

OECD FORUM 2005

FUELLING THE FUTURE: Security, Stability, Development

Financing for Development

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Mr. Chairman, Ladies and Gentlemen,

On behalf of the Islamic Development Bank, I want to express sincere thanks and appreciation to the Organizers of the OECD Forum 2005 for giving the chance to the IDB to participate in this very important Forum. The IDB as an International Developmental Institution comprising 55 member countries spread over the major four continents of the World has on the very top of its priority the international cooperation for the development, stability and security of mankind in this global village. The IDB is committed to contribute its share for achieving this noble objective.

Ladies and Gentlemen,

The challenge of development and poverty alleviation needs global cooperation and coordination. All means available to humanity need to be put to serve this cause. Since a large number of IDB member countries belong to the least developed group, for the IDB the challenge is much more pressing. And we have much to share from our work in these areas.

IDB's contribution toward development challenges of its member countries is best understood by looking at the unique features and priorities of the operations within the IDB Group. Poverty alleviation and human development are on the top of the IDB Group's current priority areas. Project financing that is mainly related to this objective has shown a tremendous overall growth of 20% directed toward building and expanding production and institutional capacity in member countries.

The IDB shares the complex developmental challenges faced by its member countries with other multilateral development banks (MDBs) and national, regional and international organizations. It is with a sense of urgency and the need for constructive review of the spectrum of these shared challenges, that I would like to address some of them very briefly here.

Ladies and Gentlemen

The eight Millennium Development Goals (MDGs) which are aimed at poverty reduction and improvements in important aspects of human welfare such as health, education, reducing child mortality, etc. are perennial issues facing the IDB member countries. Many of these countries are on the track of achieving major health related MDGs and reducing the number of people suffering from hunger. However, there is a serious concern on significant gaps in the achievement of the MDGs by the membership from the Sub-Saharan African countries. Particularly, the target of halving the number of people living below US\$1 a day, is in fact in serious risk of being missed. This is of special concern in view of the declining volume of Official Development Assistance (ODA) flows to the IDB member countries. The ODA currently is directed less towards financing the incremental cost of meeting MDGs; instead, it is largely devoted to debt relief initiatives.

Moreover, the amount of additional finance required to reach MDGs is still far below the level which is required if MDGs are to be met by 2015. Furthermore, hardly 13% of the foreign direct investment (FDI) flowing to developing countries reaches the IDB member countries.

A number of other internal and external uncertainties are expected to continue threatening the stability of the fragile economies. Population pressures; depletion of water resources; pollution; youth unemployment and restlessness are some of the critical internal pressures that accentuate the challenges. The recent shock in the oil market, the never-ending instabilities in the foreign exchange markets, the chronic downward trends in primary commodity prices, persistent budget deficits and the weakness of financial institutions and markets continue to raise significant challenges for our member countries. The need to revitalize the Doha Work Program and the major development issues confronting post-conflict and post-tsunami reconstruction add to the urgencies. There are a number of other major governance issues that are likely to have significant impact on the economic situation of the IDB member countries. These include creation of enough incentives for the private sector and preparing member countries to benefit from globalization and deepening of financial markets.

Ladies and Gentlemen,

Allow me now to briefly state how IDB has attempted to address these challenges facing most MDBs that are engaged in promoting economic development in their respective member countries. The IDB which was established in 1975 has a distinct role as an MDB to operate within the framework of South-South cooperation. It also has additional challenge of dealing with nearly half of the world's least developed countries implying greater use of concessional financing. Moreover, it has the uniqueness of applying itself in a niche market of Islamic banking and finance with both challenges and opportunities of its own. Accordingly, it has developed other modes of financing that could be used to complement the development role of other MDBs. A brochure and a CD-ROM on Islamic banking have been distributed to all delegates by the IDB for those who want to know more on Islamic Banking.

There has been a substantial growth in the capital base of the Bank overtime and its financing over the years has increased tremendously. The authorized capital of the IDB has increased from around US\$3 billion in 1975 to almost US\$23 billion 2004 and its annual financing has increased from a modest figure of less than US\$900 million to present annual financing volume of US\$4 billion.

Ladies and Gentlemen,

IDB's contribution toward development challenges of its member countries is best understood by looking at the unique features and priorities of the operations of the Group. Poverty alleviation and human development are on the top of the IDB Group's current priority areas. Project financing that is mainly related to this objective has shown a systematic overall growth and is directed toward building and expanding production and institutional capacity in member countries.

The overall priority accorded to the projects and activities involving the 23 Least Developed Member countries (LDMCs), is another unique feature of the Bank's operation.

The highest levels of concessionality are applied to loans made to these countries in the form of very low service fees, together with relatively longer grace and repayment periods. Furthermore, over 50 per cent of Loans, which is a concessional facility of the Bank, and over 60 per cent of all technical assistance approved was for these countries, mostly in the form of grants. The Bank also initiated a special LDMC Account to provide additional concessional financial support to finance developmental activities in these countries.

Setting proper sectoral priorities in providing development finance and assistance was another important aspect of the IDB's operations and activities that are directly targeted toward achieving MDGs. As a result of this special development orientation in project financing, technical assistance and the Special Assistance Program of the Bank, the sectors that received the greatest shares in the IDB financing were social sectors (27%), agriculture (18.1%) and public utilities (16.7%). The IDB Group will continue to accord priority to agriculture and food security, water, sanitation, education, health, transport and communications and small and medium scale industries sectors in order to directly contribute to human development and poverty alleviation.

Ladies and Gentlemen,

Expansion of trade enhances production capacities, creates employment opportunities and supports government revenues. Intra-trade and investment are high on the development agenda of the IDB Group and are considered as crucial elements which can play a significant role in the development of member countries. Trade financing is used as a means to bridge financing gaps and trade promotion program of IDB is designed to foster co-operation by supporting member countries' developmental efforts through the financing of vital imports of the much needed intermediate and capital goods. The IDB has built a financially viable network of windows and attracted long-term funds mobilized from international Islamic capital markets on very competitive terms in order to release member countries of future financing obligations. As a result of its financial prudence AAA rating was granted to the IDB by Standard & Poor's in December 2003 which has been subsequently reconfirmed in 2004. The IDB has also been declared a zero-risk weighted multilateral development bank by the Bank of International Settlements in 2003 under the new Basel Capital Accord.

Ladies and Gentlemen,

For the purpose of responding to the growing and diverse financing needs of member countries, over time the IDB has established different specialized affiliate entities and funds. As a result it has evolved from a single entity to the "IDB Group" that provide financing for infrastructure development, insurance coverage for investment and export credits, financing for private sector development, support for research and training and development of information technology.

As for the future direction of the Bank, the IDB's strategic framework highlights its continued commitment to poverty alleviation, promoting human development and enhancing cooperation amongst member countries.

Ladies and Gentlemen,

The main requirement of achieving the MDGs is that there has to be a compact of 'mutual obligations' for a true partnership between developed and underdeveloped countries and multilateral agencies. Thus, there is need to increase collective resolve and action in order to achieve sustainable economic growth and to expand the delivery of services to the underdeveloped countries of the World community. This calls for enhanced reform efforts by developing countries as well as increased support from developed countries and multilateral agencies. The Millennium Development Goals (MDGs) that the International Community has set for itself cannot be achieved without enhancing the cooperative activities. IDB is very appreciative of the OECD approach to reach out to non-members through its new initiatives such as NEPAD and MENA-OECD Investment Program.

The state of development in the IDB member countries offers large opportunities particularly in infrastructure, information technology, traditional manufacturing and in the services industry. IDB welcomes closer cooperation with the OECD to tap resources for development. I sincerely believe that cooperation and collaboration between the IDB, OECD and other multilateral institutions in different areas such as exchange of information and expertise, technical cooperation in the field of Islamic banking and finance and sharing knowledge on major development themes could go a long way in strengthening our capacities and contributing to our collective efforts to promote socio-economic development in developing countries, including the IDB member countries.

I would like to reiterate once again IDB's unequivocal, whole-hearted and continuous support to the efforts for enhancing national and international resources for financing development and to collaborate closely with other multilateral institutions to realize the laudable objectives of alleviating poverty and achieving sustainable development set under the Millennium Declaration.

Ladies and Gentlemen,

With these words, I would like to conclude my statement, and wish the Forum a great success. I thank you all and shall be happy to answer any questions.