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The agenda of the Sixty-Second Meeting of the Development Committee covers items with special significance to the World Bank Group such as its role in poverty reduction and global public goods, its support to country development, and progress being made in applying its Comprehensive Development Framework, implementing HIPC Initiative and Poverty Reduction Strategy Papers, strengthening its financial capacity, and defining its role in international financial architecture. Since these topics are highly relevant to most developing countries including member countries of the Islamic Development Bank (IsDB), I would like to share some of my thoughts on the agenda items of this very august meeting. As usual, I begin with the assessment of the performance of the world economy in general and of IsDB member countries in particular and give some observations on the recent trends in the transfer of resources to developing countries.

As you are aware, during the year 2000, the world economy has continued to recover its growth momentum after it had slowed down due to financial crises. The growth rate of the world output is expected to accelerate from 3.3 per cent in 1999 to an estimated 4.2 per cent this year. While the economic growth in major industrial countries is expected to remain satisfactory with an estimated overall growth rate of 3.3 per cent in 2000, developing countries will realize a higher economic growth than the world average. Their rate of growth is estimated to be 5.4 per cent in 2000 after registering 3.8 per cent in 1999. This level of performance was made possible by the continued and successful efforts to implement structural adjustment programmes and other important reform measures as well as by increased oil and primary commodity prices and economic recovery of their trading partners in Europe and North America.

With the global economic recovery, world trade is also expected to improve, registering an estimated growth rate of 7.9 per cent this year. In addition, inflation, as measured by changes in the general consumer price level, is projected to remain low at 1.8 per cent in 2000 in industrial countries, while in developing countries as a whole, although still higher, it is projected to decrease from 6.7 per cent in 1999 to 5.8 per cent in 2000.

Obviously, a favourable global economic environment helped IsDB member countries improve their economic performance. The Gross Domestic Product (GDP) of these countries
reversed its downward trend with a growth rate expected to increase to 4.5 per cent this year. In particular, the growth of the Least-Developed IsDB Member Countries (LDMCs) is projected to be even higher at 5.2 per cent in 2000. The trade balance position of IsDB member countries as a group is also expected to improve significantly from a surplus of US$38.6 billion in 1999 to a surplus of US$66 billion in 2000. Regarding the trade balance of the LDMCs group, its chronic deficit position persisted but is expected to fall to US$7.9 billion in 2000 due, among others, to better international primary commodity prices.

Despite these improvements in the performance of the world economy in general and IsDB member countries in particular, they continue to face a number of challenges that are likely to affect their performance in the next decade. These mainly include the risks of global slowdown, unbalanced pattern of growth among industrial countries, and macroeconomic instability in many parts of the world. The emerging economies confront the challenging tasks of financial sector restructuring and privatization in order to strengthen their recovery and reform their corporate sectors to achieve greater efficiency and international competitiveness. Concerning developing countries, including many IsDB member countries, poverty continues to be a major source of concern, although efforts for poverty alleviation have been made at all levels.

In recent years, there was not only further deterioration in the poverty profile of African member countries, but some Asian and Arab member countries also experienced an increase in poverty due to financial crisis and a decrease in revenues of primary exports. According to available data, three out of five individuals in IsDB member countries currently live on incomes that are less than US$2 a day, representing about a quarter of the world’s poor. In many of these countries, rural poverty incidence is even more severe than urban poverty. In general, this high degree of deprivation is reflected in very low social indicators such as low access to safe drinking water and sanitation, low enrolment rates in primary education and low literacy rates.

Accordingly, it is clear that poverty will remain a complex problem posing a challenge to policy makers in most developing countries as well as to multilateral financing institutions (MFIs). While it is generally observed that the reduction of poverty is not possible in the absence of economic growth, a broad-based growth and investing in human capital of the poor, the
provision of social protection for vulnerable groups of society should constitute an important element in a comprehensive strategy to reduce poverty. In this respect, modern, publicly organized safety nets can help the poor achieve a minimum standard of living and protect them from unexpected shocks.

Furthermore, it is expected that, because of poverty, developing countries will continue to rely on external flows of resources for the success of their structural reforms and developmental efforts. These capital flows may be in the form of official development finance, foreign direct investment and other capital flows from international capital markets. According to available data from the World Bank, the total volume of net long-term flows to developing countries decreased by US$43 billion between 1998 and 1999 because of the significant decline in flows from international markets. This decline resulted mainly from the deterioration of investor confidence in emerging markets, although economic recovery was observed in many countries affected by the recent financial crisis.

Concerning official development finance, while welcoming the increase in the net volume for the third consecutive year from US$52 billion in 1998 to US$56 billion in 1999, reflecting a better economic situation in most donor countries, the IsDB shares the deep concern arising from the low level of aid flows or net concessional finance which is still below its level for 1994 by about US$ 5 billion. In addition, although foreign direct investment (FDI) to developing countries increased slightly in 1999 to reach the volume of US$180 billion, the share of these countries in world FDI flows continues to decline since 1997. FDI flows also remain relatively concentrated in very few developing countries and efforts should be made in order to reverse this trend particularly in Africa.

Finally, serious concern arises with respect to the sharp decline in flows from international capital markets, which constituted the second largest source of finance for developing countries during the last few years. These flows decreased sharply by more than 50 per cent between 1998 and 1999 because of the significant decline in commercial bank loans and bonds. However, portfolio equity increased significantly due to better conditions in the capital
markets of emerging economies reflected by a sharp increase of stock prices and supported by large privatization transactions particularly in East Asia.

In the light of the economic situation in developing countries, including IsDB member countries, the IsDB fully agrees that poverty should continue to be on top of the agenda of all MFIs. Accordingly, it is not surprising that almost all the items on the agenda of the Development Committee are related to this crucial issue, as the global objective in this area is to reduce poverty by half by 2015.

As far as the first item on the agenda is concerned, I do not think that the IsDB needs to give a different definition for global public goods and stress the importance of global collective action aimed at facing the developmental challenges. However, while it is true that support to global collective action is not new, the IsDB shares the view that new approaches and instruments need to be designed in order to reduce poverty significantly. This requires the mobilization of additional resources to participate in collaborative partnerships at national, regional and global levels. In this regard, we feel that the World Bank has greater role to play in this area because of its comparative advantage in mobilizing and managing large financial and knowledge resources at international level. However, this role should not be incompatible with the view that the World Bank as well as each concerned institution should confine its intervention to activities in areas that are within its mandate.

In this context, the IsDB broadly agrees with the areas presenting several cross border externalities identified by the World Bank for global collective action. Among these areas, creating and sharing knowledge may be emphasized since knowledge constitutes a pure public good which is critical for socio-economic development. In general, supporting global collective action is fully consistent with the promotion of cooperation which constitutes the overarching development theme in IsDB’s Strategic Agenda. In this respect, many actions have been already undertaken by the IsDB at various levels, including cooperation with MFIs by maintaining close contacts with several multilateral and regional financial institutions including the World Bank, the Asian Development Bank, the African Development Bank, the European investment Bank
(EIB), the European Bank for Reconstruction and Development, FAO, IFAD, etc with a view to further expand its working relationships and broaden its vision of economic development.

Forms of co-operation with these institutions range from project co-financing and program coordination to exchange of information. For instance, the World Bank and the IsDB have already decided to build and nurture a lasting alliance on development efforts of common perspective and to strengthen their relations in the fields of project evaluation, co-financing and staff training. In this connection, an Aide Memoire was signed to strengthen the partnership between the two institutions. The Aide Memoire focuses on the need for more strategic coordination between the IsDB and the World Bank Group in operational areas, such as in the preparation of Country Assistance Strategy (CAS) documents, in co-financing projects and improved implementation. In addition, both institutions will explore the potential for developing new financial products to better respond to demand from common member countries; and improve information and staff exchange.

As regards the second item on our agenda which clearly complements the previous one, like other MFIs, the IsDB recognizes that in order to strengthen its role in development and help its member countries facing the challenges, new operational modalities should be designed. In this respect, while greater cooperation among MFIs is needed, a clear division of labor will make their intervention more efficient. For its part, the IsDB supports any action aimed at streamlining the development assistance system by enhancing the effectiveness of multilateral efforts in supporting country development.

In this area, it is to be noted that the IsDB has gradually launched various windows with the objective to enhance its developmental impact in its member countries. In particular, the establishment of the Islamic Corporation for the Development of the Private Sector (ICD) is expected to support its intervention in its middle-income member countries where the private sector is playing a leading role in the process of economic growth and development.

Concerning the third item of our meeting, the IsDB welcomes the idea of a comprehensive approach to development and would like to learn from the experience of the
World Bank Group with its Comprehensive Development Framework although it is still at an early stage of implementation.

In this context, it may be worth to recall that the IsDB itself has always attempted to implement a similar approach. In particular, its current Strategic Agenda for the Medium-Term constitutes a framework which is enabling the IsDB to anticipate and respond to challenges facing its member countries by providing a clear set of priorities, objectives and identifying the most effective means of achieving these. This framework covers a wide range of development themes, namely promotion of cooperation among member countries particularly through trade financing, poverty alleviation, support for science and technology, human resource development, conservation of environment, and private sector assistance. In addition, the IsDB considers as priority sectors for its medium-term strategic plan the agriculture and food security, medium and small-scale industry, education and health, transport and communication. Finally, the IsDB recognizes that a process of “dialogue-in-partnership” needs to be undertaken in order to define appropriate programmes of action.

Concerning the fourth item on progress in implementing the HIPC Debt Initiative, while we would like to express our satisfaction for the adoption of the enhanced framework, we consider that the issue of external indebtedness remains a serious problem in developing countries and continues to be a source of deep concern. For IsDB member countries as a whole, the ratio of external debt to exports of goods and services is expected to be as high as 126.8 per cent in 2000 while in the case of the LDMCs it is estimated at 488.3 per cent. Obviously, more efforts need to be deployed by the donor community in terms of debt relief for the least-developed countries, including the IsDB LDMCs, as their external debt to export ratio is unsustainably high and well beyond the threshold level for HIPC eligibility for debt relief.

In this regard, we hope that the enhanced HIPC Debt Initiative, endorsed by our member countries one year ago, will give more concrete results in terms of reducing this heavy debt burden. As intended, qualified countries will now receive “broader, faster and deeper” debt relief. By mid-September 2000, debt relief packages approved by MDBs under the enhanced Initiative will reach US$ 10.5 billion or more than US$ 6 billions in NPV terms. Combined with
debt relief under Paris Club and debt relief and cancellation by other donors, this assistance will reduce debt of qualified countries by about two thirds.

It is evident that such expected achievement should encourage MFIs to continue their cooperation in order to help a greater number of developing countries reach as quickly as possible their decision points. In this respect, we agree that leading MFIs, mainly the World Bank Group, should maintain Poverty Reduction Strategy Papers flexible by focussing on essential policy requirements for accelerating growth and reducing poverty. For its part, the IsDB has reiterated its participation in principle in the enhanced HIPC Debt Initiative, including for the provision of interim debt relief if such relief can be effectively delivered through re-scheduling of debts. While re-scheduling will continue to be used as the modality for delivering the IsDB’s share of debt relief on case by case basis, the IsDB participation is, however, subject to availability of funds from the HIPC Trust Fund or any other outside sources.

Finally, while the fifth item on the IBRD’s financial capacity does not need any comment from our part, for the sixth item relating to the international financial architecture, the IsDB would like to reiterate its support to the efforts aimed at reforming and strengthening the present system and agree with the areas of reforms identified so far, namely corporate governance, accounting and auditing, insolvency regimes, social protection and financial and corporate restructuring.

On this occasion, it may be useful to mention that the IsDB has played a pioneering role in the area of Islamic banking by developing new financial modes for financing development projects and programs in both public and private sectors in member countries. These include instruments such as Leasing, Installment Sale, Equity Participation, Profit Sharing and Istisna’a or contract finance which generate financial flows directly linked to actual transactions. This may prevent speculation and contribute to better discipline in both financial and real markets.

Furthermore, the IsDB has actively contributed in the establishment of the Accounting and Audit Organization for Islamic Financial Institutions (AAOIFI) which is expected to play a
critical role in the codification of accounting principles for the whole range of Islamic banking activities.

Currently, the IsDB is also leading the process for the development of internationally acceptable regulatory standards for Islamic banks in collaboration with IMF. It is evident that an appropriate regulatory framework is needed to ensure the success and expansion of Islamic banks in the global environment. Besides ensuring compliance with international standards and promoting efficiency of capital markets and institutions as with other banks, the regulation of Islamic banks should ensure the safety of depositors’ funds, shareholders’ equity and safeguard security of public interest by protecting payments and the financial system from instability. It should also provide equal opportunity for competition, enhance fairness by promoting transparency, facilitate macroeconomic management and motivate efficiency in internal governance.

However, it should be noted that despite the need for adhering to the international standards, due to the unique nature of Islamic banking operations, such an adherence cannot be expected to be effective without proper adaptation of the particular standards. While a number of suggestions are put forward for a suitable adaptation of the international standards to Islamic banks, the issue of capital adequacy has become of paramount importance in the aftermath of the Southeast Asian financial crisis. Therefore, in my view, while new initiatives are being launched to strengthen the international financial architecture, it is necessary to initiate a wide-ranging consultative process among key players to set an internationally acceptable and codified prudential framework for the Islamic banking industry.

In sum, although the items on our agenda are addressing issues specifically related to the role of the World Bank in supporting development, they are covering crucial areas of cooperation among all partners in the process of poverty alleviation, including the IsDB. Therefore, we are confident that the debate in the Sixty-Second Meeting of the Development Committee will help in devising new approaches and instruments for enhancing global collective action for accelerating economic growth and reducing significantly poverty in our member countries.