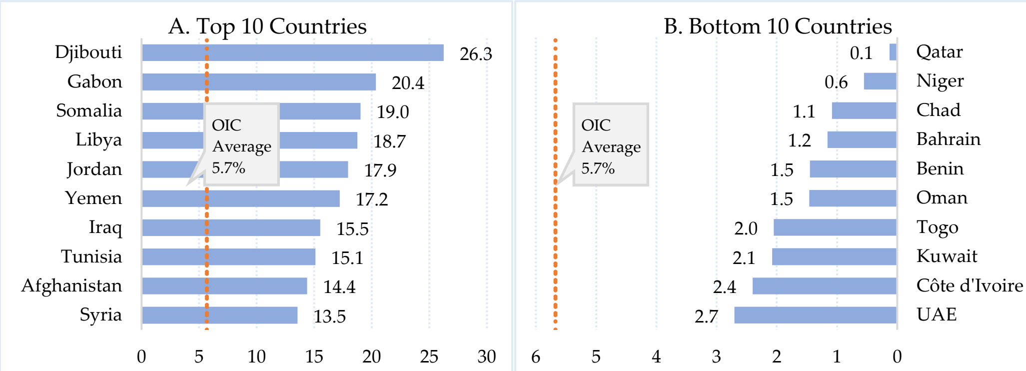
consideration, indicating that labour underutilisation remains a major concern in the OIC group. After reaching as low as 51.4% in 2020, EPR in OIC countries registered a slower recovery, barely returning to pre-pandemic levels in 2023 (52.8%). Projections show that it will stay flat through 2024-2025, remaining at pre-pandemic levels (*Figure 2.13*).

According to ILO estimates, there were 180.9 million unemployed people worldwide[3] in 2023, about 6.8 million (3.6%) less than the previous year. While unemployment also declined in the OIC group, it was only by about 35 thousand (0.1%) to 43.2 million, resulting in an increasing share of the group in the world from 23.0% in 2022 to 23.9% in 2023. While estimates for 2024 signal a further yet small decline (0.2%) in global unemployment, the OIC group is expected to witness an increase of 1.5%, with the number of unemployed reaching 43.9 million, accounting for 24.3% of the world total.

Additionally, the unemployment rate remains higher in the OIC group compared to global averages (*Figure 2.14*). In 2023, it stood at 5.7% for OIC countries, 4.8% for non-OIC developing countries, and 4.5% for developed countries, averaging globally at 5.0%. The unemployment rate for the OIC group was measured at 5.8% in 2022, down from 6.8% in 2020. While unemployment rates for all these groups were successfully reduced from their peak in 2020 to even below pre-pandemic levels, estimates indicate flattening trends through 2024-2025. The unemployment rate is expected to level off at 5.6% for the OIC group and about 4.5-5% for the other groups under consideration.

The latest estimates show that, in 2023, the unemployment rate fell in more than half (31) of the OIC countries (by at least 1 percentage points) –most notably in Türkiye, Nigeria, and Saudi Arabia– and increased in four countries: Sudan, The Gambia, Afghanistan, and Brunei Darussalam. Varying greatly among the OIC countries, the unemployment rate was as high as 26.3% in Djibouti (the third highest in the world after Eswatini and South Africa), followed by Gabon (20.4%), Somalia (19.0%), Libya (18.7%), and Jordan (17.9%) (*Figure 2.15.A*). On the other side of the spectrum, it was as low as 0.1% in Qatar (the lowest in the world), 0.6% in Niger, 1.1% in Chad, 1.2% in Bahrain, and 1.5% in Benin and Oman (*Figure 2.15.B*).

Figure 2.15: Unemployment Rate in the OIC Countries, 2023 (%)



Source: ILOSTAT, ILO Modelled Estimates, May 2024. Data exclude Palestine.

INFLATION

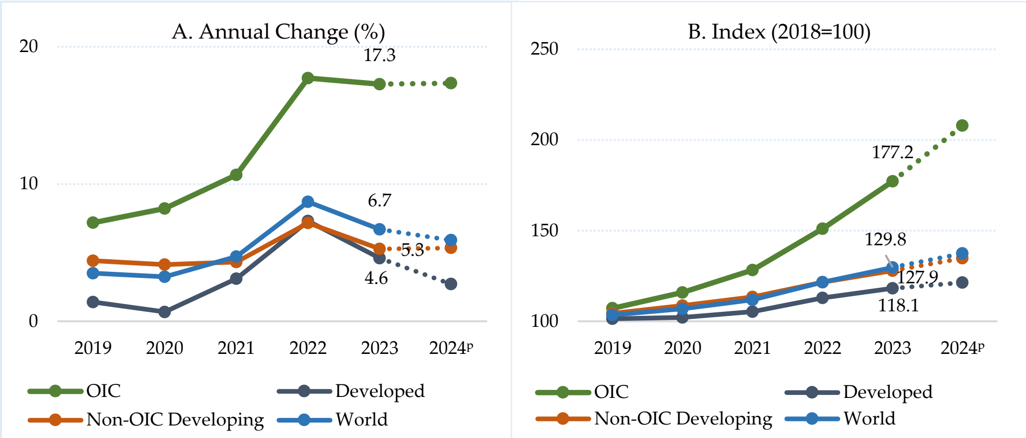
Consumer price inflation to stabilise at 17.3% in 2023-2024

Consumer price inflation – measured by the consumer price index (CPI) – decreased globally in 2023 after peaking at record-high levels in 2022. However, on average, the decrease was less significant in OIC countries (0.4 percentage points) compared to non-OIC developing countries (1.9 percentage points) and developed countries (2.7 percentage points).

In 2023, inflation in OIC countries dropped to 17.3% from 17.7% in 2022. Considering that the inflation rate decreased to 4.6% in developed countries and to 5.3% in non-OIC developing countries –averaging at 6.7% worldwide– the OIC countries, on average, continued to have a much higher inflation rate in 2023. This trend is expected to continue in 2024, as well. Global inflation is projected to further decline to 5.9%, driven by a decrease in inflation in developed countries while inflation in developing countries and OIC countries stagnates (*Figure 2.16.A*).

With the annual inflation rates observed in the OIC countries over the 5-year period from 2019 to 2023, the average consumer prices in 2023 were 77.2% higher as compared to those in 2018, which was considerably above the world average increase of 29.8%. Over the same period, average prices increased by 27.9% in non-OIC developing countries and only by 18.1% in developed countries (*Figure 2.16.B*).

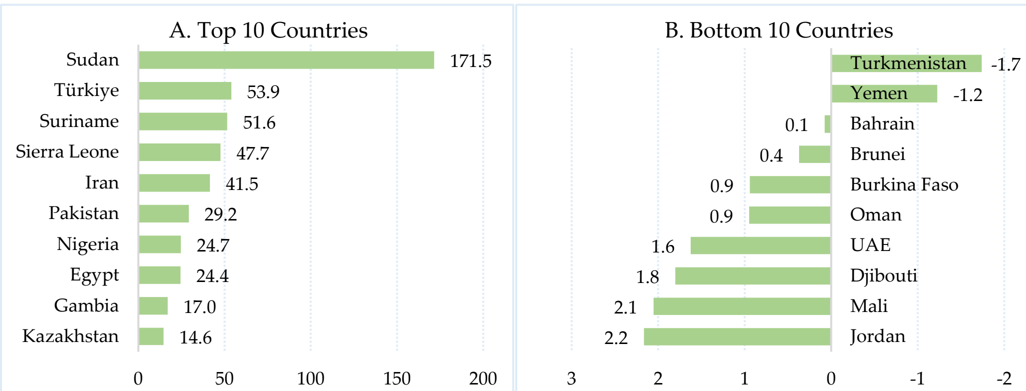
Figure 2.16: Inflation Rate (Annual Average Consumer Prices)



Source: SESRIC staff calculation based on IMF, World Economic Outlook, April 2024, and July 2024 Update.
Note: P= Projection. Group averages are calculated as a weighted average of national price indices, with the weights being each respective country's GDP in current international dollars based on PPP. The group averages exclude Venezuela.

Among OIC countries, Sudan recorded the highest annual inflation rate of 171.5% in 2023, ranking third globally after Zimbabwe (667%) and Venezuela (337%). Other OIC countries ranked among top 10 globally included Türkiye (53.9%), Suriname (51.6%), Sierra Leone (47.7%), and Iran (41.5%). Pakistan, Nigeria, Egypt, Gambia, and Kazakhstan also made the top ten list in the OIC. On the other hand, two OIC countries, Turkmenistan and Yemen, reported negative inflation rates in 2023 at -1.7% and -1.2%, respectively. In addition, inflation was as low as 0.1% in Bahrain, 0.4% in Brunei Darussalam, and 0.9% in Burkina Faso and Oman (*Figure 2.17*).

Figure 2.17: Inflation in the OIC Countries, 2023 (%)



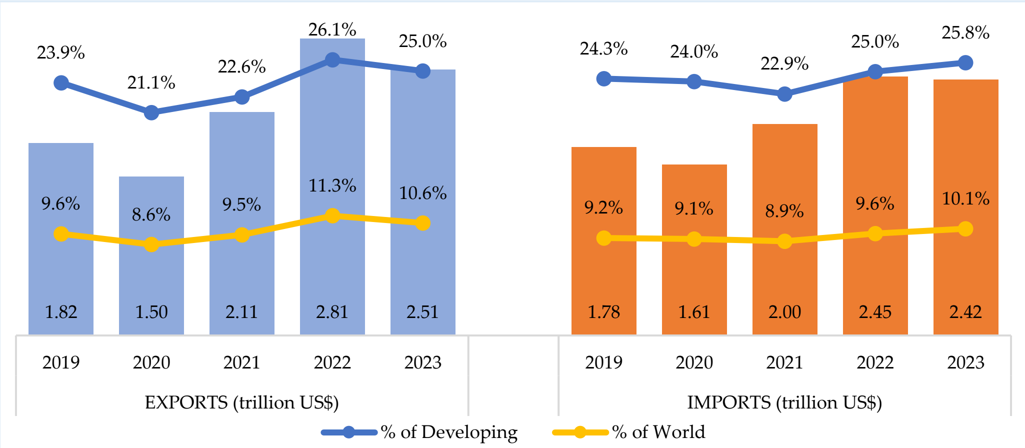
Source: IMF, World Economic Outlook, April 2024. Note: Annual average change in CPI. Excluding Afghanistan, Lebanon, and Syria.

INTERNATIONAL TRADE

Merchandise trade shrinks in 2023, exports hit harder

According to IMF data (Direction of Trade Statistics – DOTS), the annual value of global merchandise trade decreased by 5.1% in 2023, marking the first decrease since the pandemic-hit year of 2020. Both exports and imports of OIC countries followed a similar trend, with exports experiencing a sharper decrease than imports. Falling by 10.4%, merchandise exports of OIC countries amounted to US$ 2.51 trillion in 2023, compared to US$ 2.81 trillion in 2022. This resulted in a lower share of OIC countries in global exports dropping from 11.3% in 2022 to 10.6% in 2023. Conversely, merchandise imports only decreased by 1.1% amounting to US$ 2.42 trillion in 2023 compared to US$ 2.45 trillion in 2022. This led to an increased share in global imports, rising from 9.6% in 2022 to 10.1% in 2023. A similar trend is observed for OIC countries' share in the merchandise trade of developing countries. Their share in exports decreased from 26.1% in 2022 to 25.0% in 2023, while their share in imports went up from 25.0% to 25.8% over the same period (*Figure 2.18*).

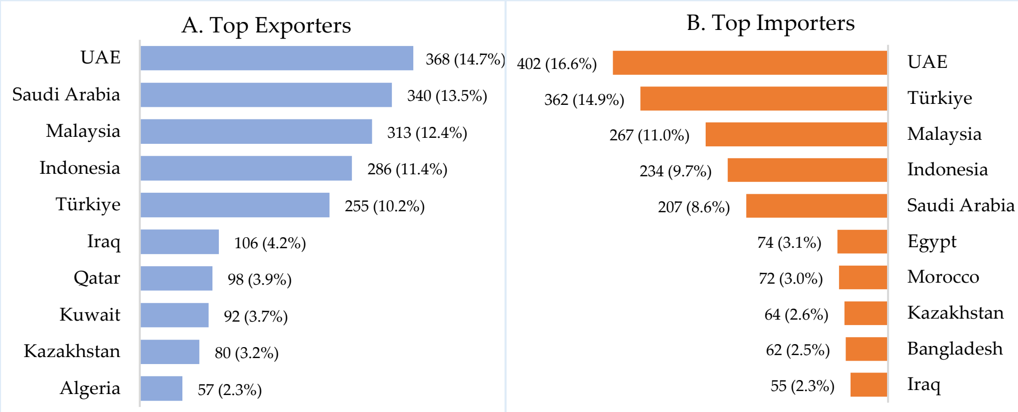
Figure 2.18: International Merchandise Trade of OIC Countries



Source: SESRIC staff compilation based on data from IMF, Direction of Trade Statistics (DOTS), as of 28 June 2024.
Note: Exports are valued on a free-on-board (FOB) basis while imports are valued on a cost, insurance, and freight (CIF) basis. Data coverage: 57 OIC countries.

In terms of the share of individual member countries in total merchandise exports from the OIC group, it is observed that a few countries continue to dominate (*Figure 2.19.A*). In 2023, the largest five exporters accounted for 62.1% of total merchandise exports of all member countries while the largest ten accounted for 79.4%. The United Arab Emirates, led the way with US$ 368 billion worth of merchandise exports and a 14.7% share in total OIC exports in 2023. It was followed by Saudi Arabia (US$ 340 billion, 13.5%), Malaysia (US$ 313 billion, 12.4%), Indonesia (US$ 286 billion, 11.4%), and Türkiye (US$ 255 billion, 10.2%). Additionally, Iraq, Qatar, Kuwait, Kazakhstan, and Algeria were among the top 10 OIC exporters in 2023.

Figure 2.19: Major OIC Countries in International Merchandise Trade, 2023 (US$, billion)



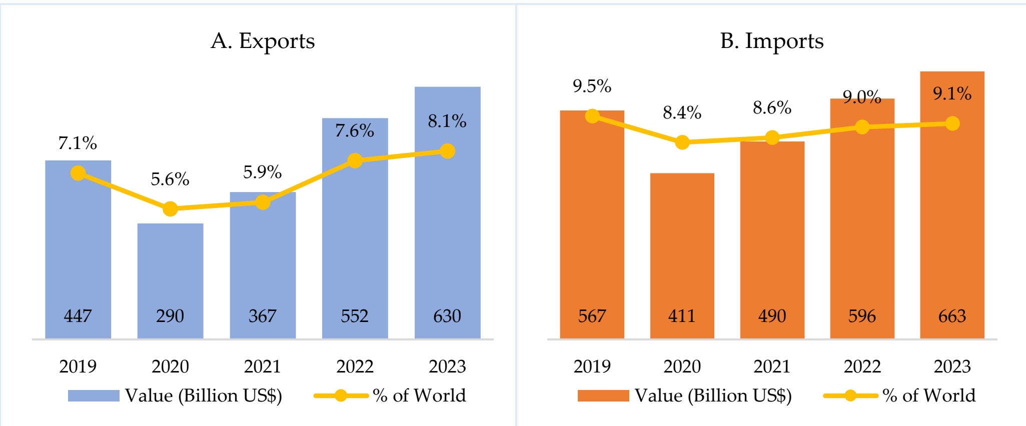
Source: IMF, Direction of Trade Statistics (DOTS), as of 28 June 2024. Note: The numbers in brackets indicate the share of the respective country in OIC total. Data coverage: 57 OIC countries.

Similarly, merchandise imports of OIC countries were also heavily concentrated in a few countries in 2023. As depicted in *Figure 2.19.B*, the United Arab Emirates was the top importer with US$ 402 billion of imports, accounting for 16.6% of the total imports of OIC countries. It was followed by Türkiye (US$ 362 billion, 14.9%), Malaysia (US$ 267 billion, 11.0%), Indonesia (US$ 234 billion, 9.7%), and Saudi Arabia (US$ 207 billion, 8.6%). The largest five importers accounted for 60.8% of the total OIC merchandise imports, while the largest ten countries, which also included Egypt, Morocco, Kazakhstan, Bangladesh, and Iraq, accounted for 74.2% of OIC total imports.

OIC countries continue to increase their market share in global services trade

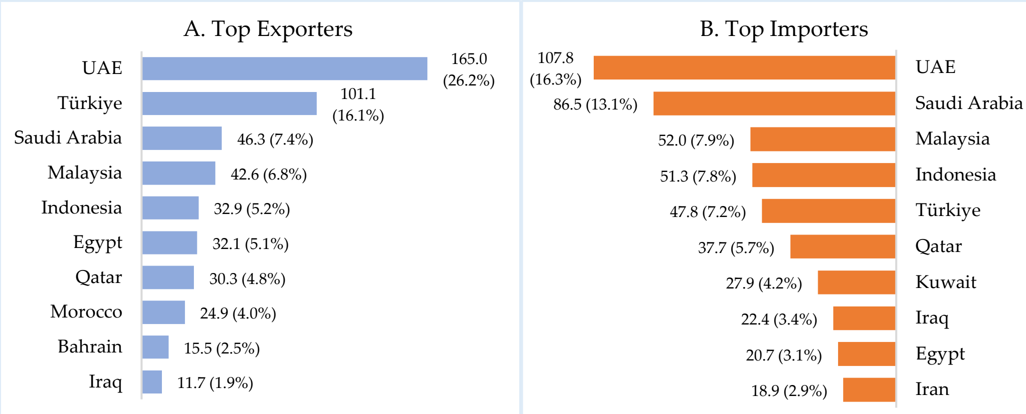
The value of global trade in services grew by 15.5% in 2022 from the previous year and further increased by 8.9% in 2023, according to statistics from the World Trade Organization (WTO). As a group, OIC countries recorded higher growth rates than the global average after 2020 and continued to increase their share in global trade in services. Their services exports reached US$ 630 billion in 2023, up 14.1% from the previous year's level of US$ 552 billion and more than double

Figure 2.20: International Services Trade of OIC Countries



Source: WTO, WTO STATS [2024/07/29].

Figure 2.21: Major OIC Countries in International Trade in Services, 2023 (US$, billion)



Source: WTO, WTO STATS [2024/07/29]. Note: The numbers in brackets indicate the share of the respective country in OIC total.

the 2020 level of US$ 290 billion. Thus, their share in global services exports increased from 5.6% in 2020 to 7.6% in 2022 and then to 8.1% in 2023 (*Figure 2.20.A*). Similarly, their services imports, which bottomed out at US$ 411 billion in 2020, increased to US$ 596 billion by 2022, and further rose by 11.2% to US$ 663 billion in 2023. This resulted in their share in global services imports increasing from 8.4% in 2020 to 9.0% in 2022 and 9.1% in 2023 (*Figure 2.20.B*).

Just like merchandise trade, services trade of the OIC countries was also concentrated in a few countries in 2023. The United Arab Emirates, with US$ 165 billion worth of services exports and a 26.2% share in total services exports of the OIC countries, was the top exporter in services. It was followed by Türkiye (US$ 101.1 billion, 16.1%), Saudi Arabia (US$ 46.3 billion, 7.4%), Malaysia (US$ 42.6 billion, 6.8%), and Indonesia (US$ 32.9 billion, 5.2%) (*Figure 2.21.A*). Together, the top two countries accounted for 42.3% of the total. For the top ten exporters including Egypt, Qatar, Morocco, Bahrain, and Iraq, this ratio increased to 79.9%. In terms of services imports, the United Arab Emirates was the leading importer with a value of US$ 107.8 billion, making up 16.3% of the total services imports of the OIC countries. It was followed by Saudi Arabia (US$ 86.5 billion, 13.1%), Malaysia (US$ 52.0 billion, 7.9%), Indonesia (US$ 51.3 billion, 7.8%), and Türkiye (US$ 47.8 billion, 7.2%) (*Figure 2.21.B*). While these top five importers accounted for more than half (52.2%) of the total, this ratio reached 71.5% for the top ten countries, which also included Qatar, Kuwait, Iraq, Egypt, and Iran.

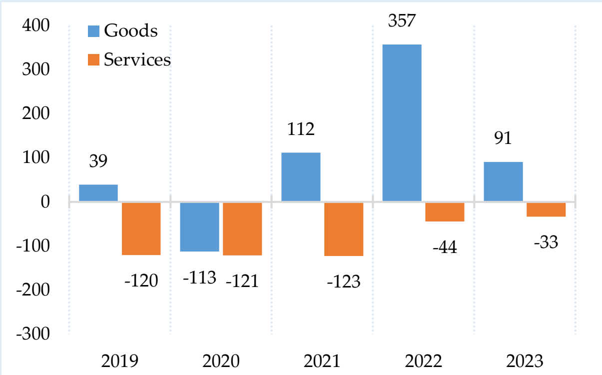
Merchandise trade surplus and services trade deficit both narrow in 2023

The OIC countries, in aggregate terms, continued to be a net exporter in merchandise trade during the 2021-2023 period, although the surplus decreased significantly in 2023. The surplus was US$ 91 billion compared to a much larger US$ 357 billion in 2022 (*Figure 2.22*). Saudi Arabia made the largest contribution to the surplus in 2023, with US$ 132.3 billion. Other countries with relatively large surpluses were Qatar (US$ 67.2 billion), Kuwait (US$ 55.5 billion), Indonesia (US$ 51.8 billion), and Iraq (US$ 51.6 billion). On the other hand, 37 OIC countries reported a deficit in 2023, with the largest being Türkiye (US$ 106.3 billion), followed by Iran (US$ 38.5

billion), Egypt (US$ 34.1 billion), the United Arab Emirates (US$ 33.5 billion), and Morocco (US$ 29.4 billion).

In services trade, the OIC countries, in aggregate terms, remained a net importer over the last 5-year period of 2019-2023, although the deficit narrowed significantly in the last two years thanks to higher growth in exports than imports. The aggregate deficit of the OIC countries in services trade was US$ 33 billion in 2023, the lowest in the period under consideration (*Figure 2.22*). At the country level, 13 OIC countries reported a positive balance in 2023: The United Arab Emirates, Türkiye, Morocco, Egypt, Tunisia, Jordan, Albania, Bahrain, Maldives, Lebanon, Djibouti, The Gambia, and Togo. The United Arab Emirates had the highest surplus at US$ 57.2 billion, followed by Türkiye with US$ 53.3 billion and Morocco with US$ 14.0 billion. On the other side of the spectrum, deficits were as high as US$ 40.2 billion in Saudi Arabia, followed by Indonesia with US$ 18.4 billion and Kuwait with US$ 17.1 billion.

Figure 2.22: Aggregate Trade Balance of OIC Countries (US$, billion)

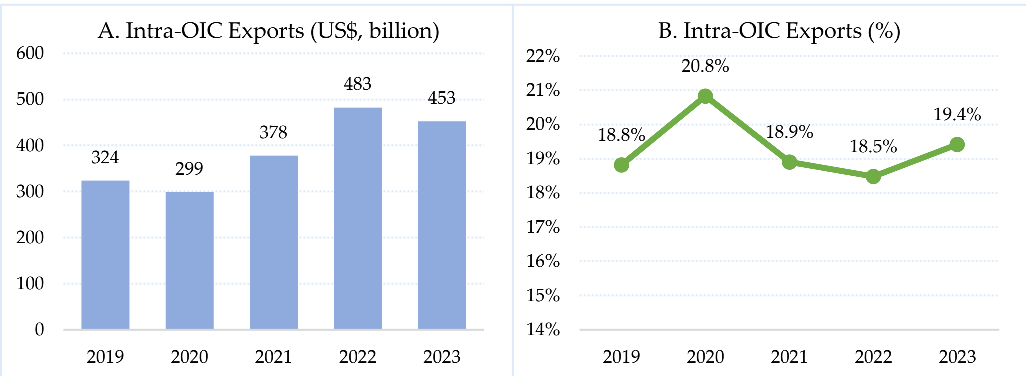


Source: SESRIC staff compilation based on data from IMF, Direction of Trade Statistics (DOTS), and WTO Data Portal.

Intra-OIC exports rise to 19.4% in 2023 despite shrinking in value

Merchandise exports among the OIC countries (intra-OIC exports) followed a similar trend to total exports and decreased in 2023 for the first time since 2020. After peaking at US$ 483 billion in 2022, intra-OIC exports decreased by 6.2% to US$ 453 billion in 2023 (*Figure 2.23.A*). However, exports from OIC countries to the rest of the world decreased by a higher rate of 11.3%, resulting in an increase in the share of intra-OIC exports from 18.5% in 2022 to 19.4% in 2023 (*Figure 2.23.B*). The

Figure 2.23: Intra-OIC Merchandise Trade



Source: SESRIC staff compilation based on data from IMF, Direction of Trade Statistics (DOTS), as of 28 June 2024.

slow growth in intra-OIC trade flows reduces the prospects for achieving the 25% target set in the OIC Ten-Year Programme of Action (OIC-2025).

Among the OIC countries, Saudi Arabia was the largest exporter to other OIC countries in 2023 with US$ 75.5 billion, representing 16.7% of the total intra-OIC exports. It was followed by the United Arab Emirates (US$ 74.8 billion, 16.5%), Türkiye (US$ 65.9 billion, 14.6%), Indonesia (US$ 32.5 billion, 7.2%), and Malaysia (US$ 30.9 billion, 6.8%). The top three countries alone accounted for nearly half (47.8%) of total intra-OIC exports, while this ratio reached as high as 76.5% for the top 10 countries, including Egypt, Qatar, Côte d'Ivoire, Kazakhstan, and Nigeria.

Figure 2.24: Major OIC Countries in Intra-OIC Merchandise Trade, 2023

Source: SESRIC staff compilation based on data from IMF, Direction of Trade Statistics (DOTS), as of 28 June 2024.
*Syria's membership to the OIC is currently suspended.

Among these ten countries, Egypt's exports to OIC countries made up 46.4% of its total exports, while Malaysia had a low intra-OIC exports share of 9.9% (*Figure 2.24.A*).

In comparison, some countries with relatively lower values of intra-OIC exports directed a much higher share of their exports to OIC countries. Indeed, as of 2023, intra-OIC exports accounted for as high as 99.5% of The Gambia's total exports, although the value was less than US$ 3 billion. Similarly, in five countries with less than US$ 1 billion of intra-OIC exports (Somalia, Yemen, Benin, Niger, and Tajikistan), this share ranged between 59% and 89% (*Figure 2.24.B*).

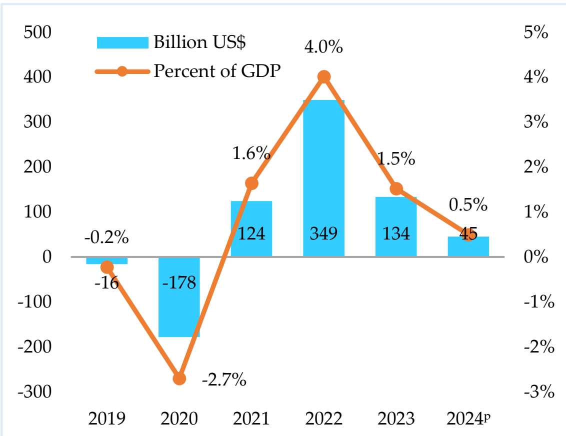
Regarding intra-OIC imports, the United Arab Emirates was the largest importer from OIC countries in 2023. Its total imports from other member countries amounted to US$ 80.7 billion, accounting for 17.0% of the total intra-OIC imports. It was followed by Türkiye (US$ 44.8 billion, 9.5%), Saudi Arabia (US$ 38.6 billion, 8.2%), Malaysia (US$ 36.4 billion, 7.7%), and Indonesia (US$ 31.3 billion, 6.6%). These top five importers accounted for 48.9% of the total intra-OIC imports in 2023, while top 10 importers accounted for 69.9%, including Iran, Pakistan, Iraq, Egypt, and Bangladesh. Among these ten countries, Iran's imports from OIC countries accounted for almost half (49.2%) of its total imports, while the share of intra-OIC imports share was around 13-14% in Türkiye, Malaysia, and Indonesia (*Figure 2.24.C*). Iran's intra-OIC imports share was the 10th highest, with the Mali having the highest share of 65.0%. It was followed by Oman (60.8%), Comoros (59.3%), Afghanistan (58.8%), Guinea-Bissau (52.1%), Yemen (52.1%), and The Gambia (50.3%), all receiving at least half of their merchandise imports from the OIC countries (*Figure 2.24.D*).

CURRENT ACCOUNT BALANCE

Surplus narrows to 1.5% of GDP in 2023

The OIC countries collectively recorded a current account surplus of US$ 134 billion in 2023, compared to US$ 349 billion in the previous year (*Figure 2.25*). In parallel, the surplus as a percentage of GDP decreased from 4.0% in 2022 to 1.5% in 2023. Despite a services trade deficit (US$ -33 billion) in 2023, as illustrated in *Figure 2.22*, the surplus in merchandise trade (US$ 91 billion in 2023) significantly contributed to the resulting current account surplus. Additionally, other components of the current account, such as compensation of employees, investment incomes, and personal remittances, also made significant

Figure 2.25: Aggregate Current Account Balance of OIC Countries

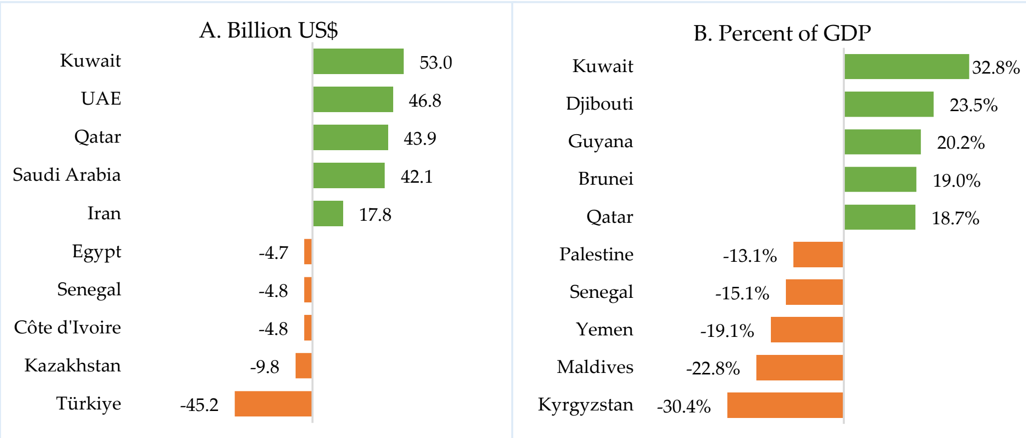


Source: IMF, World Economic Outlook, April 2024. Note: Data exclude Afghanistan, Lebanon, Palestine, and Syria.

contributions. Looking ahead, IMF projections signal a further reduction in the surplus to US$ 45 billion or 0.5% of GDP in 2024.

Among the OIC countries, Kuwait registered the largest current account surplus in nominal terms in 2023, amounting to US$ 53.0 billion, followed by the United Arab Emirates (US$ 46.8 billion), Qatar (US$ 43.9 billion), Saudi Arabia (US$ 42.1 billion), and Iran (US$ 17.8 billion). On the other hand, Türkiye recorded the largest current account deficit, amounting to US$ 45.2 billion, followed by Kazakhstan (US$ 9.8 billion), Côte d'Ivoire (US$ 4.8 billion), Senegal (US$ 4.8 billion), and Egypt (US$ 4.7 billion) (*Figure 2.26.A*). As a percentage of GDP, the surplus reached as high as 32.8% in Kuwait, followed by Djibouti (23.5%), Guyana (20.2%), Brunei Darussalam (19.0%), and Qatar (18.7%). At the other side of the spectrum, the current account deficit was as high as 30.4% of GDP in Kyrgyzstan, 22.8% in Maldives, 19.1% in Yemen, 15.1% in Senegal, and 13.1% in Palestine (*Figure 2.26.B*), while it was also above 10% in three other OIC countries: Niger, Mauritania, and Mozambique.

Figure 2.26: OIC Countries with the Largest Current Account Surpluses/Deficits, 2023



Source: IMF, World Economic Outlook, April 2024. Note: Excluding Afghanistan, Lebanon, and Syria.

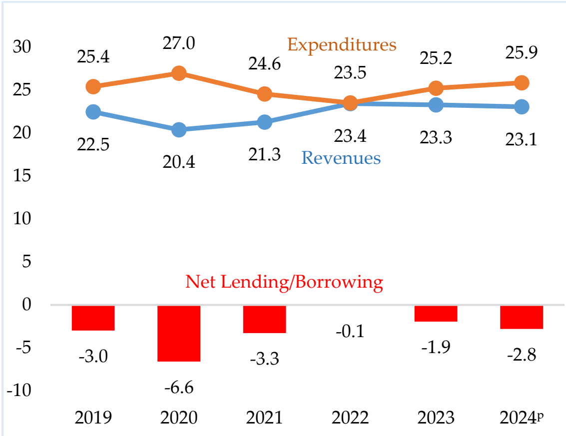
FISCAL BALANCE

Government deficits rise to 1.9% of GDP in 2023 after historic low in 2022

Government deficits in OIC countries expanded again in 2023, averaging 1.9% of GDP, after falling from the historically high level of 6.6% in 2020 to 0.1% in 2022. This expansion was mainly due to an increase in expenditures and a slight decrease in revenues as a percentage of GDP. Indeed, expenditures rose from 23.5% of GDP in 2022 to 25.2% in 2023, while revenues fell by 0.1 percentage points to 23.3% of GDP during the same period. Projections for 2024 indicate a continuation of this trend, with expenditures rising to 25.9% of GDP, revenues falling to 23.1% of GDP, and deficits further expanding to 2.8% of GDP (*Figure* 2.27).

These figures highlights the challenges facing OIC countries in balancing their budgets amidst fluctuating economic conditions. The reversal of the deficit reduction trend after 2022 underscores the importance of strategic fiscal policies to manage expenditures and enhance revenue streams. Policymakers must promptly address these issues to prevent further fiscal imbalances and ensure sustainable economic growth.

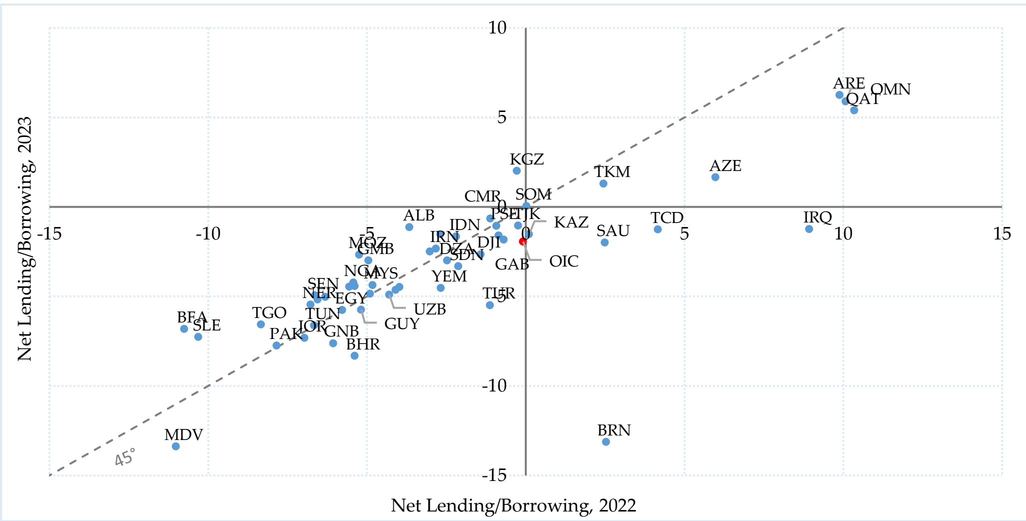
Figure 2.27: Government Fiscal Balance in the OIC (% of GDP)



Source: IMF, World Economic Outlook, April 2024. Note: Data exclude Syria for the entire period under consideration, Afghanistan and Lebanon for 2023-2024, and Palestine for 2024.

Figure 2.28 shows that 23 of the 54 OIC countries with available data witnessed an improvement in their fiscal balance as a percentage of GDP in 2023 compared to the previous year. Notably, Burkina Faso (from -10.7% to -6.8%), Sierra Leone (from -10.30% to -7.3%), Albania (from -3.7% to -1.1%), Mozambique (from -5.2% to -2.7%), and Kyrgyzstan (from -0.3% to +2.0%) experienced positive changes. Conversely, significant deteriorations were observed in Brunei Darussalam (from +2.5% to -13.1%), Libya (from +23.6% to +8.5%), Iraq (from +8.9% to -1.3%), Chad (from +4.2% to -1.3%), and Qatar (from +10.4% to +5.4%). Moreover, while thirteen countries recorded a surplus in 2022, this number decreased to nine in 2023, led by Kuwait (29.4%) and followed by Libya (8.5%), the United Arab Emirates (6.3%), Oman (5.9%), and Qatar (5.4%). On the other hand, Maldives had the largest fiscal deficit as a percentage of GDP in 2023, reaching 13.4%, followed by Brunei Darussalam (13.1%), Bahrain (8.3%), Pakistan (7.8%), and Guinea-Bissau (7.6%).

Figure 2.28: Government Fiscal Balance in OIC Countries: 2022 vs. 2023 (% of GDP)



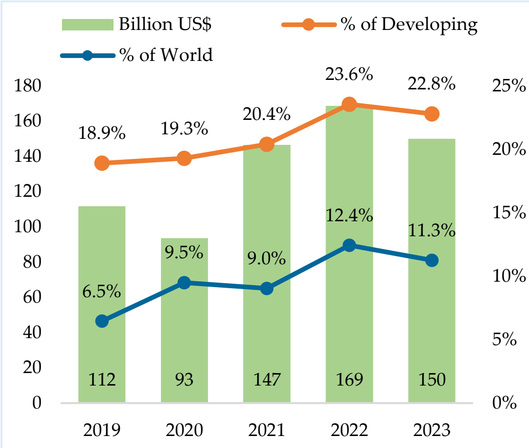
Source: IMF, World Economic Outlook, April 2024. Note: See Annex A for the country codes. Excluding Afghanistan, Lebanon, and Syria due to unavailable data. Data for Kuwait and Libya are not shown due to their large values. The respective data in 2022 and 2023 are 30.6% and 29.4% for Kuwait, and 23.6% and 8.5% for Libya.

INTERNATIONAL FINANCE

FDI inflows weaken in 2023, though the outlook for greenfield investments is promising

Annual net FDI inflows to the OIC countries amounted to US$ 150 billion in 2023, down 11.1% from the historically high level of US$ 169 billion in the previous year. While FDI flows declined worldwide (-1.8%) and in developing countries (-8.1%) (see *Figure 1.11* above), the higher decline in flows to the OIC countries resulted in a decrease in their share in global flows as well as in flows to developing countries in 2023. The share of OIC countries in global FDI inflows declined from a three-decade high of 12.4% in 2022 to 11.3% in 2023. Similarly, their share in flows to developing countries was measured at 22.8% in 2023, down from 23.6% in 2022, the highest level observed since 2009 (*Figure 2.29*).

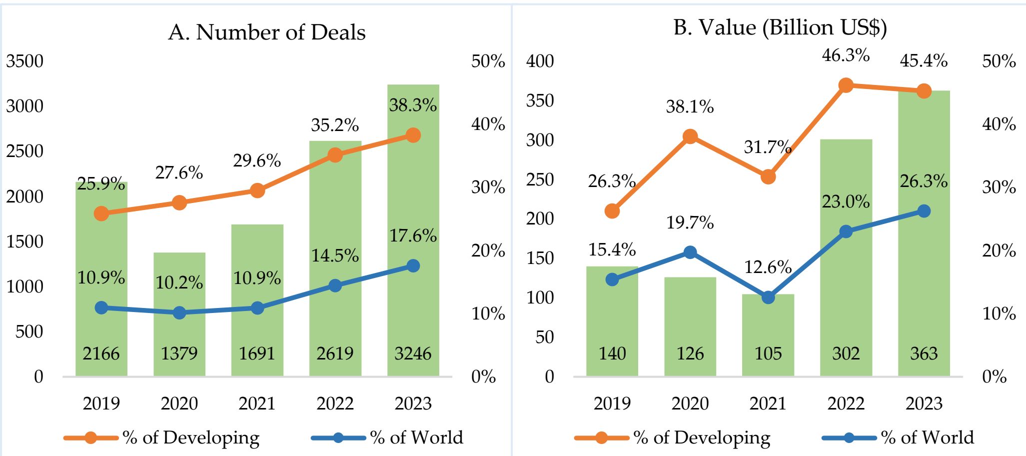
Figure 2.29: FDI Inflows to OIC Countries



Source: SESRIC staff calculation based on data from UNCTAD, World Investment Report 2024, Annex Tables.

Greenfield investments[4] are of particular importance to developing countries due to the greater growth and employment opportunities they have to offer. The value of announced greenfield FDI projects further increased globally by 5.4% to US$ 1.38 trillion in 2023, following a remarkable growth of 57.8% to US$ 1.3 billion in 2022. The increase in 2023 originated from the increase in investments going to developing countries (+22.9%), as investments destined for developed countries decreased (-11.8%) that year. The OIC countries witnessed a substantial improvement

Figure 2.30: Announced Greenfield Investment Projects Destined to OIC Countries

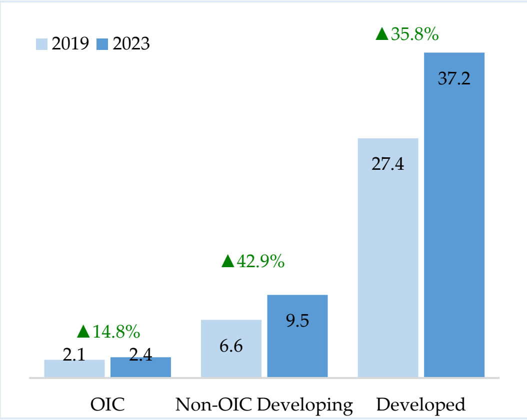


Source: SESRIC staff calculation based on data from UNCTAD, World Investment Report 2024, Annex Tables.

both in value and in the number of announced greenfield FDI projects (*Figure 2.30*). The number of projects increased by a quarter (23.9%) to 3,246 while the value of the projects rose by a fifth (20.5%) to US$ 363 billion – the highest level in the past two decades. Accordingly, in terms of the number of projects, the OIC countries accounted for 17.6% of the world total in 2023, compared with 14.5% in 2022, while their share in the total for developing countries increased from 35.2% to 38.3% over the same period. In terms of the value of projects, their share in the world total increased from 14.5% in 2022 to as high as 26.3% in 2023, while their share in the total for developing countries slightly decreased from 46.3% to 45.4% over the same period.

The upward trend in the share of OIC countries implies a growing recognition of the potential and opportunities within these markets among international investors. This increase highlights the enhanced attractiveness of OIC countries as destinations for greenfield FDI, driven by factors such as favourable economic reforms, improved business environments, and strategic initiatives aimed at fostering foreign investment. The significant rise in both the number and value of projects underscores the importance of these countries in the global investment landscape, signalling their evolving role as key players in driving regional and global economic growth.

Figure 2.31: Inward FDI Stock (US$, trillion)

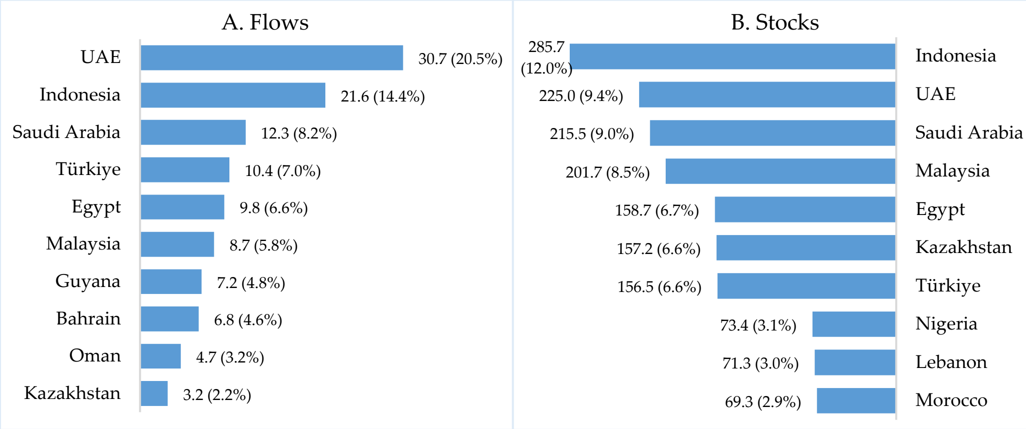


Source: SESRIC staff calculation based on data from UNCTAD, World Investment Report 2024, Annex Tables.

With the developments above, global inward FDI stock reached US$ 49.1 trillion in 2023, up 35.9% from the level in 2019. Over the same 5-year period, FDI stocks increased by 14.8% to US$ 2.4 trillion in the OIC countries while they increased by 42.9% in non-OIC developing countries and by 35.8% in developed countries (*Figure 2.31*). Thus, the OIC countries hosted a slightly lower share of the global inward FDI stocks in 2023 (4.9%) than in 2019 (5.7%). The bulk of global stocks continued to be hosted by developed countries, which had a share of 75.8% as of 2023.

As is the case with other major macroeconomic aggregates, inward FDI flows and stocks, too, exhibited a high level of concentration among the OIC countries, with the bulk of the flows persistently directed to only a few of them. Inflows to only four countries – the United Arab Emirates (US$ 30.7 billion), Indonesia (US$ 21.6 billion), Saudi Arabia (US$ 12.3 billion), and Türkiye (US$ 10.4 billion) – accounted for half (50.1%) of total inflows to all OIC countries in 2023. This ratio reached as high as 77.1% for the top ten countries (*Figure 2.32.A*). In the case of inward FDI stocks, the top five countries, as of 2023, hosted 45.6% of the OIC total while the top ten countries accounted for a share of 67.7% (*Figure 2.32.B*). With US$ 286 billion of inward FDI stocks (12.0% of the OIC total), Indonesia ranked first among the OIC countries. It was followed by the United Arab Emirates (US$ 225 billion, 9.4%), Saudi Arabia (US$ 216 billion, 9.0%), Malaysia (US$ 202 billion, 8.5%), and Egypt (US$ 159 billion, 6.7%).

Figure 2.32: OIC Countries with the Largest Inward FDI, 2023 (US$, billion)



Source: UNCTAD, World Investment Report 2024, Annex Tables. Note: The numbers in brackets indicate the share of the respective country in OIC total.

Soaring short-term debt drives up external debt stock

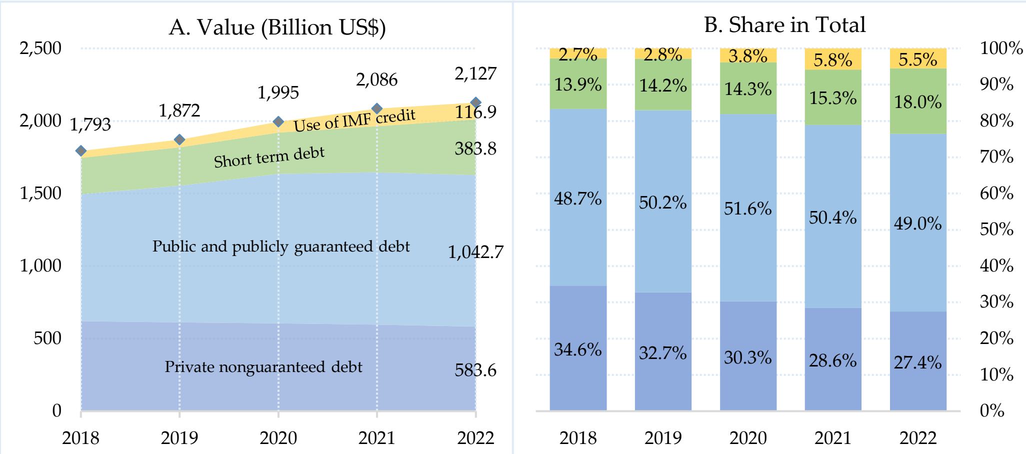
The total external debt stock of the OIC countries increased by US$ 41 billion or 2.0% to US$ 2,127 billion in 2022 from US$ 2,086 billion in 2021. This increase resulted from a sharp rise in short term debt, while the other components of the total debt stock decreased in 2022. Short-term debt reached US$ 384 billion in 2022, with an increase of US$ 65 billion or 20.5% from the previous year, and thus, its share in the total external debt stock increased from 15.3% to 18.0% over this period (*Figure 2.33*).

Public and publicly guaranteed debt decreased by US$ 7.7 billion or 0.7% to US$ 1,043 billion in 2022 but continued to be the largest component of the total external debt stock. However, its share decreased to 49.0% in 2022 from 50.4% in 2021. Private nonguaranteed debt continued to decrease over the five-year period from 2018 to 2022. In 2022, it fell by US$ 12.2 billion or 2.0% from the previous year and amounted to US$ 583.6 billion. Thus, as the second largest component of the total external debt stock, it had a share of 27.4% in 2022, down from 34.6% in 2018. Overall, long-term debt stock, comprising public, publicly guaranteed, and private nonguaranteed debt, amounted to US$ 1,626 billion in 2022, down US$ 19.9 billion or 1.2% from the previous year, and accounted for 76.5% of the total external debt stock, compared to 78.9% in 2021.

The Use of IMF credit decreased by US$ 4.4 billion or 3.6% to US$ 116.9 billion, and it continued to be the smallest component of the total external debt stock of the OIC countries. This type of debt made up 5.5% of the total external debt stock in 2022, down from 5.8% in the previous year.

Consequently, the external debt landscape of the OIC countries in 2022 reveals a growing reliance on short-term debt, which significantly shaped the overall increase in the total external debt stock. The surge in short-term debt reflects an urgent need for immediate financing solutions. This shift within the composition of the debt profile is concerning as it increases vulnerability to refinancing risks and global financial volatility. Conversely, long-term debt experienced a modest decline, signalling a cautious approach towards sustained borrowing. The reliance on short-term debt

Figure 2.33: Total External Debt Stock of OIC Countries by Component



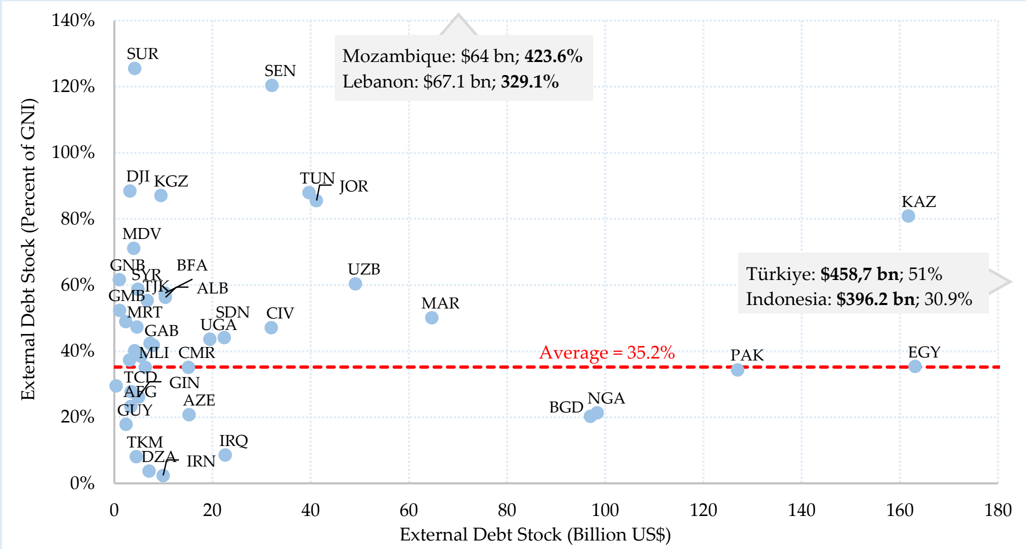
Source: SESRIC staff compilation based on data from World Bank, World Development Indicators. Data Coverage: 47 OIC countries (excluding Bahrain, Brunei Darussalam, Kuwait, Libya, Malaysia, Oman, Palestine, Qatar, Saudi Arabia, and the United Arab Emirates).

highlights the importance of developing more robust financial strategies to ensure economic stability and mitigate the risks associated with such debt structures.

At the country level, the total external debt stock increased in nominal terms over 2021/2022 in 21 out of 47 OIC countries with available debt data, with the largest increase recorded in Türkiye (by US$ 21.2 billion). Egypt and Uzbekistan followed with an increase of US$ 17.1 billion and US$ 8.3 billion, respectively. On the other hand, with a debt stock decreasing by US 15 billion, Indonesia stood out among the countries that recorded a decrease in their debt stock over the same period. It was followed by Pakistan and Iraq with a decrease of US$ 3.9 billion and US$ 2.8 billion, respectively. As of 2022, Türkiye remained the most indebted OIC country in nominal terms with a total external debt stock value of US$ 458.7 billion, accounting for 21.6% of the total external debt stock of the OIC countries for which data were available. Türkiye was followed by Indonesia (US$ 396.2 billion), Egypt (US$ 163.1 billion), Kazakhstan (US$ 161.7 billion), and Pakistan (US$ 126.9 billion) (*Figure 2.34*). Türkiye and Indonesia together accounted for two-fifths (40.2%) of the total external debt stock of OIC countries in 2022, while this ratio reached 61.4% for the most indebted five countries.

In terms of the debt burden in relation to a country's economic size, however, Mozambique was by far the most indebted OIC country in 2022, with its external debt stock more than quadruple its gross national income (GNI). To be more precise, it had a debt-to-GNI ratio of 423.6%. It was followed by Lebanon (329.1%), Suriname (125.6%), and Senegal (120.4%). This ratio was in a range of 80-90% in several OIC countries including Djibouti, Tunisia, Kyrgyzstan, Jordan, and Kazakhstan. Conversely, the lowest indebtedness ratios were recorded in Iran (2.4%), Algeria (3.7%), Turkmenistan (8.1%), and Iraq (8.6%) (*Figure 2.34*). Overall, the debt-to-GNI ratio averaged at 35.2% for the OIC countries in 2022, decreasing 3.3 percentage points from the previous year's average of 38.5%. While 33 out of 45 countries with available data recorded a decrease, Suriname recorded the largest one, 28.4 percentage points, followed by Sudan (25.7), Kyrgyzstan (17.9), Maldives (14.8), and Kazakhstan (12.1). On the other hand, Lebanon recorded the largest increase

Figure 2.34: Indebtedness of OIC Countries, 2022



Source: SESRIC staff compilation based on data from World Bank, World Development Indicators. Note: See Annex A for the country codes. Data coverage: 46 OIC countries (excluding Yemen due to unavailable GNI data as well as the 10 countries excluded from Figure 2.33). Debt-to-GNI ratio for Syria is for the year 2021.

in the ratio, 19.7 percentage points, followed by Senegal (14.1), Niger (5.8), Côte d'Ivoire (4.1), and Benin (3.6).

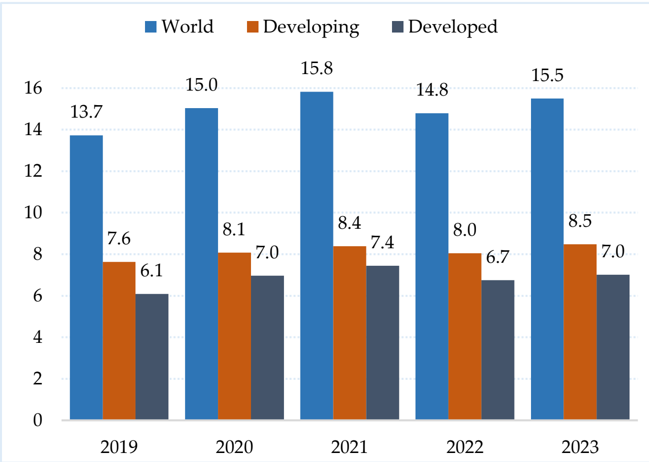
Overall, in 2022, the OIC region witnessed both significant increases and notable declines in external debt across various nations. Türkiye and Indonesia emerged as the most indebted nations in nominal terms, while Mozambique and Lebanon faced the highest debt burdens relative to their economic sizes. The variation in debt trends among the OIC countries highlights the diverse economic challenges and financial strategies adopted by these nations. Moving forward, it is crucial for the OIC countries to balance debt management with sustainable economic growth to mitigate potential risks associated with high indebtedness and ensure future resilience.

Reserves up 5.8%, with improved landscape of reserve adequacy

International reserves are crucial for maintaining economic and financial stability and resilience in the face of global financial shocks. Adequate reserves allow countries to manage currency volatility, settle international debts, and provide a buffer against external crises. After falling by 6.5% to US$ 14.8 trillion in 2022, total international reserves[5] worldwide rebounded to US$ 15.5 trillion in 2023, marking an increase of US$ 705 billion or 4.8% from the previous year (*Figure 2.35*). However, they remained below their peak level of US$ 15.8 trillion in 2021. Therefore, the ability to withstand potential shocks and maintain financial stability somewhat improved globally in 2023.

Nearly two-thirds (62%) of the increase in global reserves in 2023 originated from developing countries, where reserves grew by US$ 440 billion, or 5.5%, to US$ 8.5 trillion. In developed countries, reserves increased by US$ 265 billion, or 3.9%, to US$ 7.0 trillion. Consequently, developed countries reduced their share in global reserves from 45.6% in 2022 to 45.3% in 2023, while developing countries continued to hold the majority (54.7%). For countries that have not yet reached sufficient reserve levels and are still encountering challenges in bolstering their financial positions, it is crucial to continue pursuing prudent risk management practices and implementing regulatory reforms to further enhance their reserve adequacy levels.

Figure 2.35: Total Reserves Including Gold (US$, trillion)

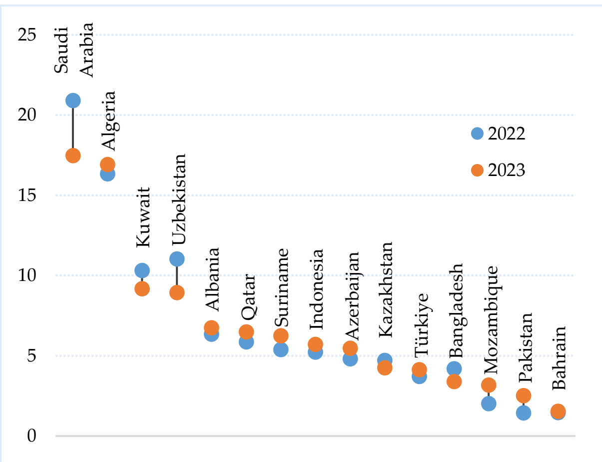


Source: IMF, International Financial Statistics.

In the OIC countries, the 2023 data available for a set of 32 countries representing 84% of total OIC GDP show an increase in reserves by 5.8% to US$ 1.68 trillion in 2023. Among the 22 countries that experienced a rise in their reserves in 2023, the United Arab Emirates lead with an increase of US$ 51.1 billion, followed by Türkiye (US$ 17.1 billion), Iraq (US$ 15.2 billion), Algeria (US$ 9.4 billion), and Indonesia (US$ 9.1 billion). The most significant proportional increases were seen in the reserves of Palestine (47.5%), Pakistan (38.3%), the United Arab Emirates (36.9%), Albania (22.6%), and Azerbaijan (21.3%). Among the countries with decreasing reserves in 2023, Saudi Arabia recorded the largest decrease, US$ 20.3 billion, followed by Bangladesh with US$ 11.9 billion, the largest proportional decrease (35.2%). Maldives (29.0%), Sierra Leone (20.6%), Djibouti (14.8%), and Brunei Darussalam (11.0%) also experienced double-digit declines in their total reserves. As of 2023, Saudi Arabia held the largest international reserves amounting to US$ 457.9 billion, followed by the United Arab Emirates (US$ 189.5 billion), Indonesia (US$ 146.4 billion), Türkiye (US$ 140.9 billion), and Malaysia (US$ 113.5 billion).

While the majority of OIC countries improved their reserves in 2023, the reserves in terms of 'months of imports'[6] also improved in most of them, as shown in *Figure 2.36* for the 15 countries with available data. The reasons behind the improvements and deteriorations in reserve adequacy varied across countries. For countries registering an improvement, it was either a higher increase in reserves than in imports (Albania, Algeria, Azerbaijan, Bahrain, and Türkiye) or an increase in reserves *vis-a-vis* a decline in

Figure 2.36: Total Reserves in Months of Imports



Source: World Bank, World Development Indicators.

imports (Indonesia, Mozambique, Pakistan, Qatar, and Suriname). For countries with a deterioration, it was either a higher decline in reserves than in imports (Bangladesh), a higher increase in imports than in reserves (Kazakhstan and Kuwait), or a decline in reserves *vis-a-vis* an increase in imports (Saudi Arabia). Overall, Saudi Arabia, with reserves equivalent to 17.5 months of imports, had the highest reserve adequacy in 2023. Algeria followed with enough reserves to cover 16.9 months of imports. Additionally, Kuwait (9.2) and Uzbekistan (8.9) had ratios close to the global average of 9.4 months.

In summary, the status of international reserves in OIC countries showcased significant improvement in 2023. This improvement underscores the resilience and proactive economic strategies adopted by many OIC members to strengthen their financial stability. Countries like the United Arab Emirates, Türkiye, and Iraq made notable contributions to this upward trend, while others, such as Saudi Arabia and Bangladesh, faced challenges resulting in declines in their reserves. Despite these differences, the collective effort to enhance reserve adequacy indicates a positive trajectory for the economic resilience of the OIC region. Continuous efforts and the implementation of prudent economic and financial policies will be crucial for OIC countries to maintain and further strengthen their financial positions amidst global economic uncertainties.

Net ODA received falls 12.3% to US$ 69.3 billion in 2022

Provided to promote economic development and welfare in recipient countries and territories, Official Development Assistance (ODA) continues to be an important source of financing for many developing countries, including the OIC countries. According to the OECD, while it is not the sole resource available for low- or middle-income countries, and providers are not always meeting their international commitments – such as the UN target of providing 0.7% of GNI as ODA – ODA is a stable and predictable source of external funding for sustainable development (OECD, 2024b).

The latest available data show that net ODA flows received by the developing world reached US$ 245.9 billion in 2022, its highest level ever, with a remarkable increase of US$ 41.6 billion, or 20.4%, from the previous year (*Figure 2.37*). The flows that were reported at the individual country level increased by 11.7% and amounted to US$ 151.3 billion in 2022, accounting for 61.6% of the total ODA flows. However, ODA flows to the OIC countries decreased by 12.3% to US$ 69.3 billion in 2022, compared to US$ 79.0 billion in 2021. Flows to non-OIC developing countries, on the other hand, increased by 45.2% to US$ 82.0 billion in 2022.[7] Accordingly, the OIC countries had a lower share of the total ODA flows to individual developing countries in 2022 (45.8%) as compared to the previous year (58.3%).[8]

While disbursements to 26 out of 50 OIC countries receiving ODA decreased in 2022, the largest decreases were recorded for Syria (by US$ 2.51 billion), Sudan (US$ 2.28 billion), and Egypt (US$ 2.12 billion). The distribution of ODA among the OIC countries reveals significant disparities. As of 2022, the largest five recipients accounted for 38.3% of total ODA flows to the OIC countries, while this ratio reached as high as 56.5% for the largest ten recipients. Syria, with total inflows of US$ 7.2 billion that made up 10.4% of the OIC total, ranked first among the OIC countries and the second among all developing countries (after Ukraine). It was followed by Egypt (US$ 5.8 billion, 8.4%), Bangladesh (US$ 5.2 billion, 7.5%), Nigeria (US$ 4.4 billion, 6.4%), and

Figure 2.37: Net ODA Received (US$, billion)

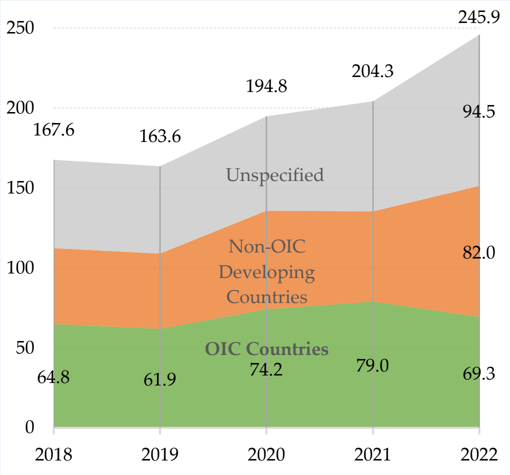
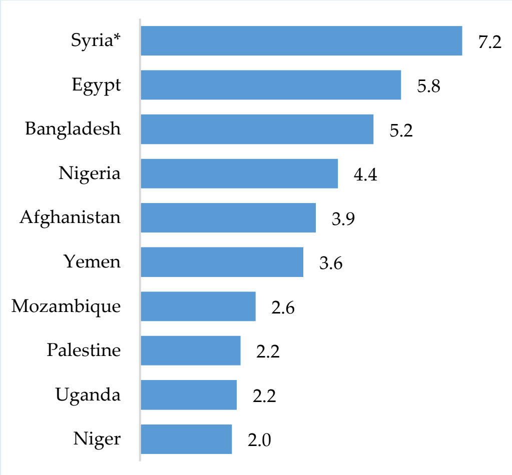


Figure 2.38: Top ODA Recipient OIC Countries, 2022 (US$, billion)



Source: OECD Stat. Note: Net total ODA disbursements from official donors at current prices. Data coverage: 50 OIC countries (excluding Bahrain, Brunei Darussalam, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) and 93 non-OIC developing countries. For the period under consideration, about one-third of the annual total ODA value is reported as "unspecified", not at the country level. (*) Membership to the OIC is currently suspended.

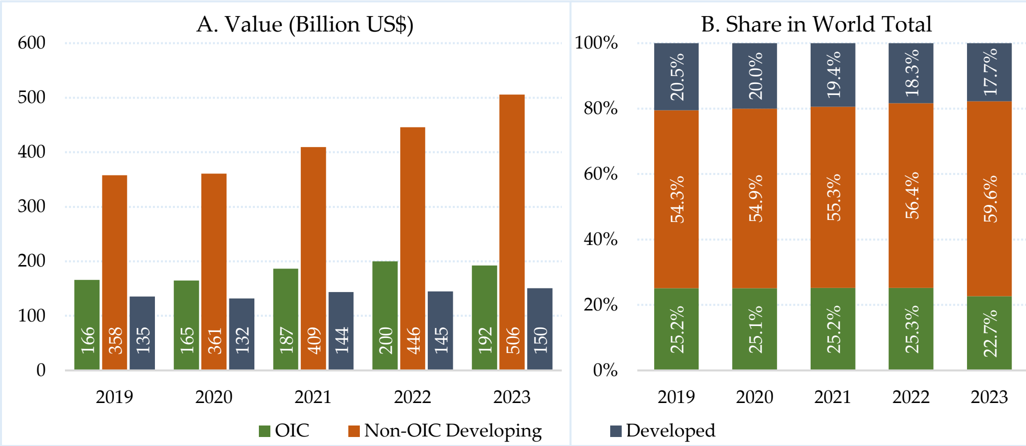
Afghanistan (US$ 3.9 billion, 5.6%) (*Figure 2.38*), reflecting the urgent needs and strategic priorities within these nations.

The engagement of the OIC countries with ODA remains crucial in addressing their unique developmental challenges. Despite the overall decrease in ODA flows to the OIC countries in 2023, targeted efforts towards enhancing socio-economic stability and resilience are essential. To foster more inclusive growth, it is imperative that ODA allocations are strategically aligned with the specific needs of the poorest and most vulnerable populations within the OIC countries. This involves not only increasing the volume of aid but also improving its effectiveness through better targeting and implementation practices (OECD, 2024b). Enhanced cooperation between the OIC member states and international donors can help optimize resource utilisation and promote sustainable development outcomes. As the global community strives to meet the SDGs, a renewed commitment to supporting the OIC countries through well-coordinated ODA initiatives will be vital in ensuring no country is left behind in the journey towards sustainable development.

Personal remittance inflows decrease 3.8% to US$ 192 billion

Despite the COVID-19 pandemic, remittance flows remained resilient in 2020 across the world and significantly improved afterwards. At the global level, officially recorded remittance flows reached US$ 849 billion in 2023, up 7.3% from US$ 791 billion in the previous year. Inflows to the OIC countries, however, decreased by 3.8% or US$ 7.5 billion to US$ 192 billion, while inflows to non-OIC developing countries amounted to US$ 506 billion with an increase of 13.4%. Developed countries, on the other hand, recorded a smaller rate of growth in remittance inflows. Increasing by 3.8% from 2022, these flows reached US$ 150 billion in 2023 (*Figure 2.39.A*). Accordingly, the

Figure 2.39: Personal Remittances Received (US$, billion)



Source: SESRIC staff compilation based on data from World Bank, World Development Indicators. Note: Data on the group OIC countries exclude Bahrain, Chad, Iran, Libya, Syria, Turkmenistan, and the United Arab Emirates.

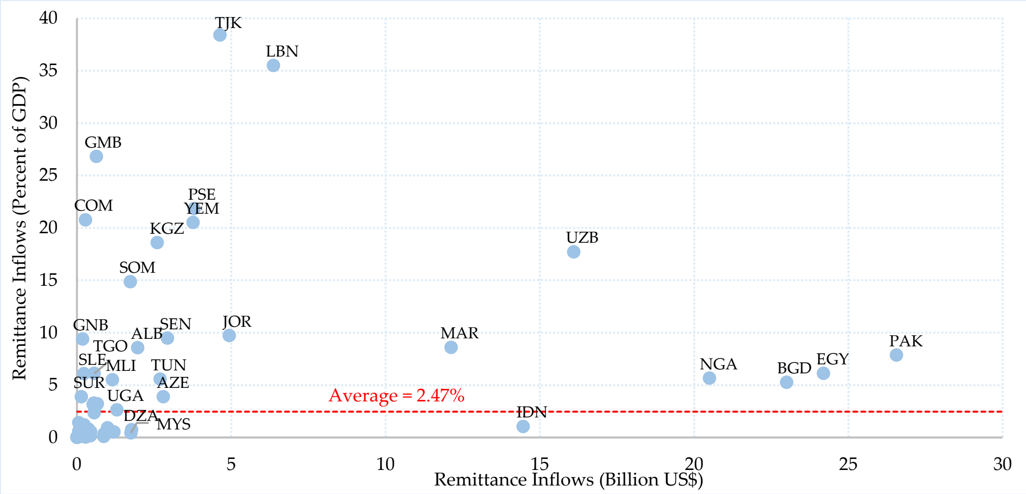
share of the OIC countries in the world total remittance flows decreased to 22.7% in 2023, while it was sustained slightly above 25% over the preceding four years (*Figure 2.39.B*).

In 2023, half of the 50 OIC countries for which data are available experienced a decrease in remittance inflows from the previous year. Egypt (US$ 4.1 billion), Pakistan (US$ 3.6 billion), Azerbaijan (US$ 1.2 billion), Tajikistan (US$ 712 million), and Uzbekistan (US$ 636 million) experienced the largest decreases while Bangladesh (US$ 1.5 billion), Indonesia (US$ 1.4 billion), Morocco (US$ 962 million), Mozambique (US$ 418 million), and Nigeria (US$ 372 million) reported the largest increases.

As of 2023, a significant proportion of remittance flows to the OIC countries was still concentrated in a few members. Flows to Pakistan, despite a decrease of 12% from the previous year to US$ 26.6 billion, were the largest among the OIC countries, accounting for 13.8% of the OIC total. It was followed by Egypt (US$ 24.2 billion), Bangladesh (US$ 23.0 billion), Nigeria (US$ 20.5 billion), and Uzbekistan (US$ 16.1 billion). These five countries together accounted for 57.4% of total remittances received by the OIC countries in 2023, while this ratio reached as high as 79.5% for the largest ten recipients. Nevertheless, in four of the top five countries, the share of remittance inflows in GDP was less than 10% and much lower than in many other member countries with a smaller amount of inflows. The top recipients in terms of the share of remittances in GDP in 2023 included Tajikistan (38.4%), Lebanon (35.5%), The Gambia (26.8%), Palestine (21.8%), Comoros (20.8%), and Yemen (20.5%). On average, remittance inflows accounted for 2.47% of GDP in the recipient OIC countries in 2023 (*Figure 2.40*).

Overall, the remittance landscape in 2023 presented a mixed picture for the OIC countries. While global remittance flows saw a robust increase, the OIC countries experienced a decline, which could be traced to several factors, mostly pertaining to the host countries. Despite the decrease, countries like Pakistan, Egypt, and Bangladesh remained major recipients, while for some others like Tajikistan, Lebanon, and The Gambia, remittances constituted a significant share of GDP, highlighting the critical role of remittances in their economies. As these countries navigate the

Figure 2.40: Personal Remittance Inflows to OIC Countries, 2023



Source: SESRIC staff compilation based on data from World Bank, World Development Indicators. Note: See Annex A for the country codes. Data coverage: 49 OIC countries (excluding Afghanistan due to unavailable GDP data as well as the 7 countries excluded from Figure 2.39).

complexities of global economic recovery in the post-pandemic era, ensuring the stability and growth of remittance inflows will be crucial for economic resilience and development. The observed trends underscore the importance of strategic policies and international cooperation to enhance the efficiency and impact of remittance flows, thereby fostering sustainable economic growth and development in the OIC region.

SPECIAL COVERAGE

SUPPORTING PRIVATE SECTOR AND SME DEVELOPMENT IN OIC COUNTRIES

CHAPTER THREE

Private Sector Development in OIC Countries

A robust and dynamic private sector can drive sustainable economic growth, generate employment, and improve living standards. However, the contributions that private firms can make to the economy are significantly determined by the underlying investment climate, which shapes the opportunities and incentives for firms to invest productively, expand, and create jobs. In this connection, this chapter focuses on the private sector development in the OIC countries from a broader perspective, starting with its definition and importance for economic development. By utilizing World Bank survey data, it assesses different aspects of the enabling environment for private sector development, including regulatory frameworks, access to finance, and infrastructure, among others. Key challenges such as political stability, governance issues, and labour market constraints are examined for firms in OIC countries. Finally, alternative policies for private sector development, including improving access to finance, investing in physical infrastructure and simplifying business regulations, are discussed.

3.1 The Role of Private Sector in Development

The private sector is a cornerstone of economic development, acting as a primary driver of growth and innovation. It mobilizes resources and fosters competition, leading to enhanced productivity and economic diversification. Through its dynamic nature, the private sector facilitates the emergence of new industries and services, which bolster the overall resilience and adaptability of an economy (UNIDO, 2008). Understanding the importance of the private sector is, therefore, essential to create an environment conducive to business growth and sustainable development.

One of the most significant contributions of the private sector is job creation. Private enterprises generate employment opportunities across various skill levels, helping to reduce poverty and improve living standards. The jobs created by the private sector also facilitate the transfer of skills and technology, contributing to a more capable and adaptable workforce (ILO, 2023). Innovation and technological advancement are also driven by the private sector. Competitive markets incentivize businesses to innovate, leading to the development of new products, services, and processes. This cycle of continuous innovation not only leads to the creation of cutting-edge solutions but also attracts foreign investment, further boosting economic growth. Innovations originating from the private sector often spill over into other areas of the economy, leading to widespread technological diffusion and increased productivity across multiple industries (World Bank, 2022).

Moreover, the private sector plays a vital role in infrastructure development and service provision. Private investment in infrastructure such as transportation, energy, and telecommunications is essential for economic activity and connectivity. Public-private partnerships can leverage private sector efficiency and expertise to deliver high-quality infrastructure projects, benefitting the broader economy (ADB, 2013). Efficient transportation networks reduce costs and improve access to markets, reliable energy supplies ensure uninterrupted production processes, and advanced telecommunications enable better communication and information exchange.

The private sector also contributes to government revenues through taxes, enabling the provision of public goods and services. A thriving private sector expands the tax base, reducing the fiscal burden on individuals and allowing for more substantial public investments in education, healthcare, and social welfare. Therefore, it is critical to establish fair and transparent tax systems that encourage compliance and support business growth, ensuring a balanced approach to revenue generation and economic development.

3.2 Private Sector Development in OIC Countries

Measuring private sector development is crucial for understanding economic growth and stability, as it provides insights into business environments, investment climates, and entrepreneurial activity. Numerous initiatives have been undertaken globally to assess and benchmark these aspects. For instance, Afandi et al. (2019) introduced a composite Private Sector Development Index for OIC countries for the year 2017, which serves as an important step towards measuring private sector development more comprehensively. According to the results, the top 10 OIC countries in terms of the composite index score are: the United Arab Emirates, Malaysia, Qatar, Bahrain, Jordan, Azerbaijan, Indonesia, Morocco, Saudi Arabia, and Türkiye. However, the limited scope of this index prevents us from utilizing it in this report.

On the other hand, the World Bank Enterprise Surveys (WBES) is a robust data collection initiative that captures the business perceptions and experiences of a broad range of firms across the world. It covers various aspects such as firm characteristics, performance, the business environment, and key obstacles to growth. The surveys provide valuable insights into the regulatory landscape, access to finance, and the quality of infrastructure, allowing for a detailed examination of the enabling environment for businesses.

The WBES are nationally representative firm-level surveys with top managers and owners of businesses in over 150 economies. This comprehensive data and analytical reports enable easy comparisons across economies and time. By leveraging this extensive dataset, this chapter aims to investigate the private sector dynamics in the OIC countries in comparison with other regions. In this framework, it uses the latest data available in the last decade (2013-2023) for 131 countries, including 39 OIC, 25 developed, and 67 non-OIC developing countries. By uncovering the main challenges faced by private enterprises, the chapter seeks to provide a better understanding of the factors driving or hindering private sector growth in the OIC region. Thus, it aims to inform the readers about the critical elements influencing private sector development and to provide insights for fostering a robust, dynamic, and competitive economic environment that supports sustainable growth and development in the OIC countries.

3.2.1 Firm Characteristics

Table 3.1 provides a detailed overview of firm characteristics across OIC, developed, and non-OIC developing countries, as reported in the WBES. In terms of sectoral distribution, firms operating in the services sector lead in all groups, with a notable dominance in developed countries (54.6% in services compared to 45.4% in manufacturing). The OIC and non-OIC developing countries show a more balanced distribution of firms between manufacturing and services. Regarding the size of the firms, a predominance of small firms (<20 employees) is visible across all groups, particularly within the OIC countries where they account for over 50% of the firms. Medium-sized firms (20-99 employees) and large firms (100 and over) are less common but still significant.

Ownership structures reveal that the vast majority of firms are domestically owned (100%) across all groups, with the OIC countries having the highest number of purely domestic firms (23,775). Foreign ownership is most prominent in developed countries but remains a small percentage overall. The location of firms indicates a preference for being outside the main business city, especially in developed countries, whereas in the OIC countries, it shows a nearly even split. Legal status analysis shows that shareholding companies are most prevalent in developed countries, while sole proprietorships are dominant in the OIC countries. Partnerships and limited partnerships are less common but still notable, with the OIC countries having a higher diversity in legal statuses of firms. Overall, the survey data represents significant regional differences in firm characteristics, reflecting varying economic structures, ownership patterns, and organizational preferences.

Table 3.1: Characteristics of the Firms in the WBES

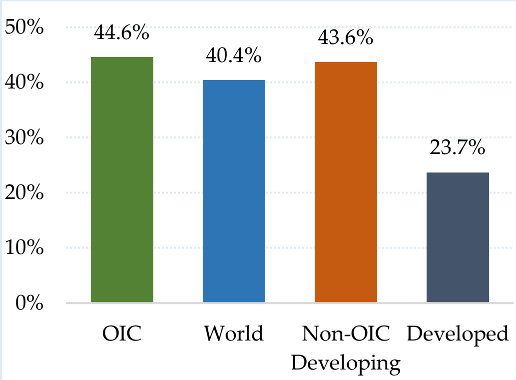
	OIC	World	Non-OIC Developing	Developed
Sectoral Distribution				
Manufacturing	15,122	43,944	21,487	7,335
Services	14,424	46,815	23,575	8,816
Firm Size				
Small (<20)	15,450	43,640	20,572	7,618
Medium (20-99)	9,448	29,858	14,626	5,784
Large (100 and over)	4,648	17,261	9,864	2,749
Ownership Structure				
Domestic (100%)	23,775	76,565	39,098	13,692
Foreign (100%)	823	4,214	2,053	1,338
Government (100%)	11	12	1	0
Mixed	4,937	9,968	3,910	1,121
Location in the Main Business City				
Yes	11,702	40,289	24,871	3,716
No	16,958	49,301	19,919	12,424
Other / DK	886	1,169	272	11
Legal Status of the Firm				
Shareholding company	10,206	38,260	16,923	11,131
Sole proprietorship	13,961	32,993	17,849	1,183
Partnership	2,662	8,266	3,998	1,606
Limited partnership	2,406	10,049	5,628	2,015
Other / DK	311	1191	664	216
Total	**29,546**	**90,759**	**45,062**	**16,151**

Source: SESRIC staff calculations based on the WBES. DK: Do not Know.

3.2.2 Infrastructure and Services

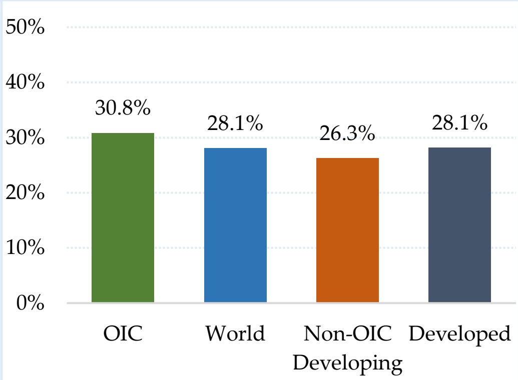
Infrastructure and services provide essential foundations for business operations, enabling efficient transportation, reliable energy supply, communication networks, and other critical services. These elements reduce costs, improve productivity, facilitate market access, and support economic growth by creating a conducive environment for business activities. The availability of well-functioning infrastructure and accessible services is vital for private sector development. Since it is beyond the scope of this report to evaluate every aspect of such services, the focus will be on access to electricity as a representative indicator.

Figure 3.1: Percentage of Firms That Experienced Power Outages over the Past Year



Source: World Bank Enterprise Surveys, June 2024.

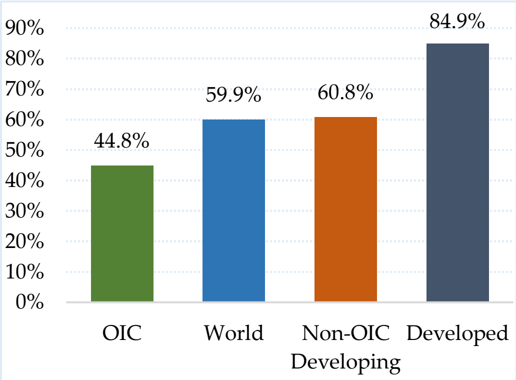
Figure 3.2: *Access to Electricity* as a Major or Very Severe Obstacle (% of firms)



Source: World Bank Enterprise Surveys, June 2024.

Figure 3.1 and *3.2* offer several critical insights into the conditions faced by firms in OIC countries compared to their global counterparts. *Figure 3.1* shows that 44.6% of firms in OIC countries experienced power outages in the last fiscal year, surpassing the global average of 40.4% and comparable to the 43.6% in non-OIC developing countries. This underscores a significant infrastructural hurdle for OIC firms, potentially affecting their operational efficiency and competitiveness. Moreover, *Figure 3.2* illustrates the percentage of firms viewing access to electricity as a major or very severe obstacle. The data reveals that 30.8% of firms in OIC countries perceive access to electricity as a significant challenge, which is notably higher than the global average of 28.1%. This heightened concern emphasizes the urgent need for infrastructure improvement in some OIC countries to enhance business operations and economic performance (see also *Table 3.A1* for country level data on starting a business).

Figure 3.3: Percentage of Firms with Own Website



Source: World Bank Enterprise Surveys, June 2024.

Besides reliable access to electricity, the internet is also essential for business operations. According to Figure 3.3, the digital presence of firms in OIC countries is significantly lower, with only 44.8% having their own website, compared to the global average of 59.9% and 60.8% in non-OIC developing countries. The disparity is even more pronounced when compared to developed countries, where 84.9% of firms have their own website. This highlights a substantial digital divide that could affect the ability of OIC firms to compete in the growing digital global market.

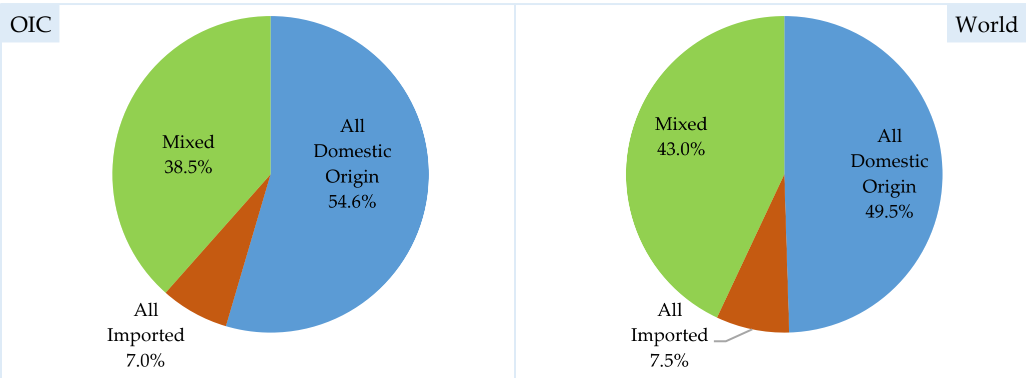
3.2.3 Sales and Supplies

Firms depend on raw and intermediate products to manufacture their final goods, which can be sourced either domestically or internationally. A higher proportion of firms sourcing these inputs from abroad suggests several implications. Firstly, it indicates that these firms are engaged in international trade, reflecting their capability to enter global markets and comply with international trade regulations. Secondly, sourcing inputs internationally exposes firms to international competition, encouraging efficiency and innovation to remain competitive. Thirdly, firms sourcing inputs globally may benefit from economies of scale and access to higher quality or specialized inputs, enhancing their productivity and product quality.

Figure 3.4 compares the origin of material inputs and supplies for firms in the OIC countries with the global average over the last fiscal year when the firms are surveyed. More than half (54.6%) of firms in the OIC countries reported that all their materials were of domestic origin, which is higher than the global average of 49.5%. A notable 38.5% of OIC firms used a mix of domestic and imported inputs, slightly lower than the global figure of 43.0%. Both OIC countries and the global average show a similar proportion of firms relying entirely on imported materials, with 7.0% in the OIC region and 7.5% globally. These insights indicate a strong reliance on domestic materials among the OIC firms, potentially reflecting either an abundant availability of local resources or challenges in accessing international supply chains. Nevertheless, improving access to inputs from a diverse range of suppliers could enhance the competitive edge of firms in the OIC countries.

However, firms commonly face various challenges when trading internationally. A standard indicator is the time to clear customs when exporting and importing goods, as shown in *Figure*

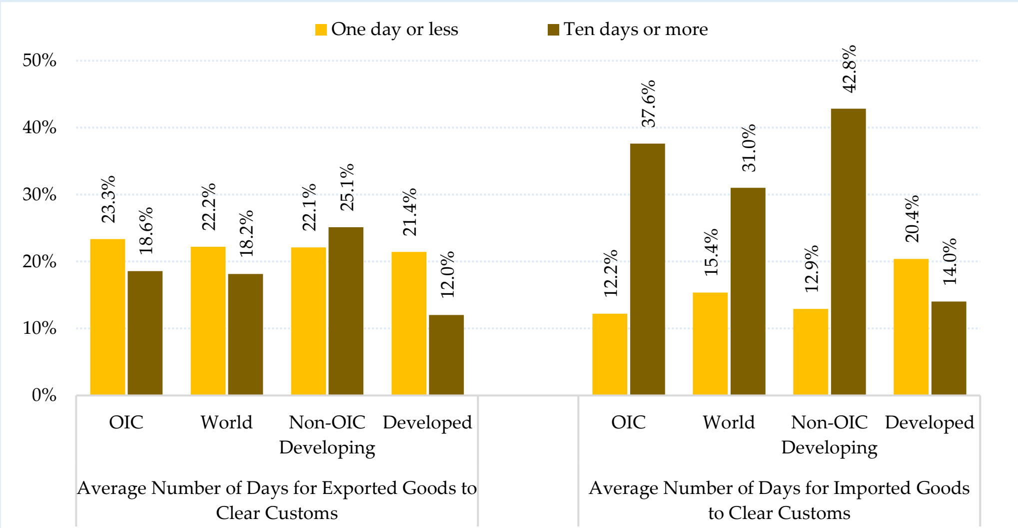
Figure 3.4: Origin of Material Inputs and Supplies in Last Fiscal Year



Source: World Bank Enterprise Surveys, June 2024.

3.5. Showing the efficiency of customs clearance procedures, 23.3% of OIC firms managed to clear customs for exported goods in one day or less, slightly higher than the global average of 22.2% and the average of non-OIC developing countries (22.1%). On the other hand, 18.6% of OIC firms experienced clearance times of ten days or more, demonstrating inefficiency. This proportion is comparable to the global average (18.2%) but significantly lower than non-OIC developing countries (25.1%) and much higher than developed countries (12.0%). This suggests that a substantial portion of OIC firms can clear customs quickly, but there is also a significant fraction still facing prolonged delays. Overall, the performance of OIC countries is better than that of non-OIC developing countries.

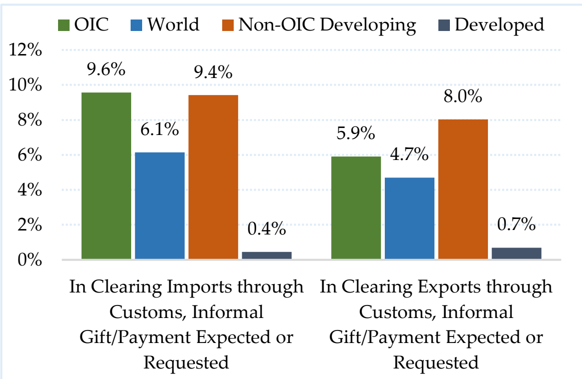
Figure 3.5: Time to Clear Customs, Last Fiscal Year (% of firms)



Source: World Bank Enterprise Surveys, June 2024

Similarly, when importing goods, 12.2% of OIC firms were able to clear customs within one day or less, which is lower than the global average of 15.4%, and comparable to non-OIC developing countries at 12.9%. Developed countries, however, perform significantly better at 20.4%. When considering the inefficient clearance practices taking ten days or more, 37.6% of OIC firms face such long delays, which is higher than the global average of 31.0% but lower than non-OIC developing countries (42.8%). Obviously, OIC firms face considerable challenges with customs clearance, particularly when

Figure 3.6: Informal Gifts at Customs (% of firms)

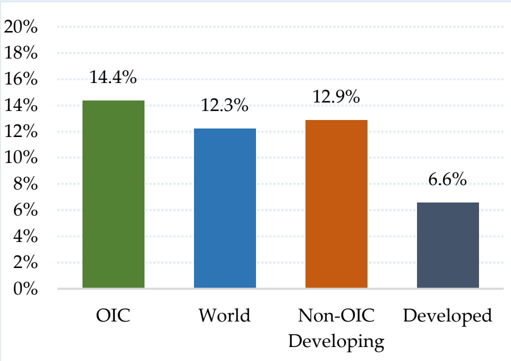


Source: World Bank Enterprise Surveys, June 2024.

importing goods, highlighting an area for potential improvement to enhance trade efficiency and business operations.

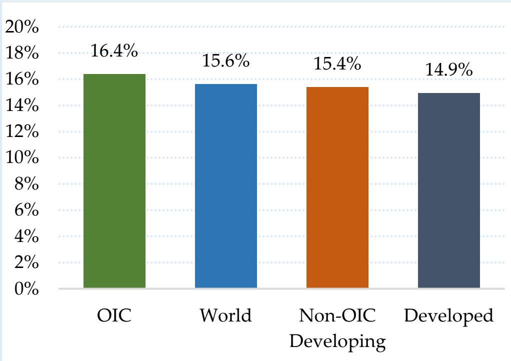
Another challenge that is often faced by firms is the informal gifts being expected when clearing customs. The prevalence of informal gifts or payments expected or requested during customs clearance for imports and exports is provided in *Figure 3.6*. In clearing imports, 9.6% of OIC firms reported expectations of informal payments, which is higher than the global average of 6.1% and significantly higher than developed countries at 0.4%. Non-OIC developing countries report a similar high level at 9.4%. For clearing exports, 5.9% of OIC firms indicated that informal payments were expected or requested, which is somewhat higher than the global average of 4.7% but lower than the average of non-OIC developing countries at 8.0%. This suggests that firms in developing countries, including OIC countries, face considerable challenges with corruption in customs, both for imports and exports, which could hinder their international trade efficiency and competitiveness. Addressing these issues could significantly improve the business environment in the OIC countries.

Figure 3.7: *Customs and Trade Regulations* as a Major or Very Severe Obstacle (% of firms)



Source: World Bank Enterprise Surveys, June 2024.

Figure 3.8: *Transport* as a Major or Very Severe Obstacle (% of firms)



Source: World Bank Enterprise Surveys, June 2024.

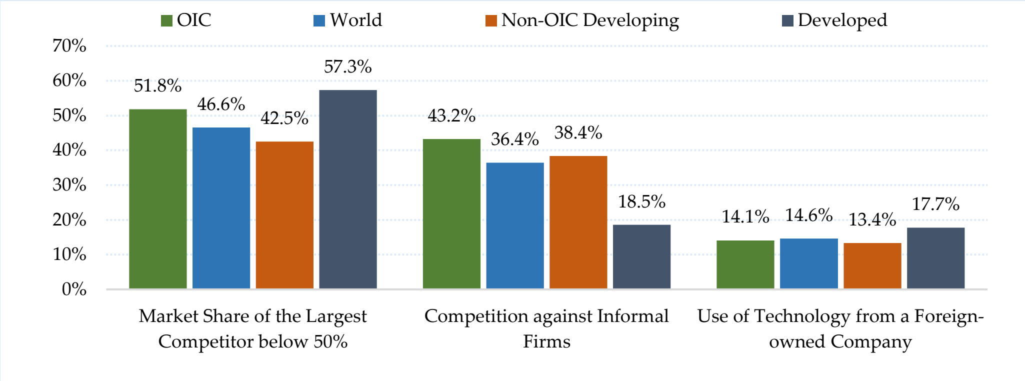
In this connection, when we look at the perception on the customs and trade regulations, a greater share of firms in the OIC countries identify customs and trade regulations as a severe obstacle (*Figure 3.7*). The same applies to transport infrastructure, where a slightly higher share of firms in the OIC countries considered it a major problem for their businesses (*Figure 3.8*). Particularly in the context of global trade and market integration, these are fundamental components of business efficiency, influencing logistics, supply chain management, and overall operational costs, which requires effective policy intervention by the OIC countries.

3.2.4 Degree of Competition

In general, a competitive environment fosters innovation, efficiency, and productivity in the economy. It encourages firms to improve their goods and services, lowers prices for consumers, and fosters economic growth by allocating resources more efficiently. Competitive markets also attract investments and stimulate entrepreneurship, creating a dynamic and resilient economy.

Therefore, a competitive market and the adoption of advanced technologies are crucial for business growth and efficiency.

Figure 3.9: Competition with Other Firms (% of firms)

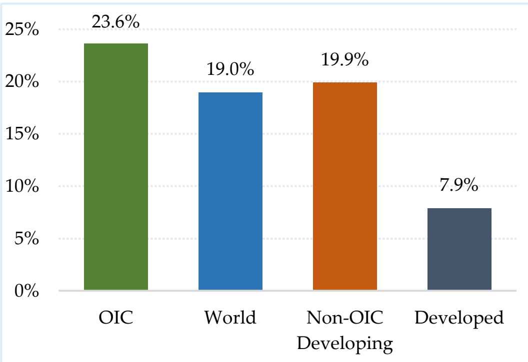


Source: World Bank Enterprise Surveys, June 2024.

To assess the degree of competition and technology adoption in the OIC countries, *Figure 3.9* presents several indicators on different aspects of competition. Having a competitor with a market share above 50% would show significant market domination by a few firms. In the OIC countries, 51.8% of firms operate in markets where the largest competitor holds less than 50% market share, which is higher than the global average of 46.6%, but lower than the average of developed countries at 57.3%. Moreover, a significant 43.2% of firms in the OIC countries face competition from informal firms, which is higher than the global average of 36.4%. With a 14.1% share, firms in the OIC countries use foreign technology at levels comparable to the global average and the average of non-OIC developing countries.

Overall, these findings indicate that informal competition is a substantial challenge for OIC firms, potentially impacting their profitability and regulatory compliance. As shown in *Figure 3.10*, more than 23% of firms in the OIC countries consider the practices of competitors in the informal sector as a major or very severe challenge, which is higher than the world average of 19%. Moreover, while there is some adoption of foreign technology in the OIC countries, there is still room for increased integration to enhance technological advancement and competitiveness. Enhancing regulatory frameworks to integrate informal businesses into the formal economy and promoting the adoption of advanced technologies can improve market competitiveness and business efficiency.

Figure 3.10: *Practices of Competitors in Informal Sector* as a Major or Very Severe Obstacle (% of firms)



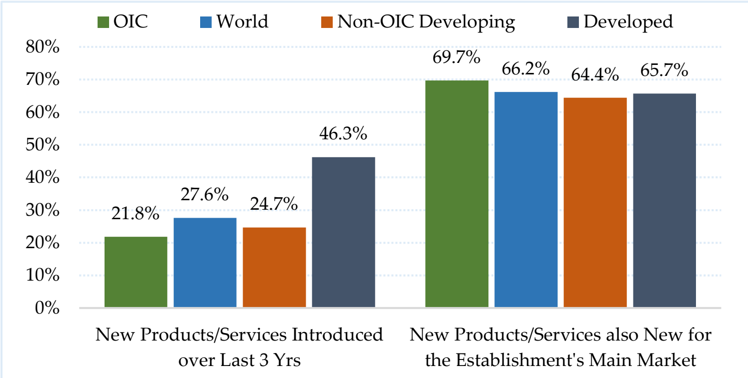
Source: World Bank Enterprise Surveys, June 2024.

3.2.5 Innovation

Another important aspect of private sector development is innovation, as it drives growth and enhances competitiveness by allowing firms to develop new products, processes, and business models that meet evolving consumer demands and market needs. Innovation also improves efficiency, reduces costs, and increases profitability, enabling firms to maintain a competitive advantage.

To this end, *Figure 3.11* presents data on the introduction of new products or services by firms in different regions over the past three years and the extent to which these new offerings were also new to the establishment's main market. In the OIC countries, 21.8% of firms introduced new products or services over the last three years, which is lower than the global average of 27.6%, indicating a slower pace of innovation in the OIC countries compared to other regions, especially developed countries where nearly half of the firms introduced new offerings. However, among the firms that introduced new products or services, almost 70% of firms in the OIC countries reported that these offerings were also new to their main market. This is higher than the global average and the average of other country groups, suggesting that when the OIC firms innovate, they are more likely to bring novel products or services to their main market. This points to a potential for the OIC firms to make substantial market advancements if they can increase their overall innovation rate.

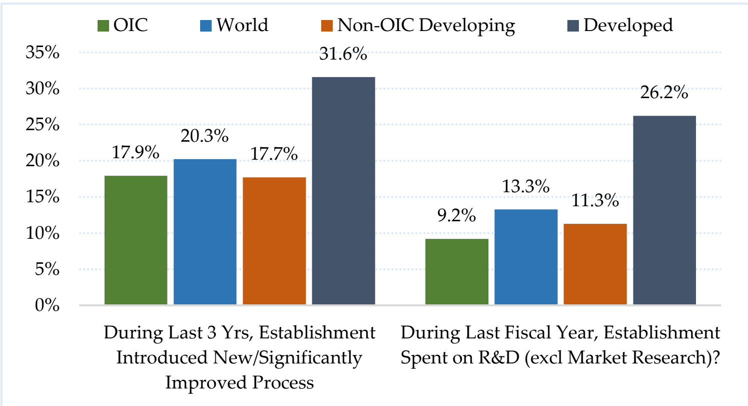
Figure 3.11: Introduction of New Products and Services (% of firms)



Source: World Bank Enterprise Surveys, June 2024

Obviously, investment in research and development (R&D) is vital for fostering innovation and long-term competitiveness. Around 18% of firms in the OIC countries introduced new or significantly improved processes over the last three years, which is lower than the global average (*Figure 3.12*).

Figure 3.12: Innovation and R&D Spending (% of firms)

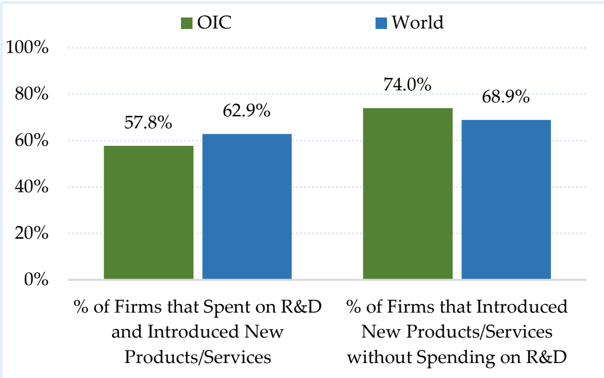


Source: World Bank Enterprise Surveys, June 2024

The significantly higher rate in developed countries indicates a stronger emphasis on process innovation, likely driven by better access to technology, skilled labour, and more supportive regulatory environments. With only 9.2% of firms in OIC countries investing in R&D, compared to 26.2% in developed countries, there is a clear need for policy interventions and incentives to boost R&D activities. Increased R&D investment is critical for developing new products, improving existing processes, and enhancing overall firm competitiveness. If the OIC countries can address the barriers to innovation and increase their R&D investments, they could close the gap with more developed economies. This would involve enhancing access to finance, improving infrastructure, fostering a skilled workforce, and creating a more supportive regulatory environment for innovation and R&D activities.

Reflecting further on this point, *Figure 3.13* shows the relations between spending on R&D and introduction of new products and services. In the OIC countries, 57.8% of firms that spent on R&D also introduced new products or services, lower than the global average of 62.9% (see also *Table 3.A3* for country level data on innovation). This may indicate that firms in the OIC countries may be less effective in converting their R&D investments into tangible innovations compared to their global counterparts. Factors contributing to this could include inadequate R&D infrastructure, lack of skilled R&D personnel, or misalignment between R&D activities and market needs. However, a notable 74.0% of firms in the OIC countries introduced new products or services without any R&D expenditure, higher than the global average, which suggests the potential existence of alternative innovation pathways. These could include importing technology, licensing agreements, or adopting innovations developed elsewhere. Yet, this can create a potential vulnerability, as reliance on external sources of innovation can limit long-term competitiveness and adaptability.

Figure 3.13: Introduction of New Products and Services vs R&D Spending

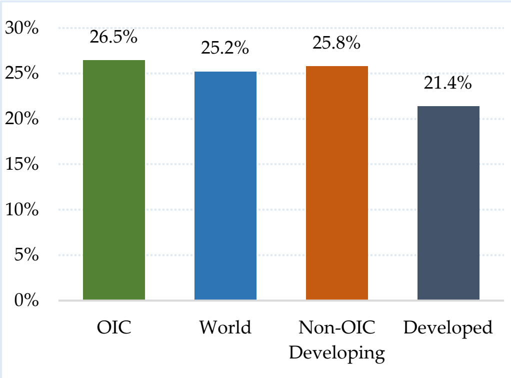


Source: World Bank Enterprise Surveys, June 2024

3.2.6 Business-Government Relations

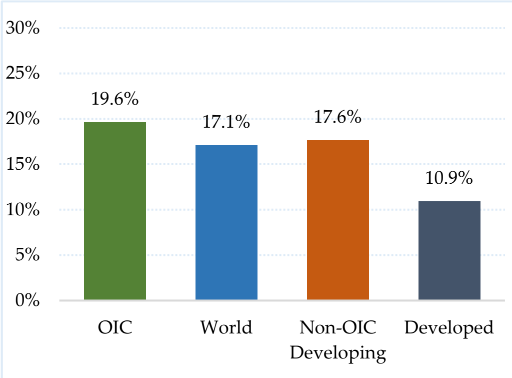
In supporting private sector development, relations with the government are critical as they shape the regulatory environment, influence policy decisions, and impact economic outcomes. A constructive relationship fosters collaboration, where governments provide a conducive environment for business operations through clear regulations, supportive policies, and infrastructure development. In turn, businesses contribute to economic growth, job creation, and innovation, while also adhering to regulatory requirements and contributing to societal well-being through responsible practices.

Figure 3.14: *Tax Rates* as a Major or Very Severe Obstacle (% of firms)



Source: World Bank Enterprise Surveys, June 2024.

Figure 3.15: *Tax Administrations* as a Major or Very Severe Obstacle (% of firms)

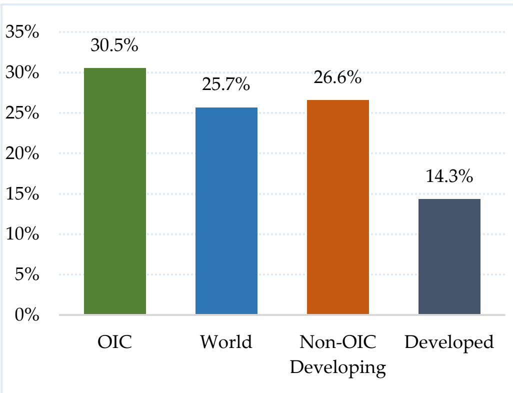


Source: World Bank Enterprise Surveys, June 2024.

From the perspective of the private sector, tax rates are one of the major policy tools affecting their operations (see *Table 3.A2* for country level data on taxation). Reasonable tax rates are essential for business sustainability and economic competitiveness. Firms in the OIC countries consider tax rates a major or very severe obstacle at a rate of 26.5% that is slightly higher than the global average of 25.2% (*Figure 3.14*). This higher perception of tax rates as a significant obstacle in the OIC countries may indicate challenges related to tax policy, compliance costs, or inefficiencies in the tax system. To address this, the OIC countries may consider simplifying the tax rate structure, providing tax incentives, and engaging with the business community to create a more business-friendly tax environment.

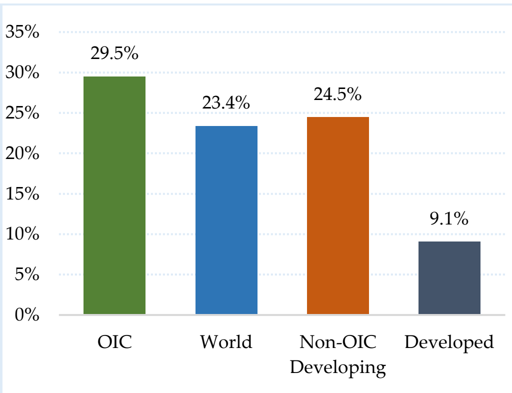
This highlights how crucial it is to maintain effective tax administration to ensure compliance and minimize business disruptions. Yet, almost 20% of firms in the OIC countries view tax administrations as a major or very severe obstacle, which is higher than the global average of 17.1% (*Figure 3.15*). The elevated perception of tax administration challenges in the OIC countries suggests a need for improved efficiency and transparency in tax processes. Recommendations

Figure 3.16: *Political Instability* as a Major or Very Severe Obstacle (% of firms)



Source: World Bank Enterprise Surveys, June 2024.

Figure 3.17: *Corruption* as a Major or Very Severe Obstacle (% of firms)



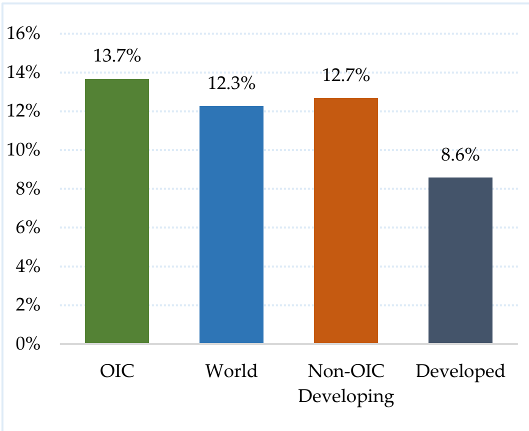
Source: World Bank Enterprise Surveys, June 2024.

include streamlining tax compliance procedures, investing in digital solutions for tax administration, and enhancing the capacity of tax officials to improve service delivery and reduce bureaucratic hurdles.

In relation to political perspectives, political stability is also paramount for business confidence. As shown in *Figure 3.16*, more than 30% of firms in the OIC countries consider political instability a major or very severe obstacle, significantly higher than the global average, which highlights the need for some OIC countries to focus on improving political stability to create a more conducive business environment. Similarly, the prevalence of corruption, which undermines business confidence, is relatively higher in the OIC countries compared to other country groups (*Figure 3.17*). In this connection, implementing stringent anti-corruption laws, enhancing transparency in public procurement, and promoting accountability among public officials would support the development of the private sector.

Firms may also find it difficult to obtain business licensing and permits when starting a new business, which may indicate a lack of effective coordination between government and businesses. Almost 14% of firms in the OIC countries consider business licensing and permits a major or very severe obstacle, slightly higher than the global average of 12.3% (*Figure 3.18*). Regulatory burdens related to business licensing and permits may be more pronounced in some OIC countries, requiring them to streamline licensing processes, reduce bureaucratic hurdles, and implement more efficient e-governance systems.

Figure 3.18: *Business Licensing and Permits* as a Major or Very Severe Obstacle (% of all firms)



Source: World Bank Enterprise Surveys, June 2024

3.2.7 Finance

Access to finance is one of the most important factors affecting business growth, enabling firms to expand production, innovate, and enter new markets. *Table 3.2* provides information on various aspects of financial engagement of firms in OIC countries compared to other country groups. Investing in fixed assets is essential for long-term business growth and competitiveness. However, a smaller percentage of firms in OIC countries purchased fixed assets in the last fiscal year before the survey, indicating potential barriers to long-term investments and capital accumulation, possibly due to financial constraints or higher perceived risks. Having a checking and/or savings account is a basic indicator of access to finance. Surprisingly, almost 20% of firms in OIC countries do not have such accounts, much higher than the global average, demonstrating limited capacity for basic transactions. Similarly, only 18.3% of firms had a line of credit or loan from a financial institution, much lower than other regions (see also *Table 3.A3* for country level data on finance).

Table 3.2: Financing Mechanisms of Firms

	OIC	World	Non-OIC Developing	Developed
Did This Establishment Purchase Any Fixed Assets in Last Fiscal Year?				
Yes	26.1%	34.8%	32.6%	56.6%
No	71.6%	64.0%	66.6%	42.8%
DK	2.2%	1.2%	0.8%	0.6%
Does This Establishment Have a Checking and\or Saving Account?				
Yes	79.1%	86.8%	90.2%	91.4%
No	19.2%	12.3%	9.3%	7.9%
DK	1.7%	0.9%	0.5%	0.7%
Establishment Has a Line of Credit or Loan from a Financial Institution?				
Yes	18.3%	31.6%	33.6%	50.2%
No	77.3%	65.6%	64.3%	47.6%
DK	4.4%	2.8%	2.1%	2.2%

Source: SESRIC staff calculations based on the WBES. DK: Do not Know.

Table 3.3: Access to New Loans

	OIC	World	Non-OIC Developing	Developed
In Last Fiscal Year, Did Establishment Apply for New Loans/Lines of Credit?				
Yes	12.4%	18.9%	20.1%	27.5%
No	82.2%	77.5%	77.2%	70.0%
DK	5.4%	3.5%	2.7%	2.5%
Type of Financial Institution that Granted the Line of Credit or Loan				
Private commercial banks	67.4%	78.6%	78.2%	86.9%
State-owned banks or government agency	24.1%	15.6%	16.1%	8.9%
Non-bank financial institutions	5.0%	3.7%	3.9%	2.6%
Other	1.9%	1.3%	1.2%	1.2%
DK	1.5%	0.7%	0.6%	0.4%
Main Reason for not Applying for New Loans or New Lines of Credit				
No need for a loan	60.3%	65.7%	62.2%	87.7%
Application procedure complex	7.7%	6.5%	7.3%	1.5%
Interest rates not favourable	13.0%	11.3%	13.2%	2.1%
Collateral requirements too high	6.8%	4.9%	4.8%	1.4%
Size of loan and maturity insufficient	1.9%	1.6%	1.9%	0.2%
Did not think it would be approved	2.9%	2.4%	2.3%	1.6%
Other	5.5%	6.0%	6.7%	4.8%
DK	1.9%	1.6%	1.6%	0.6%

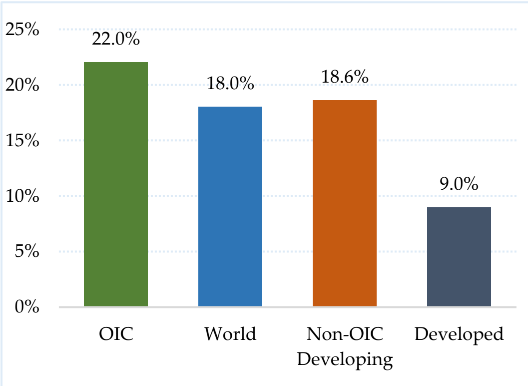
Source: SESRIC staff calculations based on the WBES. DK: Do not Know.

Table 3.3 provides further insights on firms' access to new loans, which is critical for business growth and the ability to seize new opportunities. Only 12.4% of firms in OIC countries applied for new loans or lines of credit in the last fiscal year, significantly lower than the global average of 18.9%. A notable 24.1% of firms in OIC countries rely on state-owned banks or government agencies for credit or loan, while private commercial banks account for around 67% of total credits, possibly indicating underdeveloped private banking in some OIC countries.

Understanding why firms do not apply for new loans can help identify barriers to accessing finance. Over 60% of firms in OIC countries cited no need for a loan as the main reason for not applying, which is comparable to non-OIC developing countries. This suggests lower credit demand among OIC firms, possibly due to smaller business operations or reliance on internal funding. However, notable barriers were also reported: 13.0% of OIC firms found interest rates not favourable (compared to 2.1% in developed countries), 7.7% cited complex application procedures (compared to 1.5% in developed countries), and 6.8% pointed to high collateral requirements (compared to 1.4% in developed countries). These factors highlight substantial financial and administrative obstacles that discourage the OIC firms from seeking external financing.

Overall, access to finance is a critical issue for OIC firms, with 22.0% considering it as a major or very severe obstacle, higher than the global average of 18.0% (*Figure 3.19*). In contrast, only 9.0% of firms in developed countries report significant issues with accessing finance. This disparity suggests that financial infrastructure in OIC countries may be less developed, affecting the availability and accessibility of credit and other financial services. SMEs are likely to be particularly impacted due to their limited resources and collateral. Barriers like high-interest rates, stringent collateral requirements, complex loan application processes, and low financial literacy among business owners further exacerbate the challenges faced by firms in OIC countries.

Figure 3.19: *Access to Finance* as a Major or Very Severe Obstacle (% of firms)

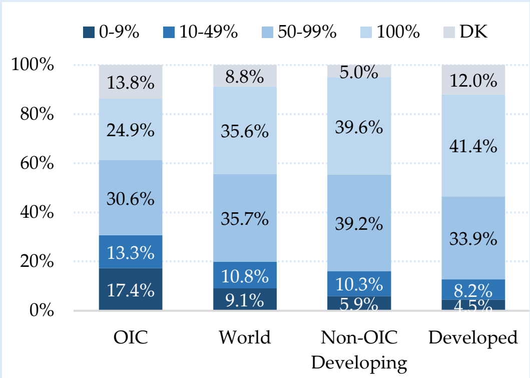


Source: World Bank Enterprise Surveys, June 2024.

3.2.8 Labour Force

A well-trained and motivated workforce enhances productivity and competitiveness, enabling firms to meet market demands effectively. Labour force dynamics, including availability, skills, and wages, influence business decisions on hiring, training, and workforce management strategies. *Figure 3.20* shows the percentage distribution of firms by the proportion of full time workers who have completed high school across groups of countries. Only 24.9% of firms in OIC countries report that all their full-time workers have completed high school, which is considerably lower than the global average of 35.6%. A notable 30.6% of firms in OIC countries report that 50-99% of their full-time workers have completed high school, which is also below the global average of 35.7%. Overall, it is worrying that as high as 17.4% of firms in OIC countries report that less than 10% of their full-time workers have completed high school, which is significantly higher than the global average of 9.1%. This demonstrates that a substantial portion of the workforce in OIC countries lacks basic educational qualifications, potentially limiting their productivity and the ability of firms to adopt advanced technologies and processes. Consequently, the high percentage of firms reporting low levels of high school completion among workers suggests that educational and skills development policies need substantial improvement. Therefore, enhancing educational attainment and providing vocational training and continuous learning opportunities are essential for building a skilled and capable workforce.

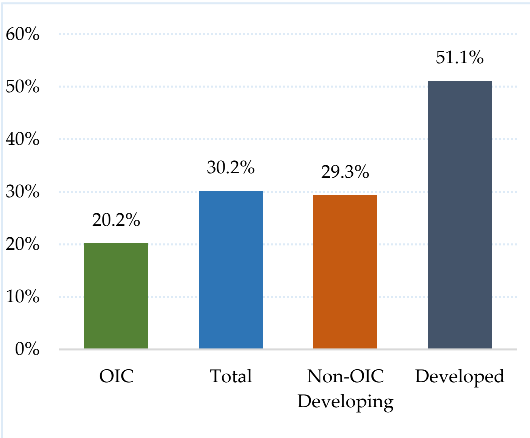
Figure 3.20: Proportion of Full Time Workers Completed High School



Source: World Bank Enterprise Surveys, June 2024.

However, as shown in *Figure 3.21*, only 20.2% of firms provided formal training programs for their permanent, full-time employees in the last fiscal year. This is significantly lower than the global average of 30.2%, reflecting a substantial gap in training and development initiatives within the OIC countries. To address this gap, OIC countries need to prioritize investment in employee training and development. Encouraging businesses to adopt formal training programs through incentives and support can help bridge the gap and ensure that employees are equipped with the necessary skills to thrive in a competitive market.

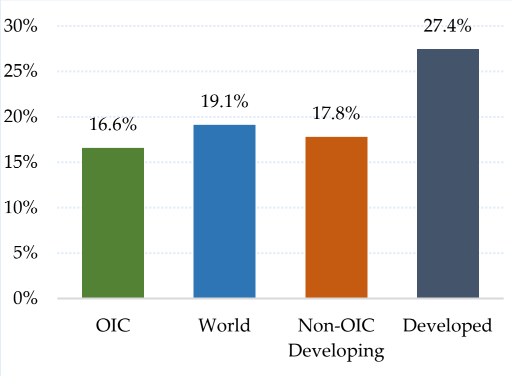
Figure 3.21: Formal Training Programs for Employees (% of firms)



Source: World Bank Enterprise Surveys, June 2024.

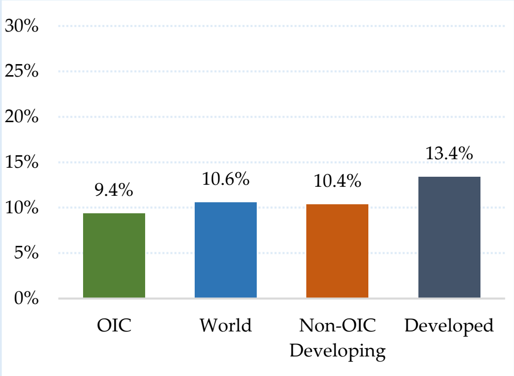
An inadequately educated workforce is a significant barrier to enterprise development. Nevertheless, less than 17% of firms consider an inadequately educated workforce to be a major or very severe obstacle, which is lower than the global average of 19.1% and the average of developed countries (27.4%) (*Figure 3.22*). This shows that firms in OIC countries demonstrate a lower recognition of the problem despite generally lower educational levels, potentially due to different expectations or the types of industries. Similarly, labour regulations are perceived to be a lesser constraint for firms in OIC countries compared to other regions (*Figure 3.23*).

Figure 3.22: *Inadequately Educated Workforce* as a Major or Very Severe Obstacle (% of firms)



Source: World Bank Enterprise Surveys, June 2024.

Figure 3.23: *Labour Regulations* as a Major or Very Severe Obstacle (% of firms)



Source: World Bank Enterprise Surveys, June 2024.

3.2.9 Overall Business Environment

The data from the WBES provides a comprehensive overview of the primary obstacles affecting the operations of firms in OIC countries compared to global, non-OIC developing, and developed countries. *Table 3.4* provides a summary of these obstacles for different regions. For firms in OIC countries, several key challenges stand out prominently, indicating areas where improvements could significantly enhance business environments and economic performance, as shown in *Figure 3.24*.

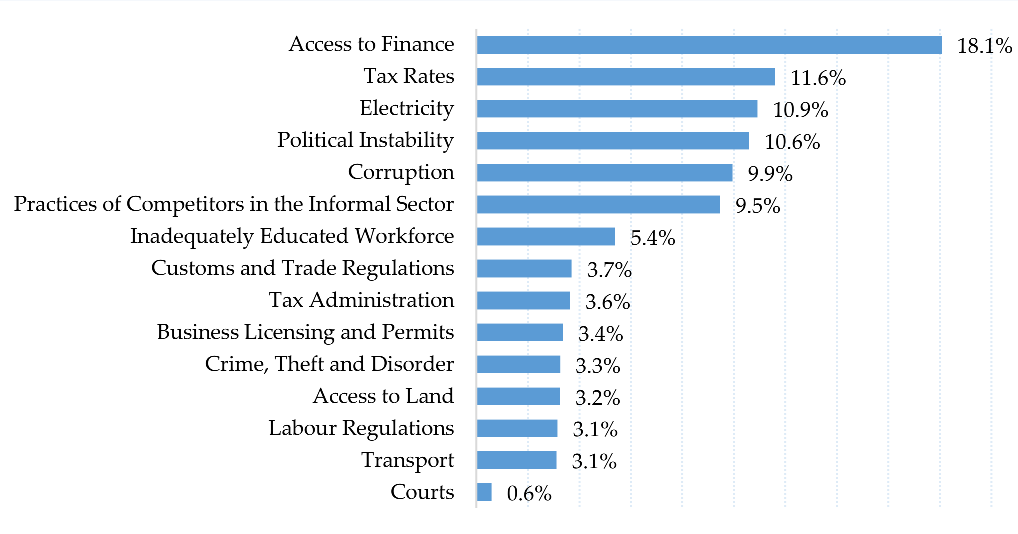
Table 3.4: Biggest Obstacle Affecting the Operation of Firms

	OIC	World	Non-OIC Developing	Developed
Access to Finance	18.1%	15.0%	15.9%	6.2%
Access to Land	3.2%	3.5%	4.2%	1.7%
Business Licensing and Permits	3.4%	3.3%	3.6%	2.5%
Corruption	9.9%	7.1%	7.2%	1.1%
Courts	0.6%	0.7%	0.8%	0.5%
Crime, Theft and Disorder	3.3%	2.8%	2.8%	1.8%
Customs and Trade Regulations	3.7%	3.9%	4.3%	3.0%
Electricity	10.9%	8.3%	8.0%	4.4%
Inadequately Educated Workforce	5.4%	11.2%	8.1%	32.2%
Labour Regulations	3.1%	4.5%	3.1%	11.2%
Political Instability	10.6%	9.9%	10.8%	6.0%
Practices of Competitors in the Informal Sector	9.5%	9.0%	9.8%	5.4%
Tax Administration	3.6%	3.4%	3.1%	3.8%
Tax Rates	11.6%	13.2%	13.7%	15.0%
Transport	3.1%	4.2%	4.5%	5.3%

Source: World Bank Enterprise Surveys, June 2024.

Access to finance emerges as the most significant obstacle for firms in OIC countries, with 18.1% identifying it as their primary concern. This is considerably higher than the global average of 15.0%, indicating a greater struggle for OIC firms in securing necessary funding for operations and growth. The disparity suggests that financial systems in these regions may need strengthening to support business activities better. Electricity is another major issue, with 10.9% of OIC firms citing it as a primary obstacle, surpassing the global average of 8.3%. This highlights ongoing infrastructure challenges in OIC countries, where unreliable or inadequate electricity supply can severely impact productivity and operational efficiency.

Figure 3.24: *Biggest Obstacle* in OIC Countries (% of firms)



Source: World Bank Enterprise Surveys, June 2024.

Practices of competitors in the informal sector and tax rates are significant barriers as well, with 9.5% and 11.6% of OIC firms, respectively, reporting these as major obstacles. This suggests that informal sector competition and high tax rates are undermining formal business operations and profitability. Political instability and corruption are also notable concerns. Political instability affects 10.6% of OIC firms, slightly higher than the global average of 9.9%, reflecting the challenges posed by unstable political environments in these regions. Corruption is identified by 9.9% of firms, compared to 7.1% globally, indicating a need for stronger governance and anti-corruption measures to create a more transparent and predictable business environment.

Other areas such as inadequately educated workforce, transport, and customs and trade regulations are also important but less prominent concerns compared to the aforementioned issues. For instance, inadequately educated workforce concerns 5.4% of OIC firms, which is lower than the global average of 11.2%, possibly reflecting differing educational standards or requirements across regions.

Overall, the assessment reveals that firms in OIC countries face a complex mix of financial, infrastructural, and governance-related challenges. Addressing these obstacles requires a multi-faceted approach, including improving access to finance, upgrading infrastructure, enhancing political stability, combating corruption, and supporting formal sector businesses against informal competition. These improvements could substantially boost the operational efficiency and growth potential of firms in OIC countries, aligning their business environments more closely with global standards.

3.2.10 Private Participation in Infrastructure Investment

Apart from the detailed analysis of the factors affecting the operation of the private sector in OIC countries, an important consideration is how they contribute to the development of their economies. Specifically, infrastructure investments need to be significantly increased in most OIC countries to meet social needs and support faster economic growth. While the public sector can lead large-scale investments, there are often significant constraints and inefficiencies. Therefore, leveraging the private sector's dynamism is crucial for improving investment outcomes. Private investment creates jobs, reduces poverty, enhances welfare, boosts productivity and competitiveness, and attracts foreign investment, thereby significantly contributing to economic growth and development.

As reported in SESRIC (2022), the total size of private investment increased by more than 10 times in the OIC countries between 1970 and 2019. The share of OIC countries in total global private investment increased from 6.9% in 1970 to 9.7% in 2000 and 12.3% in 2019. Their share in total capital stock increased from 7.9% in 1970 to 10.6% in 2000 and 12.6% in 2019. At the individual country level, Indonesia, Türkiye, and Saudi Arabia accounted for more than 55% of the total private investment in OIC countries during 2010-2019, reflecting the private sector dynamism in these countries.

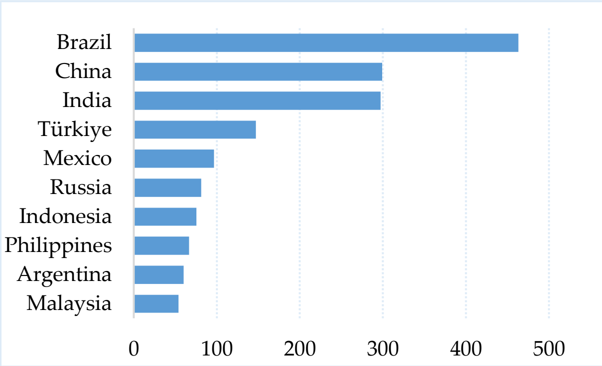
A well-functioning and efficient infrastructure plays a key role in economic development. It increases living standards, attracts more businesses, and supports the production process of agricultural and manufactured goods by reducing costs. It also contributes to economic integration and facilitates trade by making it easier to access goods and services. Better transportation and communication links allow countries to access international markets more easily. Infrastructure projects also stimulate the economy by increasing employment and creating a demand for intermediary materials. Meeting this demand, developing the skills of the workforce or increasing domestic capacity to produce intermediary materials can generate additional gains for the economy in the long run.

Despite these advantages, infrastructure development faces major challenges, including lack of government resources, inefficient state-owned enterprises, unskilled labour and low technology. To address these challenges, private companies are increasingly given the opportunity to participate in infrastructure projects in different sectors through various types of contracts. Private participation does not necessarily require a partnership with the public sector. When governments open the market to private investment, investors can decide whether or not to invest in certain sectors based on their assessment of project’s profitability. Public Private Partnerships (P-PPs) involve collaboration between the public and private sectors to fulfil a long-term goal, usually for a social and economic infrastructure project that will lead to the development of an area or region.

In practice, such partnership agreements are mainly used to finance the construction and operation of hospitals, schools, roads, railways, and airports.

The World Bank's Private Participation in Infrastructure (PPI) Database provides information on private sector participation in infrastructure investments for 129 developing countries, 48 of which are OIC member countries[9]. The most up-to-date version of the database (accessed in July 2024) includes 11,165 projects over the last 34 years (between 1990 and 2023). The countries with the highest number of PPI projects in the world is provided in *Figure 3.25*. Türkiye, Indonesia, and Malaysia are the three OIC countries that are listed among the top ten countries in the world. On the other hand, the average performance of non-OIC developing countries is heavily influenced by BRIC countries, namely Brazil, Russia, India, and China.

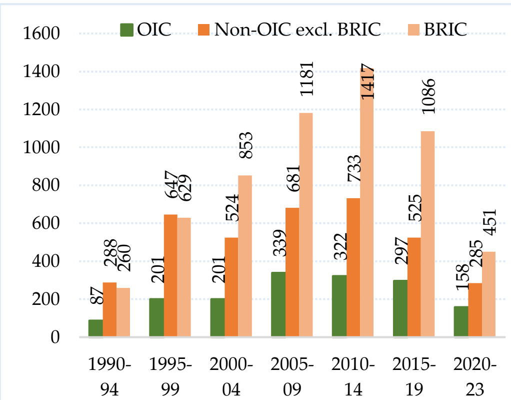
Figure 3.25: Countries with Highest PPI in the World, Billion USD (1990-2023)

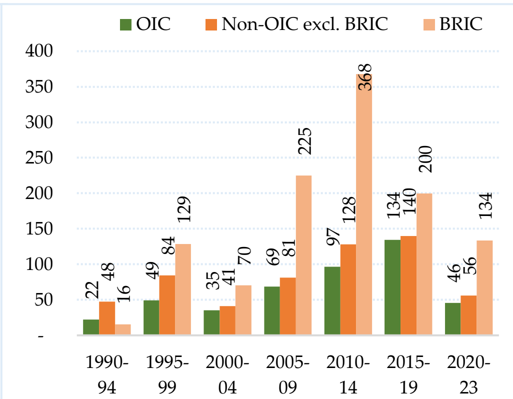


Source: World Bank Private Participation in Infrastructure Development Database, June 2024.

Figure 3.26 shows the total number (left) and value (right) of private infrastructure investments in OIC countries compared to non-OIC developing countries over the period 1990-2023, calculated over five year periods. During the period 2010-2023, a total of 777 projects were launched in OIC countries with a total investment value of US$ 277 billion. During the same period, the 2,954 projects launched by BRIC countries had a total investment value of US$ 701 billion, reflecting a higher investment per project in OIC countries. In non-OIC developing countries excluding BRIC, the total number of projects was 1,543 with a total investment value of US$ 324 billion.

Figure 3.26: PPI Projects: Total Number (left) and Value (right, Billion USD)

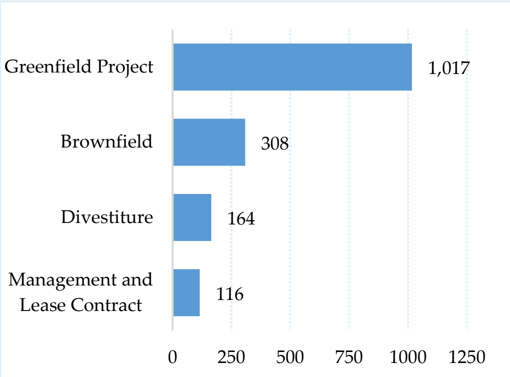




Source: World Bank Private Participation in Infrastructure Development Database, June 2024.

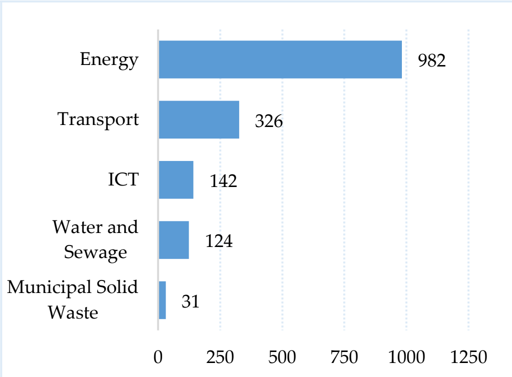
These infrastructure investments can be classified into four types of contracts: Brownfield, Greenfield, Divestiture, and Management and Lease Contracts (MLCs). MLCs involve entrusting the operation and management of a state-owned facility to a private entity, while the state remains the decision making authority. Greenfield projects take place when a private entity or public-private joint venture builds a new project and operates it for a specified period. Brownfield projects are similar to Greenfield projects, except that instead of building a new asset, the private entity takes over an existing asset and typically improves (rehabilitation) or expands it. Divestitures, on the other hand, are privatization projects, they occur when private companies buy shares of a state owned enterprise. Almost two-third of all investments (63.4%) in OIC countries were in Greenfield projects, with investment commitments of US$ 311 billion during 1990-2023 (*Figure 3.27*). With the rise of economic decentralization and privatisation policies, Brownfield projects were the second most common type of operation in private participation, with a value of US$ 78 billion in investments, or 19.2% of the total number of investments in OIC countries.

Figure 3.27: Type of Contracts in PPI Projects in OIC Countries (1990-2023)



Source: World Bank Private Participation in Infrastructure Development Database, June 2024.

Figure 3.28: Sectoral Distribution of PPI Projects in OIC Countries (1990-2023)



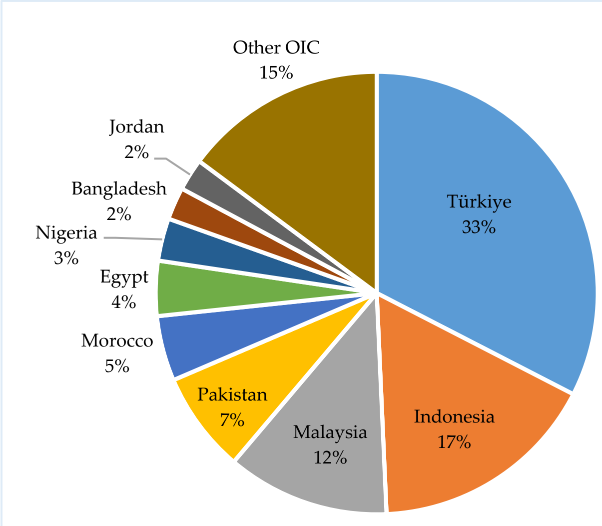
Source: World Bank Private Participation in Infrastructure Development Database, June 2024.

In terms of sectoral distribution of PPI projects in OIC countries, *Figure 3.28* shows that energy infrastructure projects attracted the most investments. Between 1990 and 2023, 982 private participations in energy infrastructure projects reached contractual or financial closing in OIC countries, with investment commitments of US$ 246 billion. These energy projects cover the generation, transmission, and distribution of natural gas and electricity. Overall, the energy sector accounted for 54.3% of total private investments in OIC countries during this period. During the same period, 326 private transport infrastructure projects were implemented in OIC countries, with investment commitments of US$ 151.9 billion and accounting for 33.6% of total investments. The transport infrastructure consist of airport runways and terminals, railways, toll roads, bridges, highways, tunnels, port infrastructure, terminals, superstructures and canals. Investments in ICT projects received US$ 7.2 billion in investments within a total number of 142 projects. During the same period, 124 projects reached contractual or financial closure in OIC countries, with investment commitments of US$ 20 billion, whereas municipal solid waste projects attracted only US$ 1.8 billion investments.

A total of 1,605 privately funded infrastructure projects, worth US$ 452 billion, took place in 48 OIC countries between 1990 and 2023. Among the OIC countries, Türkiye accounted for almost a third of all PPI projects within the OIC group, followed by Indonesia and Malaysia, collectively representing 61.2% of all private investment in infrastructure projects (*Figure 3.29*). This indicates varying opportunities for private sector involvement in infrastructure in some OIC countries. However, gaps in enabling environment often hinder private sector from fully capitalizing on these opportunities.

A review of country experiences by the OECD (2015) reveals that increasing private participation in infrastructure investments requires a clear and predictable investment regime that protects investors against expropriation and provides mechanisms for dispute resolution and contract negotiation. There are a variety of other challenges, from project preparation to finance and governance. Identifying and analysing country-specific challenges would help develop tailored responses to overcome such challenges and improve the participation of private sector in infrastructure investments.

Figure 3.29: Top OIC Countries in PPI Projects during 1990-2023 (Share in Total Investment by OIC)



Source: World Bank Private Participation in Infrastructure (PPI) Database, 2022.

Entrepreneurial dynamism is another key factor in promoting private investment. Entrepreneurs create a positive externality by bringing new goods and new technology to the market. However, entrepreneurial activity in OIC countries is lagging behind global averages and there are important constraints in promoting entrepreneurial activity. As demonstrated in SESRIC (2017) based on World Bank data, OIC countries have the lowest density of new business entry (see also *Table 3.A1* for the most recent country level statistics). Entrepreneurs require an enabling environment to materialize their innovative ideas and take advantage of emerging business opportunities in order to contribute to overall socio-economic well-being. On the other hand, improving the investment climate is not enough if entrepreneurs are not innovative. Besides creating an enabling environment, improving the innovation and entrepreneurship capacities of private sector actors is essential for a vibrant and productive private sector.

3.3 Strategies for Supporting Private Sector Development

The comparative investigation of various indicators associated with the development of the private sector provided important insights into the issues and challenges faced by firms in OIC countries. Based on these insights, this section provides a set of recommendations to support the growth of private sector in OIC countries. It includes five main categories:

- Expanding financial services and developing capital markets, including leveraging Islamic finance;
- Investing in physical infrastructure and promoting digital transformation;
- Reducing trade barriers and supporting export promotion;
- Simplifying business regulations and enhancing legal systems to create a more conducive regulatory environment; and
- Building human capital and encouraging entrepreneurship.

These recommendations are not all-encompassing, as individual countries may have additional issues and challenges that need to be addressed. However, they present a general framework on how to support private sector development in most OIC countries.

Expanding Financial Services and Developing Capital Markets

Considering the fact that firms identify access to finance as the most critical challenge they face, policies should be devised to expand financial services to facilitate better access to financing options for firms. To address the critical challenge of access to finance for firms in the OIC countries, a comprehensive approach is needed. Firstly, strengthening local financial institutions through capacity building and the development of risk assessment capabilities is essential. This includes promoting the growth of local banks, microfinance institutions, and non-banking financial institutions (NBFIs) with regulatory support, seed capital, and technical assistance. Additionally, alternative financing mechanisms such as microfinance, venture capital, angel investing, and crowdfunding should be encouraged through a supportive regulatory framework, tax incentives, and public awareness campaigns. Islamic financial instruments should be effectively developed and utilized to expand financial inclusion.

Improving credit information systems is another vital component. Establishing or enhancing credit bureaus to provide comprehensive credit data and developing tailored credit scoring models for SMEs will help financial institutions better assess the creditworthiness of smaller businesses. Furthermore, nationwide financial literacy programs and business development services are crucial for equipping entrepreneurs with the necessary financial management skills. Simplifying loan processes, reforming secured transactions laws to include a wider range of collateral, and improving bankruptcy laws will reduce bureaucratic hurdles and lending risks.

Lastly, P-PPs can play a significant role in expanding financial services. Development funds and credit guarantee schemes can reduce the risk for lenders, while digital financial services and blockchain technology can enhance financial inclusion and transaction efficiency. Regular monitoring and evaluation, along with continuous stakeholder engagement, will ensure that these measures are effectively addressing the needs of the private sector and contributing to sustainable economic growth in the OIC countries.

Investing in Physical Infrastructure and Promoting Digital Transformation

It is observed that firms in OIC countries are lacking access to well-functioning infrastructure and lagging behind in achieving digital transformation. To improve access to well-functioning infrastructure and advance digital transformation for firms in the OIC countries, a strategic and coordinated approach is necessary. Firstly, investment in physical infrastructure such as transportation, energy, and telecommunications is crucial. PPI projects should be leveraged to finance large-scale infrastructure projects, ensuring they are completed efficiently and maintained effectively (World Bank, 2022). Enhancing regional connectivity through improved transport networks and logistics infrastructure will facilitate trade and reduce operational costs for businesses. Additionally, ensuring reliable and affordable access to electricity will address one of the fundamental constraints to business operations in the OIC countries (IEA, 2019).

Promoting digital transformation requires robust investment in ICT infrastructure and services. Expanding broadband internet access, particularly in rural and underserved areas, is essential to bridge the digital divide (OECD, 2019). Governments should collaborate with the private sector to develop high-speed internet infrastructure and create an enabling environment for digital service providers. Supporting innovation hubs, tech parks, and incubators can spur the development of a digital ecosystem, fostering entrepreneurship and the growth of technology-driven businesses. Incentives for adopting digital tools and platforms, such as cloud computing, e-commerce, and digital payments, should be provided to encourage firms to embrace digital transformation (WEF, 2020).

In addition to infrastructure improvements, fostering a digital-ready workforce is vital. This involves integrating digital skills training into the education system and providing ongoing professional development opportunities (UNESCO, 2019). Establishing partnerships with educational institutions and private sector companies can help develop relevant training programs and certifications. Additionally, policies should promote digital literacy and cybersecurity awareness among businesses and the broader population. By ensuring firms have access to modern infrastructure and the skills to utilize digital technologies, the OIC countries can enhance productivity, competitiveness, and resilience in their private sectors (ITU, 2018).

Reducing Trade Barriers and Supporting Export Promotion

Firms in OIC countries have limited exposure to foreign trade and competition compared to firms in other regions. Delays in customs or expectations of informal gifts/payments during clearance add further challenges to this. These issues limit their capacity to compete in international markets and prevent their access to state-of-the-art technology and know-how. To enhance trade and promote exports among firms in the OIC countries, it is crucial to strengthen trade facilitation measures. Modernizing customs procedures through digital technologies and e-governance systems can expedite clearance times and reduce corruption. Simplifying and harmonizing trade regulations to align with international standards will ease the navigation of export requirements for firms. Establishing one-stop trade facilitation centres can offer comprehensive support, including market access information, regulatory compliance guidance, and logistics services (OECD, 2017). Additionally, improving transport infrastructure, such as ports, roads, and railways, will enhance connectivity and reduce the cost and time of moving goods across borders (Djankov et al., 2010).

Furthermore, enhancing export promotion and support services is vital for helping OIC firms identify and capitalize on international market opportunities. Governments should expand the role of export promotion agencies in providing services such as market research, matchmaking with foreign buyers, and participation in international trade fairs and missions (UNCTAD, 2018). Financial incentives like export credits, insurance, and guarantees can mitigate the risks associated with entering new markets. Training programs focused on export readiness, international marketing, and compliance with global standards will equip businesses with the necessary skills and knowledge.

Encouraging innovation and technology transfer is also essential for enhancing the competitiveness of OIC firms in international markets. Facilitating technology transfer through partnerships with foreign firms, research institutions, and international organizations can provide local businesses with access to cutting-edge technologies and practices. Establishing special economic zones (SEZs) and innovation hubs that attract foreign investment can create environments conducive to technology transfer and innovation (UNIDO, 2017). Offering incentives for FDI in high-tech sectors can bring in expertise and advanced technologies. Supporting collaborative R&D projects and innovation clusters will foster the development and diffusion of new technologies, enabling firms to improve their products and processes to meet international standards (WEF, 2020).

Simplifying Business Regulations and Enhancing Legal Systems

Another challenge often voiced by firms in OIC countries is the excessive burden of regulations and the time needed to obtain certain permits (see *Table 3.A1* and *Table 3.A2* for country level data). Overly burdensome regulations and high taxes can stifle entrepreneurship and deter investment. This requires simplifying business regulations and enhancing legal systems in OIC countries to reduce bureaucratic hurdles. To this end, governments should review and revise existing regulations to eliminate redundancies and simplify procedures. Introducing digital platforms for business registration and licensing can significantly reduce the time and effort required to obtain permits. Establishing one-stop shops for business services can centralize various administrative processes, making it easier for firms to comply with regulatory requirements. Regularly updating regulations to reflect the evolving business environment will ensure that they remain relevant and do not impose unnecessary burdens on businesses.

Improving the efficiency and transparency of the legal system is also crucial for creating a favourable and stable business environment. While strengthening judicial capacity can enhance the speed and quality of legal proceedings, implementing e-justice systems and online dispute resolution mechanisms can expedite the resolution of commercial disputes, reducing time and costs for businesses. Enforcing stringent anti-corruption measures and establishing independent bodies to monitor and combat corruption can significantly reduce the prevalence of corrupt practices. Moreover, ensuring transparency and consistency in the application of laws and regulations, as well as clear property rights, their registration and enforcement can build trust among businesses and investors. Publicizing clear guidelines and procedures for legal processes can help firms understand and navigate the legal system more effectively (OECD, 2019).

Another important aspect is encouraging stakeholder engagement. Establishing platforms for regular consultation between the government, private sector, and civil society can help identify regulatory bottlenecks and areas for improvement. Involving businesses in the regulatory review process ensures that reforms are practical and address the real challenges faced by firms. Promoting a culture of accountability and responsiveness within regulatory bodies can improve service delivery and reduce corruption, and help OIC countries create a more enabling environment for businesses to thrive. Successful examples from countries like South Korea and Malaysia show that fostering collaboration and ensuring well-communicated regulatory reforms can create a more enabling environment for businesses to thrive (OECD, 2017; World Bank, 2022).

Building Human Capital and Encouraging Entrepreneurship

While an inadequately educated workforce was considered a major challenge for a significant portion of firms in OIC countries, the necessary investment to upgrade skills and qualifications was also lacking. A productive labour force is indispensable for the success of private firms. Access to a well-educated, skilled, and adaptable workforce enables businesses to innovate and improve productivity. Education and training programs that align with industry needs help create a labour force capable of meeting the demands of modern economies. By investing in human capital, the OIC countries can ensure that their labour force remains competitive and can contribute to sustained economic growth and development (SESRIC, 2023).

Although labour regulations are not seen as a major challenge, reviewing and updating labour regulations to balance the needs of employers and employees would further increase flexibility and fairness in the labour market. Promoting labour market reforms that enhance productivity and job creation while protecting workers' rights can create a more dynamic and responsive labour market. To this end, engaging with stakeholders, including businesses and labour organizations, in the reform process can ensure that regulations are practical and effective.

Last but not least, a critical aspect of private sector development is entrepreneurship. Promoting entrepreneurship for private sector development involves creating a supportive ecosystem through streamlined regulatory frameworks, enhanced access to finance, and targeted educational initiatives. Governments can foster an environment that encourages innovation, provides infrastructure support, and facilitates market access, which in turn can empower entrepreneurs to start and scale businesses. Providing business development services can further bolster entrepreneurial activities, driving competitive advantages within the private sector (ILO, 2023).

While implementing these recommendations, it is also suggested to cooperate with relevant OIC institutions that actively support private sector development in OIC countries. The Islamic Chamber of Commerce and Development (ICCD), as the sole representative of the private sector across 57 OIC Member Countries, promotes stronger collaboration in trade, commerce, IT, insurance, banking, shipping, and investment. Its goals include fostering economic integration, promoting halal products, improving infrastructure, and supporting labour mobility and technological advancement. The Chamber also works to facilitate dispute resolution, uphold

Islamic values, and strengthen international cooperation while contributing to sustainable development and economic growth within the Islamic world. It organizes regular private sector meetings to bring the private sector representatives of the member countries together to discuss common challenges, as well as the opportunities to overcome them. Apart from private sector meetings, the ICCD also organizes various sector-specific Forums in the areas of sustainable agriculture, sustainable tourism, Islamic economy, investment, digital economy, and entrepreneurship to support the sustainable development of the OIC private sector for the resilient economic growth of the member countries.

As another important OIC institution, the Islamic Corporation for the Development of the Private Sector (ICD) operates as a multilateral organization affiliated with the Islamic Development Bank (IsDB). ICD's mandate is to provide financing for private sector projects in member countries, promote competition and entrepreneurship, and encourage cross border investments. ICD also brings additional resources to projects, encouraging the development of Islamic finance, attracting co-financiers and enhancing the role of the market economy. As reported in its annual report for 2023, ICD has approved a total of 451 projects amounting to US$ 6.9 billion since its inception in 1999. These approvals have extended support across diverse sectors such as finance, infrastructure, agriculture, manufacturing, and energy.

Private sector cooperation has been a permanent agenda item of the COMCEC Session, which is the Standing Committee for Economic and Commercial Cooperation of the OIC. COMCEC activities collectively aim to create a more conducive environment for private sector growth and economic cooperation among OIC member states. COMCEC fosters dialogue between the public and private sectors through forums and meetings, ensuring that private sector voices are included in policy-making processes. For example, OIC/COMCEC Private Sector Tourism Forum convenes annually to discuss common challenges and opportunities in tourism sector. Moreover, in accordance with relevant COMCEC resolutions, the OIC Arbitration Centre was established in Istanbul, as an institution affiliated to the ICCD, aiming at resolving trade and investment disputes by arbitration and other alternative dispute resolution methods as agreed by the parties.

In addition to these, there are many important activities that have been conducted by the OIC Institutions under the umbrella of the COMCEC for enhancing private sector involvement in the cooperation endeavours, such as private sector meetings and Islamic Trade Fairs. Islamic Trade Fairs are organized regularly by the Islamic Centre for the Development of Trade (ICDT) with a view to promoting intra-OIC trade. ICDT also organizes sectorial trade fairs in the Member States to support private sector development and regional economic integration. SESRIC actively contributes to the activities of other OIC institutions to support their endeavours towards developing private sector in OIC countries.

Table 3.A1: Starting A Business

	NBD	NBR	Cost	Time SB	Time RB	Time EL	Time OL	Time EC	Time RP
Afghanistan	0.21	4,274	6.8	8.5	4	114	13.7	1,642	250
Albania	1.52	2,945	10.8	4.5	5	71	10.9	525	19
Algeria	0.35	9,472	11.3	18.0	12	84		630	55
Azerbaijan	1.30	9,165	1.2	3.5	3	38	13.9	277	4.5
Bahrain	3.11	3,823	1.0	8.3	6	69		635	2
Bangladesh	0.04	4,473	8.7	19.5	9	124	28.4	1,442	270
Benin	0.61	4,034	3.5	8.5	6	90		595	120
Brunei DS	1.00	316	1.1	5.5	3	25		540	299
Burkina Faso	0.33	3,416	42.8	13.0	3	169		446	67
Cameroon			24.8	13.5	6	64	35.4	800	81
Chad	0.11	878	169.3	58.0	8	67	34.1	743	29
Comoros	0.16	78	54.2	16.0	9	120		506	30
Cote d'Ivoire	0.78	11,451	2.7	6.0	4	53	43.9	525	39
Djibouti	1.74	1,142	39.7	14.0	6	52	8.8	695	24
Egypt	0.24	14,768	20.3	12.5	5	53	14.3	1,010	76
Gabon	0.97	1,275	13.3	10.0	7	148		1,160	72
Gambia			49.5	8.0	6	101	5.4	758	73
Guinea	0.45	3,192	33.8	15.0	6	69		311	44
Guinea-Bissau			88.8	8.5	9	257		1,785	48
Guyana	1.60	819	9.4	18.0	7	82	22.4	581	46
Indonesia	0.33	58,426	5.7	12.6	11	32	6.0	403	31
Iran	0.63	36,158	1.1	72.5	10	77		505	31
Iraq	0.10	2,020	34.2	26.5	9	51	20.3	520	51
Jordan	0.43	2,778	23.3	12.5	7	55	2.8	642	17
Kazakhstan	3.49	41,211	0.2	5.0	4	71	26.0	370	4.5
Kuwait	3.29	10,603	1.7	19.4	5	49		566	17
Kyrgyzstan	1.27	4,936	1.4	10.0	4	111	23.9	410	3.5
Lebanon			42.3	15.0	8	89	7.3	721	37
Libya			24.6	35.0	10	118		690	
Malaysia	2.13	47,834	11.1	17.5	8	24	13.5	425	11.5
Maldives	2.78	1,153	4.1	12.0	6	75		760	57
Mali	0.27	2,741	55.1	11.0	5	120	44.2	620	29
Mauritania	0.38	959	15.8	6.0	4	67	64.6	370	49
Morocco	2.24	54,250	3.6	9.0	4	31	7.5	510	20
Mozambique	0.24	3,925	106.9	17.0	10	40	24.9	950	43
Niger	0.09	931	7.9	10.0	4	52		380	13
Nigeria	0.88	97,988	26.1	7.2	7	110	14.4	399	92
Oman	1.52	5,804	3.1	4.3	4	30		598	18
Pakistan	0.15	19,791	6.7	16.5	5	113	4.5	1,071	105
Palestine			40.3	43.5	11	47	16.4	540	35
Qatar	6.26	14,824	6.3	8.7	8	44		570	1
Saudi Arabia	0.64	15,920	5.4	10.4	3	35	6.7	575	1.5
Senegal	0.47	4,284	22.6	6.0	4	68	27.8	650	41
Sierra Leone	0.46	1,980	7.6	8.0	5	82	15.3	515	56
Somalia			198.2	70.0	9			575	188
Sudan			17.8	34.5	10	70	4.7	810	11
Suriname	2.30	892	93.5	66.0	8	113	125.2	1,715	46
Syria			8.1	15.5	8	146		872	48
Tajikistan	0.15	831	17.5	7.0	3	98	15.9	430	33
Togo	0.94	4,410	8.1	2.5	3	66	78.4	488	35
Tunisia	2.00	15,715	2.9	9.0	3	65	39.2	565	35
Türkiye	1.77	100,409	6.0	7.0	7	34	17.9	623	4.5
Uganda	0.86	18,862	40.5	24.0	13	66	10.4	490	42
UAE	2.30	19,050	17.2	3.8	2	7		445	1.5
Uzbekistan	2.71	61,677	2.2	3.0	3	88	15.7	225	43
Yemen			40.2	40.5	6	110	7.0	645	19

Source: World Bank WDI Database, June 2024. Data for latest year available. *NBD*: New business density (new registrations per 1,000 people ages 15-64). *NBR*: New businesses registered (number). *Cost*: Cost of business start-up procedures (% of GNI per capita). *Time SB*: Time required to start a business (days). *Time RB*: Start-up procedures to register a business (number). *Time EL*: Time required to get electricity (days). *Time OL*: Time required to obtain an operating license (days). *Time EC*: Time required to enforce a contract (days). *Time RP*: Time required to register property (days).

Table 3.A2: Taxation and Regulations

	Labour	Other	No	Profit	Rate	Time	Gifts	Time GR	Legal
Afghanistan	0	71.4	19	0	71.4	270	34	9.8	10
Albania	18.8	3.6	35	14.1	36.6	252	34.6	2.3	8
Algeria	31.1	26.9	27	8.1	66.1	265			2
Azerbaijan	25.4	2.6	9	12.7	40.7	159	9.7	2.7	12
Bahrain	13.5	0.3	3	0	13.8	22.5			3
Bangladesh	0	2.3	33	31.1	33.4	435	19.3	13.3	5
Benin	26.4	10.6	54	11.9	48.9	270	11	5.7	6
Brunei DS	7.9	0	5	0.1	8	52.5			12
Burkina Faso	21.4	3.6	45	16.2	41.3	270			6
Cameroon	18.3	0.5	44	38.9	57.7	624	20.4	17.9	6
Chad	28.4	3.8	54	31.3	63.5	834	21	13.3	6
Comoros	0	189.2	33	30.4	219.6	100			6
Cote d'Ivoire	23.3	17.9	25	8.8	50.1	187	22.9	15.2	6
Djibouti	17.7	2.6	35	17.7	37.9	76	3.4	5.3	8
Egypt	25.5	4.4	27	14.4	44.4	370	4.6	0.4	5
Gabon	25.5	1.4	50	20.3	47.1	632			6
Gambia	12.6	11.3	49	24.4	48.4	326	5.6	2.5	6
Guinea	28.6	40.7	33	0	69.3	400	6.9	3.9	6
Guinea-Bissau	24.8	5.6	46	15.1	45.5	218			6
Guyana	9.2	1.7	35	19.6	30.6	256	4.6	11.5	3
Indonesia	11.6	0.4	26	18.1	30.1	191	21.6	0.9	6
Iran	25.9	0.4	20	18.4	44.7	216			2
Iraq	13.5	2.3	15	15	30.8	312	51.2	2.8	0
Jordan	16.1	2	9	10.5	28.6	96.5	0.6	0.4	11
Kazakhstan	10.1	1.9	10	16.4	28.4	186	11.9	4.3	8
Kuwait	13	0	12	0	13	98			1
Kyrgyzstan	19.5	2.8	26	6.7	29	220	28.7	11.3	9
Lebanon	24.9	0.4	20	6.9	32.2	181	19.3	2.4	2
Libya	10.3	0.2	19	22.1	32.6	889			0
Malaysia	16.7	2.5	9	19.6	38.7	174	0.2	5.2	7
Maldives	7.9	9.2	17	13.1	30.2	391			2
Mali	43.1	3.9	35	7.5	54.5	276	32.1	27.5	6
Mauritania	10.3	56.7	33	0	67	270	20.4	17.2	2
Morocco	23.3	1.4	6	21.1	45.8	155	10	15.2	2
Mozambique	4.5	0.8	37	30.8	36.1	200	13.5	6.5	1
Niger	22.3	3.4	41	21.6	47.2	270	6.1	11.4	6
Nigeria	13.5	0.3	48	21	34.8	343	25.9	7.5	9
Oman	13	0	15	14.4	27.4	68			1
Pakistan	15	1.1	34	17.8	33.9	283	11.9	0.2	2
Palestine	0	0.3	28	15	15.3	174	5.4	1	8
Qatar	11.3	0	4	0	11.3	41			1
Saudi Arabia	13.5	0	4	2.2	15.7	152	3.9	13	3
Senegal	23.6	5	53	16.2	44.8	416	7.3	3	6
Sierra Leone	11.3	1	34	18.5	30.7	343	29.6	13.1	5
Sudan	19.2	14.7	42	11.5	45.4	180	3.2	4.1	3
Suriname	0	0	30	27.9	27.9	199	7.7	4.9	2
Syria	19.3	0.4	20	23	42.7	336			1
Tajikistan	28.5	21.1	7	17.7	67.3	224	8.1	10.7	11
Togo	23.1	14.7	49	10.3	48.2	159	4.7	10.3	6
Tunisia	25.3	21.8	8	13.6	60.7	144	4.8	0.1	3
Türkiye	19.7	2.5	10	20	42.3	170	1.3	5.9	7
Uganda	11.3	0.1	31	22.3	33.7	195	14.3	6.5	5
UAE	14.1	1.8	5	0	15.9	158			6
Uzbekistan	17.4	2.5	9	11.8	31.6	181	6.7	4.9	6
Yemen	11.3	1.6	44	13.8	26.6	248	62.6	1.9	0

Source: World Bank WDI Database, June 2024. Data for latest year available. *Labour*: Labour tax and contributions (% of commercial profits); *Other*: Other taxes payable by businesses (% of commercial profits); *No*: Tax payments (number); *Profit*: Profit tax (% of commercial profits); *Rate*: Total tax and contribution rate (% of profit): *Time GR*: Time spent dealing with the requirements of government regulations (% of senior management time); *Time*: Time to prepare and pay taxes (hours); *Gifts*: Firms expected to give gifts in meetings with tax officials (% of firms); *Legal*: Strength of legal rights index (0=weak to 12=strong).

Table 3.A3: Finance and Innovation

	BWC	BFI	DCII	UF	R&D	FT	POWER
Afghanistan	3.9	2	0	41.5	24.5	31.7	11.5
Albania	30.4	21.5	6	44.7	4	46.2	1.5
Algeria			0				
Azerbaijan	19.4	0	8	29.9	14	33.9	2.1
Bahrain			8				
Bangladesh	38.7	18.8	4	36.5	2.6	6.4	26.2
Benin	26	12	0	66.8	25.7	20	28
Brunei DS			8				
Burkina Faso			0				
Cameroon	20.2	15.8	6	80.3	8.7	37.6	7.6
Chad	9.8	7.3	0	80	24	22.9	4.5
Comoros			2				
Cote d'Ivoire	15.3	23.6	8	75.6	15	35.5	3.5
Djibouti	25.2	24.3	0	22.2	22.8	21.8	1.6
Egypt	4.8	10.3	8	39.1	2	7.9	0.8
Gabon			2				
Gambia	13.7	10.1	0	71.1	22.3	25.2	21.1
Guinea	11.4	9.2	0	75.7	14.6	16	4.5
Guinea-Bissau			0				
Guyana	59.3	34.5	8	59.8	54.3	63	8.5
Indonesia	32	36.6	8	65	5.1	7.7	0.5
Iran			8				
Iraq	2.1	0.9	0	44	12.5	16.8	12.3
Jordan	20	39.2	8	48.6	2.3	16.9	0.2
Kazakhstan	13.2	14	8	39.2	4.2	21.8	0.5
Kuwait			8				
Kyrgyzstan	18.8	16.7	8	51.4	17.7	41.4	0.9
Lebanon	44.5	38.9	6	56.3	8.4	20.8	0.6
Libya			0				
Malaysia	32.1	35.3	8	29.6	10.1	24	0.4
Maldives			5				
Mali	51.7	55.1	0	79.5	17	17.7	4.2
Mauritania	29.4	12.8	6	78.5	27.9	52.7	5.3
Morocco	45	43.9	7	47.2	14.3	35.7	0.3
Mozambique	9	11.4	4	58	20.4	20.7	1.6
Niger	28.9	22.1	8	85.1	15.6	27.5	22
Nigeria	16.9	6.9	8	46.2	19.6	30.7	32.8
Oman			6				
Pakistan	3.5	5.5	7	44.6	2.3	5.9	22
Palestine	12.7	7.9	8	63.9	10.9	9.6	16.2
Qatar			8				
Saudi Arabia	12.8	13.1	8	19	7.8	3.9	0
Senegal	19.6	19.2	7	76.4	18.5	17.4	6
Sierra Leone	8.6	7	0	62.5	17.4	21.6	9.1
Somalia			0				
Sudan	2.6	6.7	0	90.5	28	9.5	3.4
Suriname	44.5	51.8	0	54.6	32	34.8	2.8
Syria			2				
Tajikistan	12.8	8.3	7	11.8	6.3	24.3	1.3
Togo	40.3	25.7	8	68.7	24	33.7	5.5
Tunisia	41.7	35.9	7	60.9	11.1	19.1	0.9
Türkiye	34	28.7	8	50.2	11.2	30.7	0.7
Uganda	21.4	8.1	7	95.2	53.4	34.7	6.3
UAE			8				
Uzbekistan	23.7	26.2	7	21.5	9.6	16.9	1.9
Yemen	4.6	3.8	0	43	27	14.3	38.8

Source: World Bank WDI Database, June 2024. Data for latest year available. *BWC*: Firms using banks to finance working capital (% of firms); *BFI*: Firms using banks to finance investment (% of firms); *DCII*: Depth of credit information index (0=low to 8=high); *UF*: Firms competing against unregistered firms (% of firms); *R&D*: Firms that spend on R&D (% of firms); FT: Firms offering formal training (% of firms); *POWER*: Power outages in firms in a typical month (number).

CHAPTER FOUR

SME Development in OIC Countries: Issues and Challenges

This chapter begins by defining SMEs and highlighting their critical role in economic growth, job creation, and innovation. Based on available data, it provides a statistical overview of SMEs, their economic contributions, and the sectoral distribution across the OIC nations. By utilizing the World Bank Enterprise Surveys, it provides a detailed discussion of the challenges faced by SMEs, such as access to finance, regulatory hurdles, market access, competitiveness, and infrastructure limitations. The chapter concludes with policy initiatives and support mechanisms recommended for SME development in OIC countries.

4.1 The Role of SMEs in Development

The acronym SME, which stands for "small and medium-sized enterprise," is commonly used to refer to all enterprises that are not large, often without specific size thresholds. Similarly, MSME, or "micro, small and medium enterprise," highlights the inclusion of the smallest firms. This report adopts the typical practice of using SME as a general term. However, a distinction between SMEs and MSMEs—where SMEs exclude micro firms and MSMEs include them—will be made only when precise definitions are required, such as when presenting statistics or when explicitly defined by the source.

There is no universally agreed definition of "micro," "small," and "medium" enterprises. National governments and international organizations typically define these categories based on thresholds for the number of employees and/or annual turnover. These thresholds can be sector-specific, complicating cross-country comparisons. Most countries use the following definitions: micro enterprises have up to 10 employees, small enterprises have between 10 and 50 employees, and medium-sized enterprises have between 50 and 250 employees. According to the International Finance Corporation (IFC), a firm qualifies as an SME if it meets two out of the three criteria (employees, sales, and assets) or if a loan to the firm falls within the relevant MSME loan size proxy. Therefore, based on the IFC definition, SMEs will have a range of 10 to 300 employees, a total asset value of US$ 100 thousand to US$ 15 million, and/or annual revenue of US$ 100 thousand to 15 million (IFC, 2024).

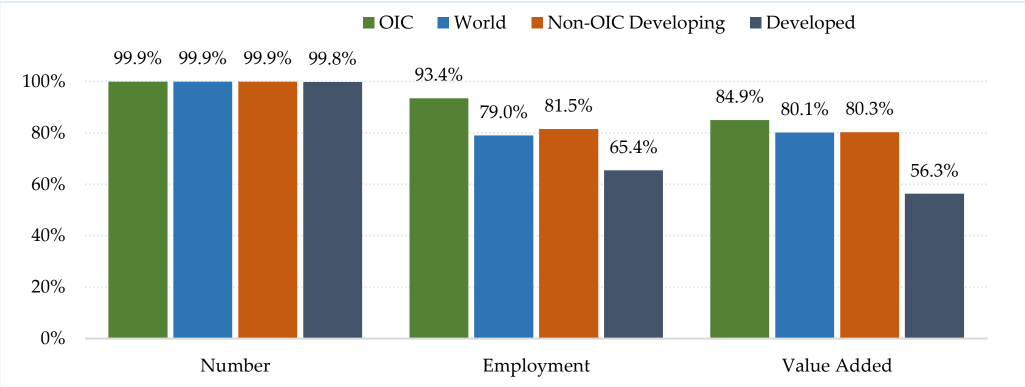
SMEs are recognised as an engine for economic growth, a means of poverty alleviation, and a vehicle for increasing employment (IFC, 2021). Today, MSMEs account for 90% of businesses, 60 to 70% of employment and 50% of GDP worldwide (UN, 2024). Although SMEs play a vital role in most economies, often they are unable to benefit from economies of scale, are engaged in less productive activities, and provide fewer stable, quality jobs compared to large firms (Ciani et al., 2020; Atkin et al., 2021). The literature overwhelmingly concludes that large firms are, on average, more productive (Ciani et al., 2020). While smaller firms are, on average, less productive, their contribution to a country’s overall level of output could be significant due to the huge number of SMEs. Moreover, SMEs have limited integration into global value chains (GVCs), but the digital economy presents new opportunities for their participation (WTO, 2018). Therefore, helping SMEs grow can have a substantial impact on a country’s economy.

4.2 Current State of SMEs in OIC Countries

SMEs represent the majority of firms in most countries and account for a significant portion of total employment, especially when informal firms are included. In developing countries, small firms play a crucial role in social inclusion, offering economic opportunities, particularly for women. The United Nations' Sustainable Development Goals (SDGs) highlight the poverty-reduction potential of micro firms and SMEs. However, as highlighted earlier, these smaller firms tend to be less productive than larger enterprises, leading to higher failure rates and less stable, lower-paying jobs. Additionally, only a small number of SMEs engage in innovation, which is essential for economic growth.

There is limited availability of updated data on SMEs and their contribution to economic activities. The MSME Economic Indicators Database of the IFC is the most comprehensive dataset presenting information about the MSMEs from 176 countries. However, the latest version of the data is available only for 2019. According to this database, MSMEs dominate the business landscape across all regions, accounting for 99.9% of all firms in the OIC countries and in the world. MSMEs in OIC countries contribute 93.4% to employment, much higher than the global average of 79.0% and the non-OIC developing countries at 81.5%. Developed countries have a lower MSME employment share at 65.4%, reflecting a more diversified employment landscape where larger enterprises play a more significant role. In terms of value added, MSMEs in the OIC countries contribute 84.9%, surpassing the global average of 80.1% and the non-OIC developing countries at 80.3%. This is also significantly higher than developed countries, where MSMEs contribute 56.3% to value added, indicating that smaller firms in the OIC economies contribute more significantly to economic output (*Figure 4.1*).

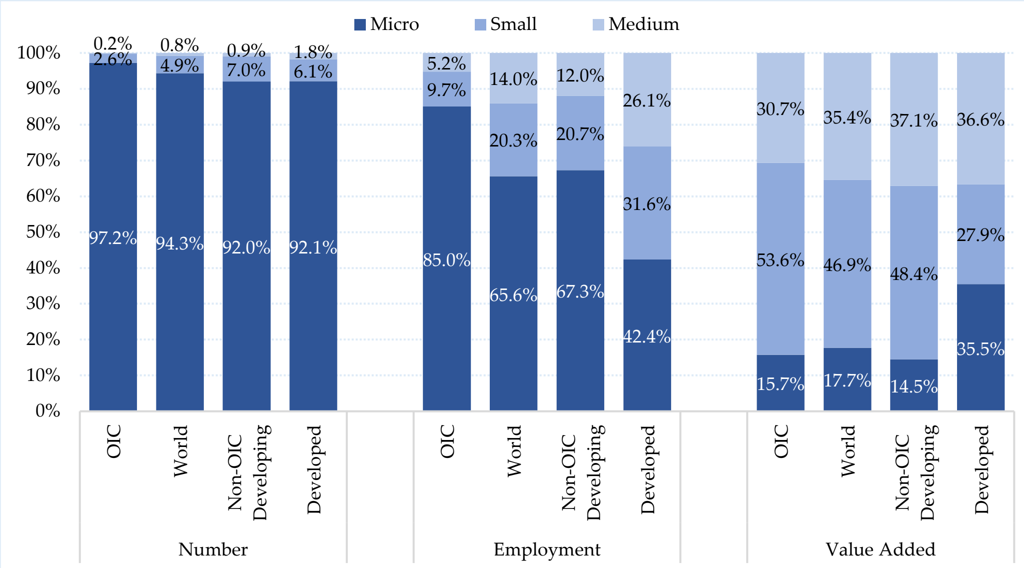
Figure 4.1: Share of MSMEs in Total Number, Employment and Value Added of All Firms



Source: The MSME Economic Indicators Database 2019, SME Finance Forum. Based on latest year available data for 49 OIC, 38 developed and 89 non-OIC developing countries.

Figures 4.2 shows the percentage distribution of the number, employment, and value added of MSMEs by firm size across groups of countries. Micro enterprises overwhelmingly dominate the MSME landscape in the OIC countries, comprising 97.2% of all MSMEs, compared to 94.3% globally and 92.1% in developed countries. This heavy reliance on micro enterprises, which also contribute 85% of employment, indicates a highly fragmented business environment. While these enterprises are critical for job creation, their limited scale restricts their economic impact, as evidenced by their relatively low 15.7% contribution to value added. This suggests that the OIC countries could benefit from policies that encourage the growth of small and medium enterprises, which can drive higher economic value and offer more sustainable employment opportunities.

Figure 4.2: Distribution of the Number, Employment, and Value Added of MSMEs by Firm Size



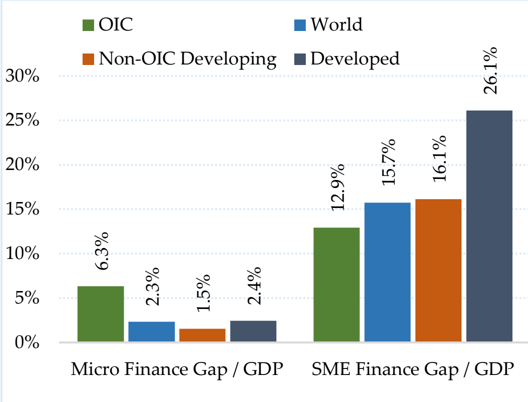
Source: The MSME Economic Indicators Database 2019, SME Finance Forum. Based on latest year available data for 49 OIC, 38 developed and 89 non-OIC developing countries.

The proportion of small enterprises is considerably lower in the OIC countries than in developed regions, accounting for only 2.6% of MSMEs compared to 6.1% in developed countries. Similarly, the employment contribution of small enterprises is 9.7% in the OIC countries, lagging behind the global average of 20.3%. This highlights a growth opportunity for small enterprises, which could serve as a bridge between micro and medium enterprises. Facilitating access to finance, improving infrastructure, and reducing regulatory burdens can help small enterprises expand, thereby enhancing their contributions to employment and economic value. Research shows that in developing countries, the chances of SMEs transitioning into large firms are typically not very high; only 1 in 10 small firms grows to medium size, and only 1 in 100 grows to become a large firm (Ciani et al., 2020).

Another insight is that there is a notable discrepancy in the employment and value added contributions of MSMEs in the OIC countries. Medium-sized enterprises, constituting only 0.2% of the total number of MSMEs, contribute significantly to value added (30.7%). However, their employment contribution is modest at 5.2%. This indicates that medium enterprises in the OIC countries are relatively efficient in creating economic value but are not yet large enough to absorb a significant portion of the labour force. Therefore, targeted support for scaling up these enterprises could enhance their role in both job creation and economic development.

However, SMEs cite access to finance as one of the biggest obstacles to growing their businesses (IFC, 2017; Wang, 2016). *Figure 4.3* reveals a significant finance gap in the OIC countries, standing at 6.3% of GDP for micro enterprises and 12.9% of GDP for SMEs; the former is markedly higher than the global average of 2.3%, but the latter is lower than the global average of 15.7%. The substantial gap for micro enterprises indicates that they face considerable, larger challenges than SMEs in accessing finance, which hampers their ability to grow and contribute effectively to the economy. Addressing this gap is crucial for fostering entrepreneurship and enabling the smallest businesses to expand their operations and increase their economic impact (see section 4.3.2 for more discussion).

Figure 4.3: Micro and SME Finance Gap, % of GDP



Source: IFC Enterprise Finance Gap Database. SME Finance Forum. Database covers 40 OIC, 6 developed, and 86 non-OIC developing countries.

Another comprehensive data source on SMEs is the Asian Development Bank (ADB) SME Monitor database, which provides statistics for 24 Asian economies, including 10 OIC countries. Asian OIC countries exhibit a high prevalence of MSMEs, with nearly all countries reporting that MSMEs constitute over 97% of total enterprises (*Table 4.2*). For instance, Bangladesh and Indonesia report MSME shares of 99.97% and 99.99%, respectively. Employment data, where available, underscores the critical role of MSMEs in job creation. In Indonesia, MSMEs employ 96.9% of the workforce, whereas, in Tajikistan, the figure is only 20.4%. However, MSMEs' contribution to gross value added (GVA) or GDP varies significantly, with Indonesia leading at 60.5%, while Pakistan lags at 2.0%. This disparity suggests varying levels of MSME productivity, employment, and economic integration across these countries.

The sectoral distribution of MSMEs highlights a dominant presence in the services sector across most countries. For example, Azerbaijan and Bangladesh report MSME shares in services at 93.5% and 88.6%, respectively, while manufacturing shares remain comparatively lower. The share of manufacturing is highest in Uzbekistan (18.7%) and Indonesia (16.7%), but it is as low as 4.9% in Azerbaijan. These figures point to a service-oriented MSME structure, potentially limiting diversification and resilience against sector-specific economic shocks.

Financial indicators reveal mixed outcomes concerning MSME access to finance and banking sector health. Total bank loans to GDP ratios vary widely, from 10.3% in Tajikistan to 113.2% in Malaysia, indicating different levels of financial deepening. Non-performing loans (NPLs) also show significant variation, with the highest observed in Tajikistan at 16.2%, suggesting substantial financial sector vulnerabilities. Meanwhile, countries like Malaysia and Indonesia maintain healthier NPL ratios at 1.7% and 2.4%, respectively. Trade balance figures, also varied, reflect economic conditions, with surplus examples like Kazakhstan ($34 billion) contrasting with substantial deficits in countries like Pakistan and Bangladesh.

Table 4.2: SME Indicators of Asian OIC Countries

	Azerbaijan	Bangladesh	Brunei DS	Indonesia	Kazakhstan
MSME to total (%)	99.7	99.97	97.2	99.99	99.9
MSME employees to total (%)	41.8		54.6	96.9	45.8
Share of MSMEs in Manufacturing (%)	4.9	11.1	10.5	16.7	5.6
Share of MSMEs in Services (%)	93.5	88.6	85.3	82.4	64.5
MSME contribution to total GVA or GDP (% share)	16.4		31.2	60.5	36.5
Trade Balance ($ million)	23,607	- 2,629,990	6,433	- 3,044	34,350
Total bank loans to GDP (%)	14.6		27.7	32.8	22.2
Gross NPLs to total loans (%)	3.8	8.2	3.4	2.4	3.4
	Kyrgyzstan	**Malaysia**	**Pakistan**	**Tajikistan**	**Uzbekistan**
MSME to total (%)	98.2	97.4	98.6	98.6	99.3
MSME employees to total (%)	49.3	47.8	72.0	20.4	74.4
Share of MSMEs in Manufacturing (%)	14.6	5.6		9.0	18.7
Share of MSMEs in Services (%)	82.1	84.4		77.1	71.1
MSME contribution to total GVA or GDP (% share)	42.8	37.4	2.0	60.0	51.8
Trade Balance ($ million)	- 2,828	129,632	- 8,612,267	- 33,359	- 11,474
Total bank loans to GDP (%)	25.1	113.2		10.3	44.4
Gross NPLs to total loans (%)		1.7	7.1	16.2	5.2

Source: ADB Asia SME Monitor 2023. Data for 2022 or latest year available. Shaded areas demonstrate the trade values in national currency.

4.3 Issues and Challenges for Development of SMEs

Firms in developing countries face multiple challenges that affect their survival and limit their growth. Importantly, some of these challenges are more severe for SMEs than for larger firms, including access to finance, access to infrastructure (electricity, transport, logistics, ICT, etc.), access to skilled workers, and the use of effective management practices (Bertanzetti, 2024). This section aims to identify the key challenges that SMEs face in the OIC countries by utilizing the WBES database. The database covers almost 30 thousand firms from 39 OIC countries. Around 52% of these firms are classified as small, 32% as medium and 16% as large enterprises. The significant presence of small enterprises may reflect distinct challenges in scaling and accessing resources. *Table 4.3* provides more detailed information on the structure of firms from the OIC countries covered in the survey.

The sectoral distribution of the OIC firms reveals that both manufacturing and services are significant components of the economy. Small firms dominate the services sector, whereas medium and large firms show a stronger presence in manufacturing. This distribution indicates a balanced but slightly more service-oriented economy, particularly among smaller enterprises. Ownership structures of the OIC firms are predominantly domestic, with 23,775 (80.5%) firms being 100% domestically owned, which constitutes the majority across all firm sizes. Foreign ownership is minimal, with only 823 firms fully foreign-owned. Mixed ownership stands at 4,937 firms, showing some level of international collaboration. This highlights a strong domestic ownership base with limited foreign and government ownership. Most OIC firms are located outside the main business cities. Small firms are more likely to be found outside these central areas, reflecting broader geographic distribution but with potential challenges in centralizing business activities and accessing urban economic benefits. Finally, the legal status of OIC firms shows a preference for sole proprietorship, especially among small firms. Shareholding companies are more common among medium and large firms.

Table 4.3: Characteristics of the OIC Firms in the WBES

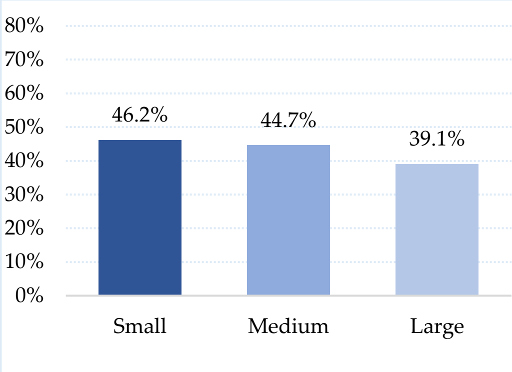
	Small	Medium	Large	Total
Sectoral Distribution				
Manufacturing	6,844	5,098	3,180	15,122
Services	8,606	4,350	1,468	14,424
Ownership Structure				
Domestic (100%)	12,913	7,555	3,307	23,775
Foreign (100%)	231	268	324	823
Government (100%)	0	6	5	11
Mixed	2,306	1,619	1,012	4,937
Location in the Main Business City				
Yes	4,376	2,524	1,096	7,996
No	10,339	6,555	3,411	20,305
Other / DK	735	369	141	1,245
Legal Status of the Firm				
Shareholding company	3,529	3,841	2,836	10,206
Sole proprietorship	9,531	3,485	945	13,961
Partnership	1,241	1,024	397	2,662
Limited partnership	1,013	975	418	2,406
Other / DK	136	123	52	311
Total	**15,450 (52.3%)**	**9,448 (32%)**	**4,648 (15.7%)**	**29,546**

Source: SESRIC staff calculations based on the WBES. DK: Do not Know.

4.3.1 Quality of Infrastructure and Services

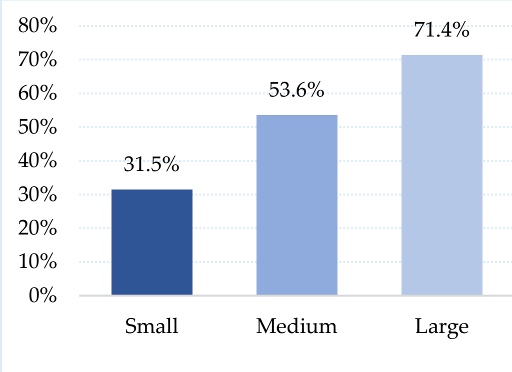
Infrastructure conditions are key determinants of firm performance (Atkin et al., 2021). Inadequate infrastructure development is often seen as a major obstacle to SME growth, as it increases production costs and overall business expenses. Transportation and energy supply are frequently cited as the primary infrastructure challenges facing the business sector in developing countries, including SMEs (Khan, 2022). The availability or lack of these facilities significantly affects the competitiveness, profitability, and overall performance of SMEs due to their direct and indirect impact on operational costs.

Figure 4.4: Percentage of Firms Experienced Power Outages over the Past Year



Source: World Bank Enterprise Surveys, June 2024.

Figure 4.5: Percentage of Firms with Own Website



Source: World Bank Enterprise Surveys, June 2024.

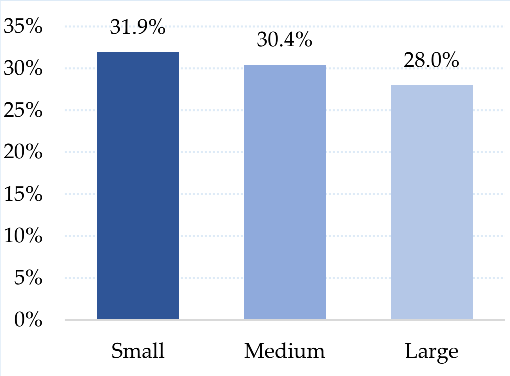
In this context, access to reliable energy is highly critical. As shown in *Figure 4.4*, the percentage of firms experiencing power outages varies by firm size. Small firms report the highest incidence of power outages at 46.2%, followed closely by medium firms at 44.7%, and large firms at 39.1%. This suggests that power outages are a significant challenge, affecting nearly half of the firms, with SMEs slightly more affected than large ones. This trend implies that smaller firms may have less resilience or fewer resources to mitigate power disruptions compared to their larger counterparts.

When examining the digital presence of firms, there is a clear disparity based on firm size. Large firms have the highest percentage of website ownership at 71.4%, which is significantly higher than medium firms at 53.6% and small firms at 31.5% (*Figure 4.5*). This indicates a digital divide where smaller firms are less likely to have an online presence. The higher percentage of large firms with websites reflects better access to digital resources and possibly greater awareness of the importance of online visibility for business operations and marketing.

Combining these insights, it is evident that smaller firms face dual challenges: higher susceptibility to infrastructure issues like power outages and lower digital engagement through website ownership. The higher incidence of power outages among smaller firms could hinder their operational efficiency, while their lower online presence may limit their market reach and competitiveness. Addressing these issues through improved infrastructure and digital literacy initiatives could significantly enhance the business environment for smaller firms, promoting greater overall economic resilience and growth within the sector.

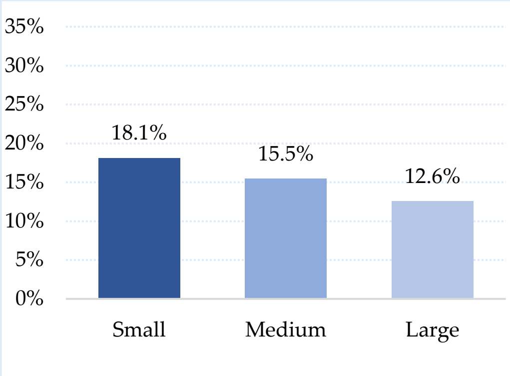
Access to electricity is a significant obstacle for firms, particularly for small and medium enterprises. The data shows that 32% of small firms identify access to electricity as a major or very severe obstacle, while 30% of medium firms share this view. In contrast, 28% of large firms consider electricity access a major obstacle (*Figure 4.6*). This highlights a clear disparity where smaller firms are more heavily impacted by issues related to electricity access compared to large firms. This could be due to limited resources or infrastructure capabilities that smaller firms have to manage power supply issues.

Figure 4.6: *Access to Electricity* as a Major or Very Severe Obstacle (% of firms)



Source: World Bank Enterprise Surveys, June 2024.

Figure 4.7: *Access to Land* as a Major or Very Severe Obstacle (% of firms)



Source: World Bank Enterprise Surveys, June 2024.

Access to land is also a critical challenge, particularly for small firms. According to the survey data, 18% of small firms report access to land as a major or very severe obstacle, while 16% of medium firms and 13% of large firms view land access as a significant challenge (*Figure 4.7*). Similar to electricity access, small firms face greater difficulties in accessing land, which could be attributed to higher costs, limited availability, or bureaucratic hurdles that smaller firms might find harder to navigate. Section 4.3.3 provides further insights on perceived challenges associated with transportation as well.

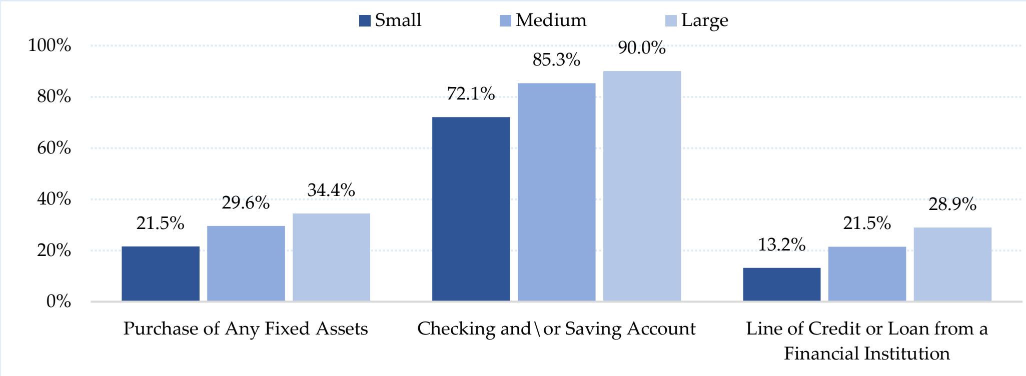
The analysis of infrastructure availability indicates that small firms are disproportionately affected by infrastructure-related challenges compared to medium and large firms. These obstacles can severely hinder the operational capacity and growth potential of smaller firms. Addressing these challenges through targeted policies, such as improving infrastructure access and reducing bureaucratic barriers for land acquisition, could significantly improve the business environment for SMEs. Enhanced support mechanisms and resources for small firms to manage these obstacles would promote a more equitable and thriving economic landscape.

4.3.2 Access to Finance

As noted earlier, access to finance is cited as one of the most critical challenges that SMEs face in developing countries. To assess the situation in OIC countries, we begin with an overview of the financial behaviours and access to financial services across small, medium, and large firms. Starting with the purchase of fixed assets, *Figure 4.8* shows a clear gradient: 21.5% of small firms engage in such investments, compared to 29.6% of medium firms and 34.4% of large firms, indicating higher financing requirements for larger firms. This pattern also suggests that larger firms are more capable of allocating resources towards long-term investments, likely due to better access to capital and more stable cash flows. In contrast, small firms may be constrained by limited financial resources, higher perceived risks, or a focus on short-term survival rather than long-term growth.

In terms of holding checking and/or saving accounts, the data again highlights a significant gap: 72.1% of small firms have such accounts, compared to 85.3% of medium firms and 90.0% of large firms. This access to banking facilities is crucial for day-to-day operations, enabling better financial management, smoother transaction processing, and more efficient cash flow handling. The lower percentage among small firms could be due to several factors, including lower financial literacy or higher banking costs.

Figure 4.8: Access to Finance (% of firms)



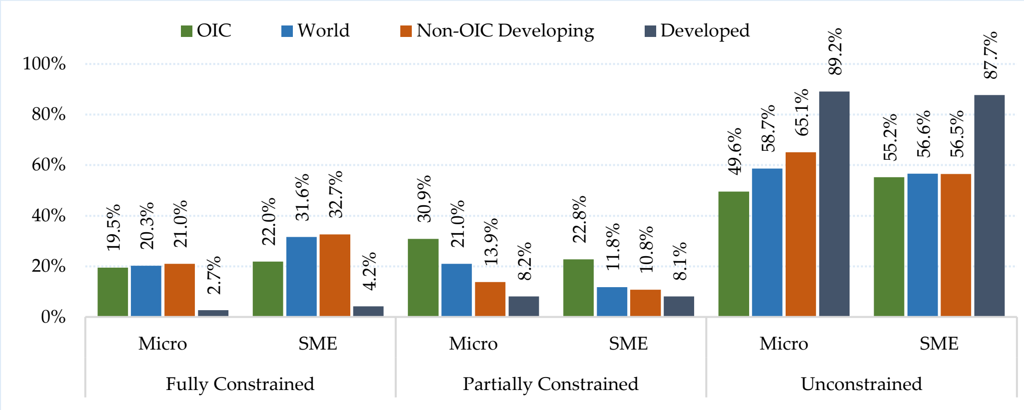
Source: SESRIC staff calculations based on World Bank Enterprise Surveys, June 2024.

Access to lines of credit or loans from financial institutions is perhaps the most critical indicator of financial health and growth potential. Here, the disparity is stark: only 13.2% of small firms have access to such financial products, compared to 21.5% of medium firms and 28.9% of large firms. This limited access to credit for small firms can stifle growth and innovation, as these businesses may struggle to finance expansion, purchase necessary equipment, or manage cash flow fluctuations. Overcoming this barrier often requires innovative solutions such as microfinancing, Islamic finance, peer-to-peer lending, or government-backed loan programs designed to reduce the risk for lenders.

Overall, the differences in financial behaviours and access to financial services highlight significant challenges for small firms. These challenges include limited ability to invest in growth, less integration into formal financial systems, and restricted access to necessary credit. Addressing these disparities is crucial for fostering a more inclusive and dynamic economic environment. Policy interventions could include targeted financial education programs to improve literacy among small business owners, incentives for banks to offer more tailored and affordable products to small firms, and the development of alternative financing mechanisms that can bridge the gap for those businesses that do not meet traditional lending criteria.

To provide additional insights utilizing IFC data, *Figure 4.9* indicates that MSMEs in the OIC countries face significant financing constraints, with 19.5% of micro enterprises and 22.0% of SMEs being fully constrained, and an additional 30.9% of micro enterprises and 22.8% of SMEs being partially constrained. This contrasts with the global averages, where 20.3% of micro and 31.6% of SMEs are fully constrained, and 21.0% of micro and 11.8% of SMEs are partially constrained. While the share of firms with full constraint is lower in the OIC countries, the share of firms that indicate no constraint is also the lowest, reflecting a relatively high share of firms with partial constraint in access to finance.

Figure 4.9: Financing Constraints of Firms (% of firms)



Source: The IFC Enterprise Finance Gap Database. SME Finance Forum. Database covers 40 OIC, 6 developed, and 86 non-OIC developing countries.

Table 4.4 shows selected indicators to assess the finance gap for formal and informal MSMEs in OIC countries in comparison with other groups. The current supply of finance to the formal MSME sector in the OIC countries is $371 billion, which is significantly lower than the potential demand of $1.18 trillion. This results in a substantial finance gap of $811 billion. The MSME finance gap in the OIC countries, as a percentage of GDP, stands at 19.2%, which is slightly higher than the global average of 18.3% and non-OIC developing countries at 18.0%. This indicates that despite lower absolute figures, the OIC countries face a relatively higher burden of unmet financing needs when considering the size of their economies. Moreover, the potential demand

Table 4.4: MSME Finance Gap

	OIC	World	Non-OIC Developing	Developed
Formal MSME Sector				
Current Supply of Finance (Billion USD)	370.8	3,858.8	3,431.4	56.6
Potential Demand for Finance (Billion USD)	1,181.4	8,670.6	7,328.4	160.9
MSME Finance Gap (Billion USD)	810.6	4,811.9	3,897.0	104.2
Formal MSME Finance Gap, % of GDP	19.2%	18.3%	18.0%	28.9%
Fully credit constrained MSMEs, % of total	19.5%	21.3%	22.7%	2.8%
Partially credit constrained MSMEs, % of total	30.7%	20.1%	13.4%	8.2%
Informal MSME Sector				
Potential Demand in Informal Sector (Billion USD)	567.0	2,763.0	2,158.0	38.0
Informal MSME Demand for Finance, % of GDP	13.5%	10.5%	9.9%	10.5%

Source: IFC Enterprise Finance Gap Database 2018. SME Finance Forum. Database covers 40 OIC, 6 developed, and 86 non-OIC developing countries.

for finance in the informal MSME sector in the OIC countries is estimated at $567 billion, representing 13.5% of GDP. This demand is higher in relative terms compared to the global average of 10.5% and non-OIC developing countries at 9.9%. The substantial finance gaps in both the formal and informal MSME sectors in the OIC countries requires strengthening financial infrastructure, expanding credit availability through diverse financial instruments, and improving the regulatory environment to support MSMEs.

Table 4.5 provides further insights on the application and access to new loans or lines of credit across small, medium, and large firms. In the last fiscal year, the percentage of establishments that applied for new loans or lines of credit was relatively low across all sizes, with 10% of small firms, 14% of medium firms, and 18% of large firms applying. This indicates a general reluctance or lack of need for new financial products among businesses, particularly smaller firms. When examining the types of financial institutions that granted lines of credit or loans, private commercial banks were the predominant source, with 60% for small firms, 70% for medium firms, and 74% for large firms. State-owned banks or government agencies also played a significant role, particularly for small firms (27%) and medium firms (23%), but less so for large firms (21%). This suggests that while private commercial banks are the primary source of loans, state-owned banks and government agencies are essential, especially for smaller firms that might struggle to meet the criteria of private banks.

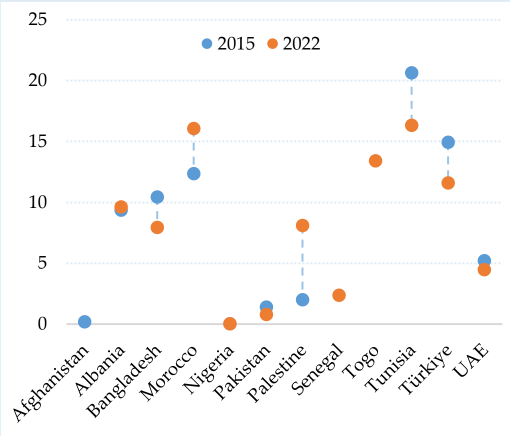
Table 4.5: Access to New Loans

	Small	Medium	Large	Total
In Last Fiscal Year, Did Establishment Apply for New Loans/Lines of Credit?				
Yes	9.8%	13.8%	18.1%	12.4%
No	85.9%	80.5%	73.5%	82.2%
DK	4.3%	5.7%	8.4%	5.4%
Type of Financial Institution that Granted the Line of Credit or Loan				
Private commercial banks	60.2%	70.4%	74.1%	67.5%
State-owned banks or government agency	27.3%	23.4%	20.5%	24.1%
Non-bank financial institutions	8.2%	3.5%	2.3%	5.0%
Other	2.7%	1.5%	1.3%	1.9%
DK	1.7%	1.2%	1.9%	1.5%
Main Reason for not Applying for New Loans or New Lines of Credit				
No need for a loan	55.7%	63.4%	71.5%	60.3%
Application procedure complex	8.6%	7.1%	5.6%	7.7%
Interest rates not favourable	14.3%	12.3%	9.5%	13.0%
Collateral requirements too high	8.4%	5.4%	3.5%	6.8%
Size of loan and maturity insufficient	1.9%	2.1%	1.5%	1.9%
Did not think it would be approved	3.7%	2.3%	0.9%	2.9%
Other	5.7%	5.2%	5.2%	5.5%
DK	1.7%	2.1%	2.5%	1.9%

Source: SESRIC staff calculations based on the WBES. DK: Do not Know.

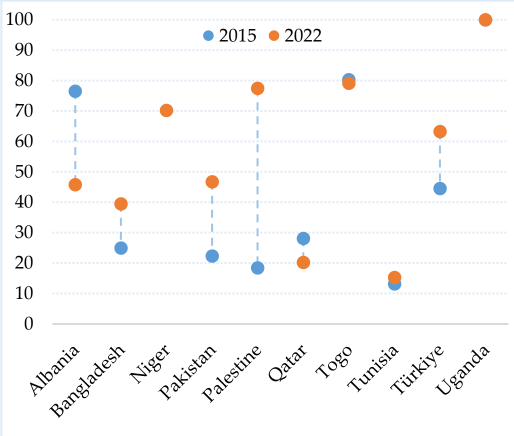
The main reasons for not applying for new loans or lines of credit reveal interesting insights into the perceived and actual barriers. A majority of firms across all sizes indicated no need for a loan: 56% of small, 63% of medium, and 72% of large firms, indicating a general sufficiency of internal funding or reluctance to take on debt. Interest rates not being favourable was a significant reason, affecting 14.3% of small firms and 12.3% of medium firms. Other notable barriers include the complexity of the application procedure, with 8.6% of small firms and 7.1% of medium firms citing this reason. Collateral requirements were a notable barrier for small firms (8.4%), highlighting the greater difficulty smaller firms face in securing the necessary collateral.

Figure 4.10: Outstanding SME Loans from Commercial Banks (% of GDP)



Source: IMF Financial Access Survey 2024. Note: 2021 data is used for Nigeria instead of 2022.

Figure 4.11: Number of SME Borrowers from Commercial Banks (% of Non-financial Corporation Borrowers)



Source: IMF Financial Access Survey 2024. Notes: 2016 data is used for Albania instead of 2015; 2019 data for Togo instead of 2015; 2021 data for Qatar instead of 2022.

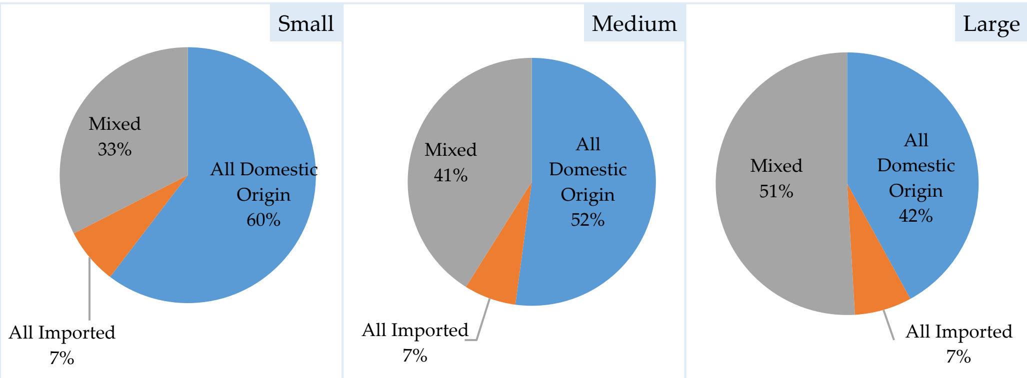
Utilizing the scarcely available data from IMF Financial Access Survey (FAS) database for individual OIC countries, *Figures 4.10* and *4.11* show outstanding SME loans from commercial banks as a percentage of GDP and the number of SME borrowers from commercial banks as a percentage of non-financial corporation borrowers from 2015 to 2022. Outstanding SME loans show varied engagement levels. Afghanistan and Nigeria have negligible data, indicating minimal SME lending. Albania, Morocco, and Palestine saw increases, with Morocco and Palestine showing substantial growth. Bangladesh, Pakistan, Tunisia, Türkiye, and the United Arab Emirates experienced declines, reflecting proportionately reduced SME lending (*Figure 4.10*). The number of SME borrowers also shows diverse trends. Albania, Qatar, and Togo experienced declines or stability, while Bangladesh, Pakistan, Palestine, and Türkiye saw significant increases, indicating rising SME access to loans. Uganda remained constant at 100%, suggesting exclusive SME borrowing among non-financial corporates. Niger showed high engagement in 2022, with 70.2% (*Figure 4.11*). Overall, some countries have improved SME financing, while others have seen declines, highlighting varying economic environments and policy impacts on SME access to finance.

4.3.3 Trade and Innovation

Despite the international fragmentation of production seemingly increasing opportunities for SMEs, their participation in GVCs remains relatively limited compared to large firms (WTO & World Bank, 2019). Several size-related constraints contribute to this, including challenges with production at scale, limited access to credit, informality, and difficulties in procuring cost-effective inputs while maintaining export-ready product quality standards (Cusolito, et al. 2016). Although SMEs are under-represented in GVCs, the digital economy offers new opportunities for them to play a more active role, particularly in the services sector, where SMEs are most likely to engage in trade (WTO, 2018).

The distribution of material inputs and supplies of domestic versus foreign origin for firms reveals insightful patterns about sourcing practices across different business sizes. Small firms predominantly rely on domestically sourced materials; 60% of small firms rely completely on domestic sources (*Figure 4.12*). This reliance decreases as firm size increases, with medium firms at 52% and large firms at 42%. Conversely, the proportion of firms sourcing all their materials from imports remains relatively constant across sizes, hovering around 7% for all categories. This indicates that reliance on fully imported materials is not significantly influenced by the size of the firm. Interestingly, the mixed sourcing category, which includes both domestic and imported materials, shows an increasing trend with firm size. Small firms report a 33% level of mixed sourcing, medium firms 41%, and large firms 51%. This suggests that larger firms are more likely to diversify their supply chains, balancing between domestic and foreign sources to optimize costs, quality, and supply chain resilience.

Figure 4.12: Origin of Material Inputs and Supplies in Last Fiscal Year

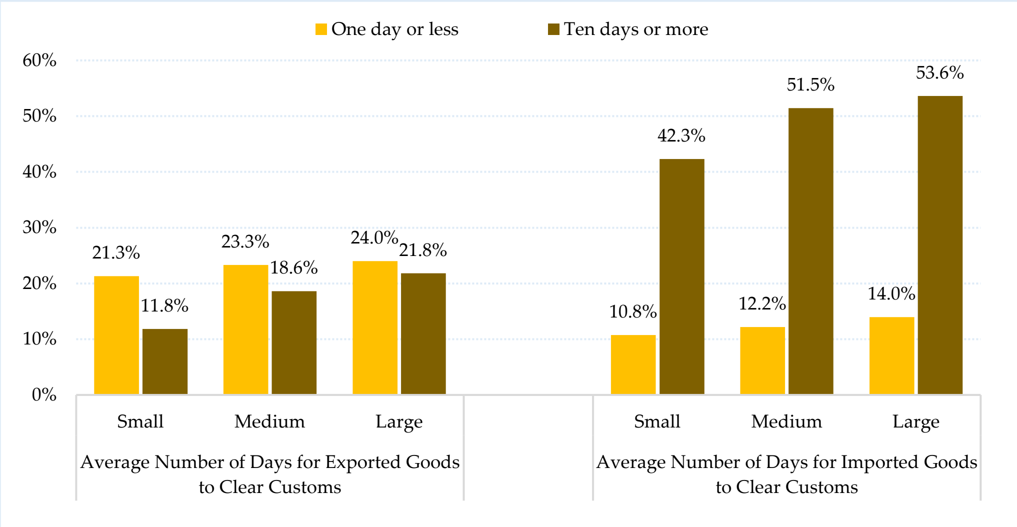


Source: World Bank Enterprise Surveys, June 2024

While the level of exposure to international trade varies among firms, efficiency in trade processes provides further insights into trade related challenges. When it comes to exported goods, the percentages of firms reporting that it takes one day or less to clear customs are relatively consistent across small (21%), medium (23%), and large (24%) firms. However, the proportion of firms experiencing delays of ten days or more increases with firm size, from 12% for small firms to 19% for medium firms and 22% for large firms (*Figure 4.13*). This suggests that while a substantial portion of firms can clear exports quickly, larger firms are more likely to encounter significant delays.

For imported goods, the situation is more concerning. Only 11% of small firms report clearing customs within one day or less, compared to 12% of medium firms and 14% of large firms. On the other hand, the percentage of firms experiencing delays of ten days or more is much higher: 42% for small firms, 52% for medium firms, and 54% for large firms. This indicates a considerable bottleneck in the import process, especially for larger firms, which may be dealing with more complex import operations and higher volumes of goods. These insights underscore the need to improve customs efficiency, particularly for imports, to facilitate smoother international trade operations across all firm sizes.

Figure 4.13: Time to Clear Customs, Last Fiscal Year (% of firms)

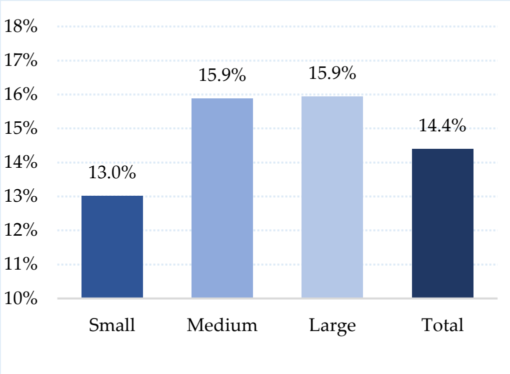


Source: World Bank Enterprise Surveys, June 2024

Regarding overall customs and trade regulations, 13% of small firms and 16% of both medium and large firms report them as major or very severe obstacles (*Figure 4.14*). Therefore, the complexity of customs procedures, stringent regulatory compliance, and trade barriers seem to be significant issues affecting firms. These obstacles can deter firms from participating in international trade, limit market expansion, and increase costs associated with regulatory compliance. The slightly higher percentage for medium and large firms may be due to their higher levels of involvement in international markets compared to smaller firms.

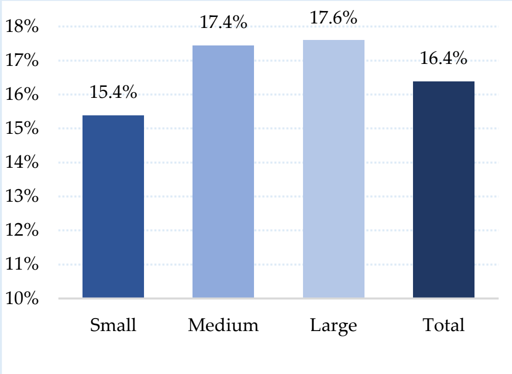
For transport, which is a critical factor in trade, between 15% and 18% of firms consider it a major or very severe obstacle, increasing with the size of firms (*Figure 4.15*). This suggests that transportation issues, such as infrastructure quality, logistics inefficiencies, and transit delays, are universally problematic. These challenges can result in higher operational costs, delays in the supply chain, and inefficiencies in delivering products to market. Despite having fewer resources, medium sized firms face nearly the same level of transport-related obstacles as large firms, indicating that improvements in transport infrastructure would benefit the entire business spectrum.

Figure 4.14: *Customs and Trade Regulations* as a Major or Very Severe Obstacle (% of firms)



Source: World Bank Enterprise Surveys, June 2024.

Figure 4.15: *Transport* as a Major or Very Severe Obstacle (% of firms)

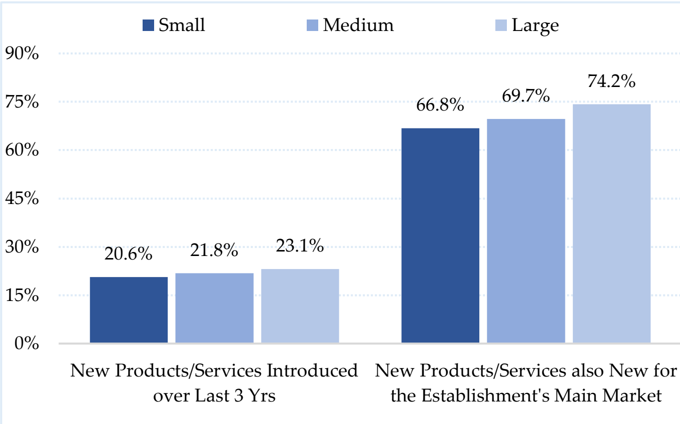


Source: World Bank Enterprise Surveys, June 2024.

Both transport and customs and trade regulations are critical areas where improvements could significantly enhance business operations. Streamlining transport infrastructure and logistics, along with simplifying customs procedures and reducing regulatory burdens, could help businesses in OIC countries operate more smoothly, reduce costs, and improve their competitive edge in both domestic and international markets.

Another important factor in succeeding in domestic and international markets is the ability to innovate and introduce new products and services. To this end, *Figure 4.16* and *4.17* reveal interesting patterns and insights into the innovation landscape among firms in the OIC countries. Larger firms have a slightly higher tendency to innovate in terms of new product or service offerings. This is largely due to the fact that larger firms often have more resources to allocate towards product development and can absorb the risks associated with introducing new products more easily than smaller firms. Additionally, the proportion of firms introducing new products or services that are also new to the establishment's main market is quite high across all firm sizes, ranging between 67% and 74% (*Figure 4.16*). This indicates that not only are larger firms slightly more likely to introduce new products or services, but their innovations are also more likely to be pioneering in their primary markets. This could be due to larger firms having greater access to market intelligence, advanced R&D facilities, and a higher capacity for market penetration strategies.

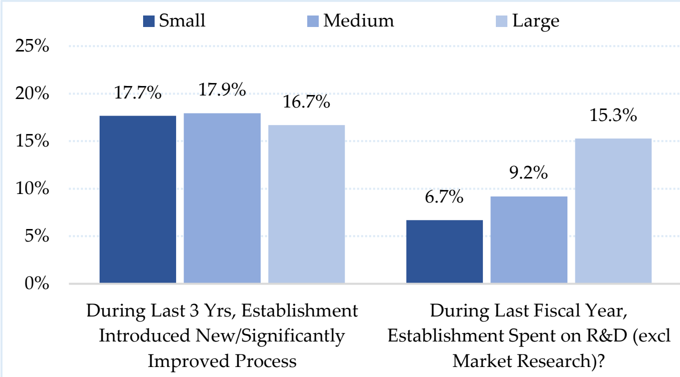
Figure 4.16: Introduction of New Products and Services (% of firms)



Source: World Bank Enterprise Surveys, June 2024

In terms of process improvements over the last three years, 17.7% of small firms, 17.9% of medium firms, and 16.7% of large firms reported introducing new or significantly improved processes. Interestingly, SMEs lead slightly in this category, suggesting they might be focusing more on internal efficiency improvements compared to larger firms. This could be because SMEs are still striving for optimization to sustain their growth. Regarding R&D expenditures, data shows a clear positive correlation between firm size and R&D expenditure, with larger firms being more likely to invest in R&D activities (*Figure 4.17*). Overall, these insights reveal that larger firms are generally more engaged in both product innovation and R&D activities, while SMEs show a stronger tendency towards process improvements.

Figure 4.17: Innovation and R&D Spending (% of firms)



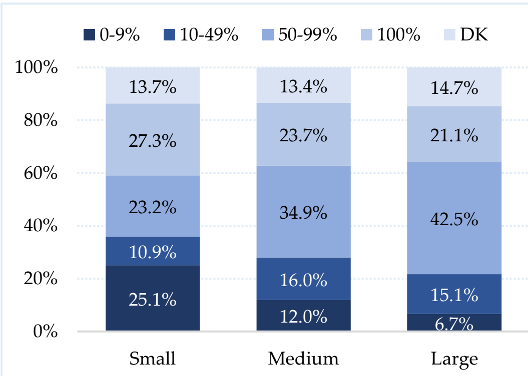
Source: World Bank Enterprise Surveys, June 2024

4.3.4 Labour, Governance, and Competition

Human capital is one of the most important resources for small business growth. It is crucial how these human resources are organized, and to what extent an SME can reconfigure, reallocate, and recombine its resources to achieve its goals (ILO, 2021). According to survey data, in one quarter of small firms, the share of workers who have completed high schools is less than 10%. Conversely, the proportion of workers who have completed high school significantly increases as firm size grows. Overall, larger firms tend to employ workers with higher levels of education (*Figure 4.18*). This could be due to several factors, including the ability of larger firms to attract more qualified candidates, the nature of the jobs offered, and better opportunities for career development.

Despite the gap in skilled labour, only 13% of small firms offer formal training programs for their employees, compared to 37% of large firms (*Figure 4.19*). This disparity highlights the challenges smaller firms face in providing formal training, possibly due to limited resources and smaller training budgets. These insights emphasize the need for targeted support to help SMEs overcome barriers to workforce development.

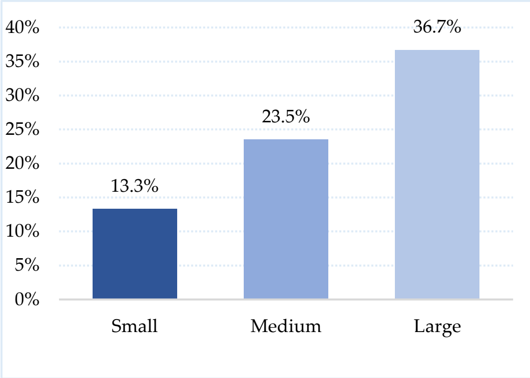
Figure 4.18: Distribution of Firms with Shares of Full Time Workers Who Completed High School



Source: World Bank Enterprise Surveys, June 2024. Legend shows the share of workers who completed high school in a firm. DK: Do not know.

However, as the data reveals in *Table 4.6*, the current practices do not seem to be supportive for the development of SMEs. Tax rates are seen as a significant obstacle by 26.5% of all firms, with SMEs reporting slightly higher concerns compared to large firms. Tax administration issues are also notable, affecting SMEs disproportionately. Business licensing and permits present relatively weaker challenges for firms of all sizes. Political instability is a major obstacle for all firms, affecting 30.5% them, with little variation across firm sizes. Likewise, corruption is perceived as a significant issue by 29.5% of firms, particularly among SMEs. All these indicate that tax-related issues, political instability, and corruption are prevalent concerns across all firm sizes, with SMEs feeling the brunt more acutely in several areas.

Figure 4.19: Formal Training Programs for Employees (% of firms)



Source: World Bank Enterprise Surveys, June 2024.

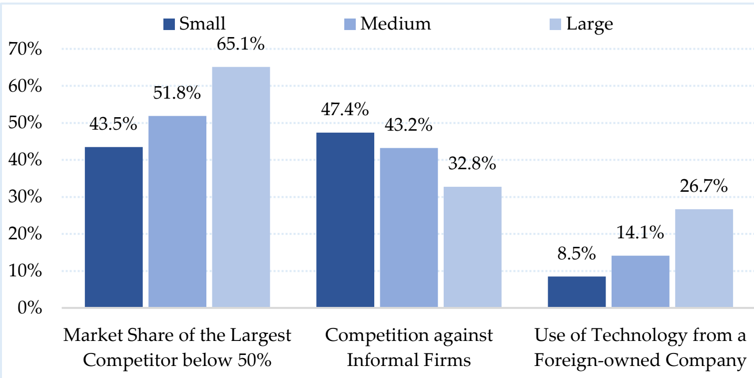
Table 4.6: Business - Government Relations: Major Obstacles

	Small	Medium	Large	Total
Tax Rates	26.2%	27.6%	24.8%	26.5%
Tax Administrations	20.0%	20.3%	17.1%	19.6%
Business Licensing and Permits	13.1%	14.7%	13.3%	13.7%
Political Instability	30.4%	30.8%	30.2%	30.5%
Corruption	30.7%	29.7%	25.1%	29.5%

Source: SESRIC staff calculations based on World Bank Enterprise Surveys, June 2024.

According to the International Labour Organization (ILO, 2015), 26% of MSMEs globally are formal, while the remaining 74% consist of informal firms and non-employers (one-person enterprises, either registered or non-registered). The ILO notes that these figures may overstate informality since they also include formal firms that employ only the owner. However, high levels of informality poses challenges for formal SMEs. In competition against informal firms, smaller firms report a higher impact (47%) compared to medium (43%) and large firms

Figure 4.20: Competition with Other Firms (% of firms)



Source: World Bank Enterprise Surveys, June 2024.

(33%). This indicates that informal competition poses a greater challenge for smaller businesses (*Figure 4.20*). The market share of the largest competitor being below 50% is a scenario more commonly seen among larger firms (65%), compared to smaller firms, suggesting counterintuitively that larger firms operate in less monopolistic markets. Additionally, the use of technology from foreign-owned companies increases with firm size, with large firms (27%) utilizing such technologies more than medium (14%) and small firms (9%). This could be reflective of the larger firms' greater access to international resources and capabilities for integrating advanced technologies.

4.3.5 Barriers to SME Development

Previous sections have revealed important insights into the challenges faced by SMEs in various dimensions. Before concluding the discussions, analysing the biggest obstacles faced by SMEs would reveal distinct patterns and implications for policy development and strategy. As shown in *Table 4.7*, small enterprises are significantly hampered by access to finance, with 20.1% citing it as their primary obstacle. This suggests a critical need for financial reforms and support systems tailored to smaller businesses, which are often more vulnerable to cash flow issues and lack the collateral necessary for traditional lending. Tax rates are also considered among the top challenges faced by SMEs. Moreover, the impact of electricity issues on small firms (11.9%) underscores infrastructural deficiencies that disproportionately affect smaller enterprises, which may lack the resources to invest in alternative energy solutions.

Table 4.7: Biggest Obstacle Affecting the Operation of Firms

	Small	Medium	Large
Access to Finance	20.1%	17.0%	13.4%
Access to Land	3.3%	3.3%	2.9%
Business Licensing and Permits	3.1%	3.5%	4.0%
Corruption	9.7%	9.5%	11.8%
Courts	0.5%	0.7%	0.6%
Crime, Theft and Disorder	3.3%	3.1%	3.4%
Customs and Trade Regulations	3.0%	4.2%	5.1%
Electricity	11.9%	10.4%	8.5%
Inadequately Educated Workforce	4.1%	6.4%	7.7%
Labour Regulations	2.7%	3.4%	4.1%
Political Instability	9.9%	10.6%	12.9%
Practices of Competitors in the Informal Sector	10.0%	9.2%	8.0%
Tax Administration	3.7%	3.6%	3.6%
Tax Rates	11.6%	11.8%	11.1%
Transport	3.1%	3.2%	2.9%

Source: SESRIC staff calculations based on World Bank Enterprise Surveys, June 2024.

Overall, the data and analyses suggest that while tax rates are a common hurdle across all sizes, the nature of obstacles evolves with business growth. Access to finance is the most critical challenge for SMEs. Moreover, small firms need financial and infrastructural support, medium firms require regulatory stability and skilled labour, and large firms need protection against political and corruption risks. Addressing these nuanced challenges requires targeted policy interventions that consider the specific needs of SMEs at different stages of their growth trajectory. This tailored approach can help in creating a more supportive and resilient business environment conducive to sustainable SME development.

4.4 Policy Initiatives and Support Mechanisms

Data and analyses in previous sections highlight important challenges faced by SMEs in OIC countries. It has emerged that enhancing access to finance should be a priority for SME development. Additionally, addressing infrastructural deficiencies requires investment in reliable energy sources and transportation modalities. SMEs would also benefit significantly from regulatory reforms that streamline business licensing and reduce bureaucratic complexities. Moreover, investing in education and vocational training programs can help bridge the skills gap, ensuring that the workforce is adequately prepared to meet the demands of growing businesses. Based on these considerations, a number of policy recommendations are made to support the development of SMEs in the OIC countries.

Financial Support

To enhance access to finance for SMEs, several measures should be implemented. Developing tailored financial products such as microloans, flexible credit lines, and SME-specific insurance products can meet the diverse needs of SMEs. Establishing government-backed loan guarantees can reduce the risk for lenders, thereby encouraging them to extend more credit to SMEs. Facilitating stronger relationships between SMEs and financial institutions through networking events, financial literacy programs, and mentorship can also play a pivotal role. Moreover, setting up dedicated SME funds or investment platforms can attract private investments into the sector.

More specific recommendations are as follows:

- Develop and promote microloans, flexible credit lines, and SME-specific insurance products to cater to the diverse financial needs of SMEs. Design financial products with longer repayment periods and lower interest rates to reduce the financial burden on SMEs.
- Establish government-backed loan guarantee programs to reduce the risk for lenders, encouraging them to extend more credit to SMEs. Ensure these programs are easily accessible and well-publicized to maximize their reach and impact.
- Encourage the development and use of alternative financing mechanisms such as crowdfunding platforms, peer-to-peer lending, and angel investment networks. Create regulatory frameworks that ensure the security and reliability of these alternative financing platforms. Also support the establishment of SME-focused venture capital funds to provide equity financing for innovative and high-growth potential businesses.

- Implement financial literacy programs to educate SMEs about various financing options, financial management, and the benefits of formal financial systems. Develop online portals and resource centres that provide information and advisory services to SMEs regarding financing options and application processes.
- Establish dedicated SME funds that pool resources from government, private investors, and international organizations to provide accessible financing.

Regulatory and Governance Reforms

Regulatory and governance reforms are crucial in creating a conducive business environment for SMEs. Simplifying business licensing processes and reducing bureaucratic red tape can make it easier for SMEs to start and expand their operations. Implementing transparent governance practices and robust anti-corruption measures can build trust and stability, which are essential for business confidence. Additionally, establishing a more predictable and fair tax system can alleviate the tax burden on SMEs, enabling them to reinvest in their businesses. Encouraging political stability through consistent and clear policy-making can further improve the operating environment for SMEs.

More specific recommendations are as follows:

- Streamline the process for obtaining business licenses and permits by reducing paperwork and automating procedures. Establish one-stop shops where SMEs can fulfil all regulatory requirements in a single location or through an online portal.
- Simplify the tax filing process for SMEs by introducing user-friendly online platforms and providing clear guidelines. Offer tax incentives, such as reduced rates or tax holidays, for newly established SMEs or those in high-growth sectors.
- Enhance transparency and accountability in public administration to reduce opportunities for corruption that disproportionately affect SMEs. Implement rigorous audits and inspections to ensure compliance with anti-corruption laws and regulations.
- Simplify customs procedures to reduce delays in the import and export of goods, which are critical for SMEs engaged in international trade. Provide clear and consistent information about trade regulations and ensure that these are applied uniformly.
- Ensure labour regulations are balanced to protect workers' rights without imposing excessive burdens on SMEs. Promote flexible labour policies that allow SMEs to adapt to changing market conditions without facing punitive measures.
- Strengthen judicial systems to ensure timely and fair resolution of business disputes. Promote alternative dispute resolution mechanisms such as arbitration and mediation to offer SMEs efficient and cost-effective options.

Infrastructure and Technology

Improving infrastructure, particularly in electricity and transport sector, is essential for the operational efficiency of SMEs. Investing in reliable energy sources and promoting the adoption of renewable energy solutions can ensure a consistent electricity supply, which is essential for production and service delivery. Enhancing transport infrastructure through better roads, ports, and logistics networks can reduce costs and improve market access for SMEs. Encouraging the adoption of technology through digital transformation initiatives, such as e-commerce platforms and digital payment systems, can enhance the competitiveness and market reach of SMEs. Government incentives for technology adoption, such as tax breaks and grants for digital upgrades, can further support this transition.

More specific recommendations are as follows:

- Enhance road, rail, and port facilities to reduce transportation costs and improve the efficiency of supply chains for SMEs. Ensure a reliable and affordable power supply by investing in modern energy infrastructure and promoting renewable energy solutions. Also expand and upgrade telecommunications infrastructure to provide high-speed internet and reliable communication networks.
- Promote digital literacy programs to equip SME owners and employees with essential digital skills. Encourage the adoption of modern technologies such as cloud computing, data analytics, and digital marketing tools. Provide incentives, subsidies, or tax breaks for SMEs that invest in technology upgrades.
- Establish innovation hubs and technology parks that offer SMEs access to cutting-edge technology, research facilities, and collaboration opportunities with tech firms and research institutions.
- Provide grants, subsidies, and tax incentives for SMEs that invest in R&D activities. Supporting innovation can lead to the development of new products, services, and processes that enhance competitiveness. Also strengthen the protection of intellectual property rights to encourage innovation.
- Develop and support e-commerce platforms that enable SMEs to reach broader markets. Promote the use of digital financial services such as mobile banking, digital payments, and online loan applications. Meanwhile, raise awareness about cybersecurity threats and provide resources to help SMEs protect their digital assets.
- Provide SMEs with access to market intelligence and data analytics tools that help them make informed business decisions. Understanding market trends, customer preferences, and competitive dynamics can drive strategic planning and growth. Also create and maintain centralized databases where SMEs can access information on regulatory requirements, business opportunities, and government support programs.

Education and Workforce Development

Investing in education and workforce development is crucial to address the challenge of having an inadequately educated workforce faced by SMEs. Developing vocational training programs and aligning them with industry needs can ensure that the workforce possesses the necessary skills for the job market. Collaborations between SMEs, educational institutions, and government agencies can create tailored curricula and apprenticeship programs that meet specific industry requirements. Providing continuous learning opportunities and professional development programs can help employees adapt to technological changes and industry advancements.

More specific recommendations are as follows:

- Update educational curricula to include relevant skills for the modern economy, such as digital literacy, critical thinking, and entrepreneurship. Expand and improve Technical and Vocational Education and Training programs to provide students with practical skills and hands-on experience in various trades and professions. Collaborate with industry partners to ensure these programs meet the current and future needs of SMEs.
- Promote work-based learning opportunities such as apprenticeships, internships, and co-op programs. Encourage a culture of lifelong learning by providing accessible and affordable opportunities for continuous education and skills development.
- Develop targeted upskilling and reskilling programs to help the existing workforce adapt to changing industry needs and technological advancements. Provide subsidies or tax incentives for SMEs that invest in employee training and development.
- Offer leadership and management training programs to develop the capabilities of SME owners and managers. Strong leadership can drive business growth, innovation, and employee engagement. Also establish mentorship and coaching programs to support the professional development of SME leaders.

Before concluding, it is important to highlight that SESRIC takes initiative to support the development of MSMEs in OIC countries by organizing various capacity building and training activities. A recent activity was organized in collaboration with the Small and Medium Business Development Agency (KOBIA) of the Republic of Azerbaijan on "Empowering MSMEs in OIC Member Countries through Green Climate Finance" during 9-10 July 2024. Key topics covered during the 2-day workshop included: Indonesia's Perspective of Sustainable Finance for MSMEs; Climate Smart Finance Efficiency for MSMEs in Türkiye; OECD Platform on Financing SMEs for Sustainability; The Future of Climate Finance: Opportunities for Green MSMEs in Azerbaijan: Climate Smart Financing for MSMEs; Leveraging Climate Finance: An Implementation Strategy for Sustainable Business Practices in MSMEs; and IsDB's perspective on Climate and Green finance.

Within the framework of private sector cooperation, COMCEC gives utmost importance to the development of SMEs in the Member States. In this regard, some of the previous sessions of the COMCEC Trade Working Group focused on promoting the exports of the SMEs in the OIC Member States and improving SMEs access to trade finance in the OIC Member States. Recently, the 38th Session of the COMCEC welcomed Türkiye's proposal to develop a comprehensive MSME Program and tasked the COMCEC Coordination Office (CCO) with initiating technical studies in collaboration with interested member countries and OIC institutions.

Annex: Country Classifications

A. Major Country Groups used in the Report

OIC Countries (57)*

Code	Name	Code	Name	Code	Name
AFG	Afghanistan	GUY	Guyana	PAK	Pakistan
ALB	Albania	IDN	Indonesia	PSE	Palestine
DZA	Algeria	IRN	Iran	QAT	Qatar
AZE	Azerbaijan	IRQ	Iraq	SAU	Saudi Arabia
BHR	Bahrain	JOR	Jordan	SEN	Senegal
BGD	Bangladesh	KAZ	Kazakhstan	SLE	Sierra Leone
BEN	Benin	KWT	Kuwait	SOM	Somalia
BRN	Brunei Darussalam	KGZ	Kyrgyzstan	SDN	Sudan
BFA	Burkina Faso	LBN	Lebanon	SUR	Suriname
CMR	Cameroon	LBY	Libya	SYR	Syria*
TCD	Chad	MYS	Malaysia	TJK	Tajikistan
COM	Comoros	MDV	Maldives	TGO	Togo
CIV	Cote d'Ivoire	MLI	Mali	TUN	Tunisia
DJI	Djibouti	MRT	Mauritania	TUR	Türkiye
EGY	Egypt	MAR	Morocco	TKM	Turkmenistan
GAB	Gabon	MOZ	Mozambique	UGA	Uganda
GMB	Gambia	NER	Niger	ARE	United Arab Emirates
GIN	Guinea	NGA	Nigeria	UZB	Uzbekistan
GNB	Guinea-Bissau	OMN	Oman	YEM	Yemen

* Membership of Syria to the OIC is currently suspended.

Developed Countries* (41)

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

* Refers to "advanced economies" as classified by the IMF, World Economic Outlook Database, April 2024.

Developing Countries

Includes all countries other than those classified as developed countries.

B. Income Classification of OIC Countries

High Income* (8)

Bahrain	Guyana	Oman	Saudi Arabia
Brunei Darussalam	Kuwait	Qatar	United Arab Emirates

Upper Middle Income* (14)

Albania	Indonesia	Libya	Türkiye
Algeria	Iraq	Malaysia	Turkmenistan
Azerbaijan	Iran	Maldives	
Gabon	Kazakhstan	Suriname	

Lower Middle Income* (20)

Bangladesh	Djibouti	Lebanon	Palestine
Benin	Egypt	Mauritania	Senegal
Cameroon	Guinea	Morocco	Tajikistan
Comoros	Jordan	Nigeria	Tunisia
Côte d'Ivoire	Kyrgyzstan	Pakistan	Uzbekistan

Low Income* (15)**

Afghanistan	Guinea-Bissau	Sierra Leone	Togo
Burkina Faso	Mali	Somalia	Uganda
Chad	Mozambique	Sudan	Yemen
Gambia	Niger	Syria**	

* Country grouping by income level is based on World Bank classification by GNI per capita in 2023. Accordingly;

- Low-income countries: with a GNI per capita of $1,145 or less,
- Lower middle-income countries: with a GNI per capita between $1,146 and $4,515,
- Upper middle-income countries: with a GNI per capita between $4,516 and $14,005, and
- High-income countries: with a GNI per capita of $14,006 or more.

** Membership of Syria to the OIC is currently suspended.

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Main Data Sources

IFC Enterprise Finance Gap Database 2019

ILO ILOSTAT Database, November 2023

ILO ILOSTAT Database, May 2024

IMF Direction of Trade Statistics (DOT) Database, July 2024

IMF, International Financial Statistics (IFS) Database, July 2024

IMF, Financial Access Survey, June 2024

IMF World Economic Outlook Database, April and July 2024

OECD, OECD. Stat Database

SESRIC OIC-STAT Database, July 2024

UN COMTRADE Database, July 2024

UN Services Trade Database, July 2024

UNCTAD Online Database and World Investment Report Annex Tables, July 2024

UNSD National Accounts Main Aggregates Database, July 2024

WTO Database, July 2024

World Bank Business Enterprise Surveys, June 2024

World Bank World Development Indicators, July 2024

Footnotes

[1] To ensure consistency throughout this report, the groupings of developed and developing countries are based on the IMF's classification, and they differ from those of UNCTAD. See Annex A.

[2] A high employment-to-population ratio means that a large proportion of a country's working age population is employed, while a low ratio means that a large share of the population is not involved directly in market-related activities, because they are either unemployed or out of the labour force altogether.

[3] ILO Modelled Estimates, May 2024. Excluding Palestine and Ukraine for which data is not available.

[4] A form of FDI where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up instead of buying an existing facility in that country. These investment types are crucial for the development of productive capacity and infrastructure and for the prospects for a sustainable recovery (UNCTAD, 2021).

[5] Total reserves comprise holdings of monetary gold, special drawing rights (SDRs), reserves of IMF members held by the IMF (reserve position in the IMF), and holdings of foreign exchange under the control of monetary authorities.

[6] A traditional indicator of reserve adequacy that shows the number of months a country can continue to support its current level of imports if all other inflows and outflows cease.

[7] The increase in ODA flows to the group of non-OIC developing countries mostly resulted from disbursements to Ukraine that increased from US$ 2.2 billion in 2021 to US$ 28.7 billion in 2022, alone representing a third (35%) of the total ODA flows to this group.

[8] The share of OIC countries in world total ODA flows (including those reported at country level and those unspecified) was 28.2% as of 2022, compared with 38.7% in 2021. Besides the reported declines in flows to the individual OIC countries (-12.3%), the rising flows to non-OIC countries (45.2%) and to unspecified countries and regions (37.4%) contributed to this outcome.

[9] Data are not available for the following OIC countries: Bahrain, Brunei, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Turkmenistan and United Arab Emirates. The database also does not cover developed countries.

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