Statement by Dr. Amadou Boubacar Cisse
Vice President (Operations)
Islamic Development Bank
This meeting of the Development Committee has assumed special significance for the developing countries as it is taking place immediately after the UN Conference on Financing for Development held in Monterrey, Mexico, last March. It is, therefore, expected that the agenda of our meeting will cover issues directly related to the outcome of this Conference. In particular, increasing the effectiveness of development assistance constitutes the major topic for discussion in our agenda and will give the opportunity not only for further analyzing issues raised in Monterrey, but also for taking more concrete and urgent actions aimed at operationalizing the Monterrey Consensus. The second item of the agenda relating to accelerating progress towards education for all clearly complements the previous one. As usual, the agenda also covers topics related to the collaboration between Bretton Woods institutions and other multilateral development institutions (MFIs) such as supporting HIPC Initiative, harmonizing operational policies and procedures and fighting money laundering and terrorist financing.

Since all these issues are highly relevant to the Islamic Development Bank (IsDB) and its member countries, the IsDB would like to share its views on the agenda of this important meeting. In this regard, it may be useful to briefly assess the recent economic performance of IsDB member countries and to comment on the recent trends in the transfer of resources to developing countries.

**Economic Performance and Recent Trends in the Transfer of Resources**

It is encouraging to learn that the world economy is expected to recover at a faster pace by the end of this year as against a sharp slowdown during the year 2001. Last year, the GDP growth rate decelerated in developing as well as in developed countries to 2.8 per cent and 0.8 per cent respectively. In step with the global economic slowdown, the growth rate of world trade dropped from 13.1 per cent in 2000 to a negative rate of 0.8 per cent in 2001.

As regard IsDB member countries, the global economic environment in 2001 has negatively affected their overall economic performance. The GDP of these countries increased by merely 3.3 per cent in 2001 compared to a growth rate of 5.5 per cent in 2000. However, the
growth of IsDB least developed member countries (LDMCs)\(^1\) was higher at 5.4 per cent during 2001. As a result, the trade balance position of IsDB member countries as a group decreased from US$ 131 billion in 2000 to US$ 124 billion in 2001. Regarding the trade balance of the LDMCs group, its chronic deficit position persisted but increased from US$ 6 billion to US$ 7 billion between 2000 and 2001 due, among others, to lower international non-oil commodity prices which fell by 9 per cent.

Since developing countries will continue to rely on external flows of resources for the success of their strategies aiming at accelerating growth and reducing poverty, the IsDB is concerned about the decrease in net long-term resource flows in 2001. This decrease resulting from the global economy slowdown reflects a significant decrease in resource flows from international capital markets, in terms of commercial bank loans, bonds, and portfolio equity, which have constituted the second largest source of finance for developing countries during last few years.

In 2001, foreign direct investment (FDI) to developing countries remained stable compared to its level in 2000 despite the decline in global FDI due to the economic recession. Accordingly, the share of developing countries in world FDI flows has reversed for the first time since 1997 its decreasing trend. However, this reflects better economic performance, after the financial crisis of late 1990s, of many emerging markets economies where FDI flows are concentrated, rather than more widespread FDI flows to other developing countries. On this account, what is of greater concern to the IsDB is the persistent decline in the flow of net FDI to its member countries in the 1990s. In the total FDI inflow to the developing countries during the decade, the share of the IsDB member countries decreased from around 22 per cent early 1990 to 12 per cent in 1994 and 7 per cent in 1998. Out of this, excluding the share of the emerging IsDB economies like Indonesia, Malaysia and Turkey, only a small proportion of the FDI flowed to the overwhelming majority of the IsDB member countries. This calls for a thorough review of the causes of the skewed nature of such flows and the measures that need to be taken up urgently at

---

\(^1\) The LDMCs include 23 IsDB member countries, namely Afghanistan, Bangladesh, Benin, Burkina Faso, Chad, Comoros, Djibouti, The Gambia, Guinea, Guinea-Bissau, Maldives, Mali, Mauritania, Mozambique, Niger, Senegal, Sierra Leone, Somalia, Sudan, Togo, Uganda and Yemen. As a special case, the State of Palestine is also treated as an LDMC by the IsDB.
different levels to promote the flows of such resources to most developing countries, including the IsDB member countries.

The IsDB also shares the deep concern arising from the decline of official development finance (ODF) for the third consecutive year from US$ 38 billion in 2000 to US$ 36 billion in 2001. In particular, Sub-Saharan African countries for which aid remains crucial received less aid flows resulting, among others, from delays in implementing reforms. In this regard, the IsDB understands that ODF flows may be restricted by this factor, but it shares the view that the level of aid, expressed as a percentage of donors’ GNP, should urgently reach the UN target of 0.7 per cent.

Conscious of the importance of the transfer of adequate resources to its member countries, the IsDB recognizes that its traditional sources of funds cannot meet the increasing investment requirements of member countries. Therefore, the IsDB is embarking to mobilize resources from the international market. At the same time, the IsDB is exploring alternative sources to mobilize concessional financing in order to alleviate financial constraints of LDMCs. This effort of the IsDB is in line with its commitment to support appropriate development strategies in its member countries and to help them improve their access in international markets in order to achieve the Millennium Goals, particularly halving poverty by 2015.

**Development Effectiveness**

As far as the first item on the agenda is concerned, the IsDB supports the efforts for enhancing the effectiveness of development assistance. The recent seminal study by the World Bank\(^2\) distills the experience of last fifty years of concerted development efforts that resulted in higher average incomes per capita and that people today are much healthier and better educated in the developing countries than fifty years ago. The fundamental lesson is that positive social change and higher economic well being occurs when there is ownership and zeal for development by the countries themselves. To sustain economic growth rates, the touch-stone of development efforts is the commitment of countries to pursuing prudent macroeconomic policies.

---

\(^2\) This study is entitled “The Role and Effectiveness of Development Assistance: Lessons from World Bank Experience”, World Bank, March 2002.
and demonstrable achievements resulting from effective utilization of domestic resources and development assistance. We, at the IsDB, will endeavour to critically internalize these lessons in our development assistance to member countries.

The IsDB hopes that the spirit of Monterrey will, through concerted efforts of the international donor community, lead to reversing the declining trend in the official development finance so as to improve the prospects of economic growth and achieving poverty reduction goals in the developing world. In this regard, the IsDB renews its pledge to continue exploring different ways and means of further increasing concessional financing to LDMCs. Most recently, the IsDB in 2001 established *International Waqf Foundation*, designed to target resources at alleviating poverty to most vulnerable segments in the society. In addition, the IsDB initiated a programme during 1999 to provide lines of financing to small and micro-enterprises in our least developed and low-income member countries, so as to foster economic activities at the grass-root level as well as assist in poverty alleviation efforts.

It is evident that enhancing the effectiveness of development assistance should encourage all MFIs to continue their cooperation in order to help a greater number of countries develop as quickly as possible their poverty reduction strategies. In this respect, we agree that leading MFIs, mainly the World Bank Group, should maintain Poverty Reduction Strategy Papers (PRSP) flexible by focussing on essential policy requirements for accelerating growth and reducing poverty. While the IsDB considers that more efforts are needed to appropriately operationalize and implement these country-owned strategies, it shares the opinion that this requires, among others, strengthening the Country Assistance Strategy exercise, systemizing the work at sectoral level, and developing financial products suitable to the needs of these countries.

In the context of our member countries located in the Sub-Saharan Africa region, where average incomes have been stagnant since mid-1960s, the IsDB in partnership with other MFIs will continue to address urgent needs as well as assist countries in consolidating gains and to sustain the progress achieved in some areas of social improvements, such as higher life expectancy. During the 1990s, life expectancy has been reduced by three years because mainly of HIV/AIDS disease. Similarly, special attention should also be given to economies in transition where poverty has
sharply increased during the same period. Concerning these regions, it is expected that the new approach using PRSP will enhance development assistance effectiveness, unlike the earlier approach, based on structural adjustment programmes, which did not adequately take into consideration country ownership, institutional capacity needs and social impact.

In sum, the IsDB will continue to distill and learn from other MFIs experience in enhancing the effectiveness of their assistance in order to improve its approach for fostering development and alleviating poverty in its member countries. In particular, it would like to benefit from the experience of IDA which succeeded to significantly increase the productivity of its aid through better targeting its loan programmes. According to available estimations, US$ 1 billion in aid provided by IDA lifted 434 thousand people above the poverty line of one dollar a day in 1998 compared to only 105 thousand people in 1990. In addition, it seems that IDA aid flows generated a rate of return of 40 per cent in terms of increased incomes across the whole economy. No doubt, learning from this successful experience is very useful for the IsDB which is currently in the process of adopting a new vision, mission and strategic framework and exploring ways and means for increasing the developmental impact of its technical and financial assistance.

**Education for All**

Serious efforts to promote education, as part of the overall human development strategy, is a key to alleviating poverty and to ensuring that the benefits of economic development are widely shared in the society. The IsDB shares the deep concern of the development community of the failure of many developing countries, including many of our member countries, to implement suitable policies and to mobilize adequate resources that will realistically help in achieving the goal of universal primary education by 2015. The IsDB supports the notion that both technical and financial resources need to be made to countries that are willing to demonstrate firm commitment to adopt appropriate education sector policies. However, the assistance made available by the international donor community needs to be additional to the current aid flows, and hence more efforts are needed to explore new sources of concessional finance.
For its part, the IsDB considers basic education as a priority sector in its current strategic and operational planning agenda. We intend to continue with the strategic thrust in the education sector because the basic educational indicators of our member countries remain unsatisfactory compared to developing countries averages. In this respect, although IsDB member countries have registered significant progress during the last two decades in terms of various educational indicators, the adult illiteracy rate still stands at 38 per cent for our member countries as a group.

Since inception, the IsDB has financed 137 projects and 58 technical assistance in education sector amounting to around US$ 870 million and US$13 million respectively. Its LDMCs benefited from around one third of total approvals which were mainly financed through loans and grants from its ordinary resources. In addition, the IsDB has financed educational operations in its member countries as well as in Muslim communities in non-member countries through its Special Assistance Operations amounting to US$ 221 million. It has also disbursed an amount of US$ 60 million under its various Scholarship Programmes. Finally, the IsDB is playing an active role within the framework of the Task Force of the Organization of the Islamic Conference on Literacy and has earmarked US$ 3.5 million as technical assistance grant for member countries with the highest adult illiteracy rate.

Regarding the suggested World Bank’s action plan for “Education for All”, the IsDB hopes that many of our member countries will be included in the list of selected countries for “fast track” implementation. Like for HIPC Debt Initiative, the IsDB will also engage in active participation in the proposed multi-donor education consortium for providing immediate assistance to the selected member countries. Furthermore, the IsDB would also like to utilize the education sector database on our member countries in order to improve quality of our operations in the education sector by using new monitoring indicators such as the “completion” rate of at least 5 to 6 years of primary education rather than focussing only on “enrolment” rate.

**HIPC Initiative**

Concerning the third item on the agenda relating to the implementation of the HIPC Debt Initiative, while we would like to express our satisfaction for the progress achieved after 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 to all. For IsDB LDMCs, the ratio of external debt to GDP is estimated to be as high as 67.5 per cent in 2001 while in the case of IsDB member countries as a whole it is estimated at 33.6 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 clearly unsustainable.

In this regard, we hope that the enhanced HIPC Debt Initiative, endorsed by our member countries almost three years ago, will succeed, as declared, to reduce the ratio of debt to GDP for the 25 eligible countries, including 13 IDB member countries\(^3\), from 60 per cent to 30 per cent with the debt servicing cut by one-third. In order to achieve this objective, debt relief packages by MFIs under the enhanced Initiative are currently estimated at US$ 17.6 billion in 2001 NPV terms. As stated above, stronger cooperation among MFIs is crucial in order to help a greater number of developing countries reach as quickly as possible their floating completion points by meeting two major challenges, namely adopting a prudent debt management policies and adequately implementing PRSP.

On the one hand, HIPC countries should ensure that their public debt is fundamentally sustainable and serviced at the lowest possible cost and at a reasonable level of risk. This naturally entails that stakeholders involved in this process coordinate their policy actions to make them mutually supportive and conducive to more efficiency in public debt management. In this regard, the IsDB understands that a good public debt management system is one that would ensure prudent and efficient fiscal practices, greater accountability and transparency, an efficient financial market, and a sound risk management framework. But, it is also equally important to keep public finance policies consistent with development objectives. Therefore, the question is how to maintain the quality of government related services over the long term so that the methods of raising revenues and allocating public spending promote rather than hamper growth and poverty alleviation programmes. In sum, the IsDB considers that an appropriate technical

\(^3\) Namely Benin, Burkina Faso, Cameroon, Chad, Gambia, Guinea, Guinea-Bissau, Mal, Mauritania, Niger, Senegal and Uganda.
assistance for capacity building would help its member countries to better cope with their public debt management difficulties.

On the other hand, it is also important that leading MFIs, mainly the World Bank Group and IMF, maintain, as stated above, PRSP as flexible as possible by focussing on essential policy requirements for accelerating growth and reducing poverty.

For its part, the IsDB has supported the enhanced HIPC Debt Initiative, including for the provision of interim debt relief. Currently, the cost for IsDB is projected at around US$ 130 million in 2001 NPV terms. Debt relief packages have been fully implemented for Uganda and Burkina Faso. Last year, the IsDB also approved debt relief packages for Benin, Mali, Mauritania and Senegal and it is expected to implement the Initiative for the remaining qualified member countries during the current year. The IsDB will continue to support this important multilateral Initiative within the availability of funds from new sources using the modality of delivering its share of debt relief on case by case basis.

**Harmonization of Operational Policies and Procedures**

On this agenda item, the IsDB takes note with satisfaction of the significant progress made during the last few years by multilateral and bilateral donors to work in partnership and agrees with putting the focus on reducing differences in operational rules and requirements. These differences constitute the most important impediment to the effectiveness of external development assistance and their elimination will help reducing transaction costs for both institutions and countries.

The IsDB welcomes the current partnership, which brings together all MFIs to harmonizing operational policies and their procedures in order to lower the delivery cost of development assistance. Obviously, better implementation of good practices and common operational procedures requires that the standards should be developed cooperatively keeping in view the institutional capacities of relatively small MFIs. Accordingly, the IsDB appreciates the efforts of two working groups for which the most significant accomplishments were made so far,
namely on “Development of good practice standards for private sector evaluations”, and “Standardized bidding document for equipment and goods”.

At the country level, the current partnership among the MFIs will allow all of us to pay greater attention to country ownership and capacity building. In this respect, the IsDB supports various efforts aimed at raising country-level capacity sufficiently so that donors need no longer specify their own specific requirements. For its part, the IsDB contributed in the development of financial management harmonization and we express keen interest in working with the World Bank and other MFIs in the areas of institutional as well as country-level harmonization.

Earlier, the IsDB did participate in various institutional-level collaborative activities, within the framework of our overarching objective of economic cooperation, by signing memoranda of understanding with the World Bank and other regional development banks and specialized institutions. We actively participate in the Heads of MFIs Meetings organized in conjunction with IMF/World Bank joint Annual Meetings.

The IsDB expresses its readiness to share our experience in the context of harmonization of various operational policies in the Coordination Group. The major purpose of this Group is to facilitate the pooling of resources and combining of efforts in common member countries. While respecting the differences in individual strategies and policies, the Group succeeded to achieve better operational efficiency through harmonizing technical procedures, such as various types of engineering consultancy services, procurement procedures, tender and contract documents for civil works. Other areas of cooperation in the Coordination Group range from project appraisal to post-evaluation, and more recently, discussions have focussed on simplification and standardization of project supervision and monitoring.

4 This Group comprises of Saudi Fund for Development, Arab Fund for Economic and Social Development, Abu Dhabi Fund for Development, OPEC Fund for International Development, Kuwait Fund for Arab Economic Development and Arab Bank for Economic Development in Africa. The major shareholders of these institutions are held by the Arab governments.
The experience of IsDB in harmonization activities dates back to 1991 when we supported the establishment of the Accounting and Audit Organization for Islamic Financial Institutions (AAOIFI) in 1991. The need for such an effort emerged from the need to harmonize accounting standards amongst stakeholders in the Islamic banking industry so as to instill good governance and bring about transparency to highest professional standards. The AAOIFI embarked on the codification of accounting principles for the whole range of Islamic banking activities. It is an institutional arrangement for self-regulating the financial reporting of Islamic banks and financial institutions as well as the auditing practices of their external auditor. The AAOIFI is also cooperating with the IMF, the Basle Committee and major international rating agencies in an effort to develop internationally recognized accounting and auditing standards for Islamic banking. More recently, in order to further activate and stimulate coordination among Islamic banks and financial institutions, the IsDB has played a leading role in the establishment of the General Council of Islamic Banks and Financial Institutions in 1999.

Furthermore, in order to ensure the success and expansion of Islamic banks in the global environment, the IsDB is playing a leading role in the current wide-ranging consultative process among concerned stakeholders to set internationally acceptable and codified prudential framework for the Islamic banking industry. In this regard, a standard-setting regulatory institution for Islamic banks, called Islamic Financial Services Organization (IFSO), is been conceived with the help of some central banks and other institutions, namely IMF and AAOIFI. It is expected that IFSO will help in developing internationally acceptable standards, such as prudential regulations and supervision standards, in key areas of the Islamic banking industry. Obviously, development of regulatory standards for Islamic banks will enhance the confidence of market participants and supervisory authorities at the international level.

**Anti Money Laundering Action Plan and Fighting Terrorist Financing**

Concerning the last item on our agenda, the IsDB is fully aware of the negative impact of money laundering and terrorist financing on socio-economic development of its member countries. Therefore, it fully supports the efforts for fighting against money laundering and terrorist financing. In this regard, while the IsDB feels that multilateral institutions with global financial and
developmental involvement have a greater role to play in this area, a participatory process involving all stakeholders should be adopted in order to achieve better progress in this field. This will entail strengthening institutional and human capacities of small MFIs such as the IsDB, which stands ready to actively cooperate with the World Bank, IMF and other MFIs with a view to deepening the understanding on ways and means to fight money laundering and terrorist financing.

Fighting terrorism is also essential for effective utilization of financial and economic assistance in the context of reconstruction efforts in conflict and post-conflict countries. This is an area that requires greater debate and discussion with a view to evolve consensus on internationally acceptable definition of terrorism and its financing mechanisms. Towards this end, international institutions need to develop appropriate and transparent guidelines to curbing money laundering and flow of financing to terrorist organizations.

In sum, all the items on the agenda are important for the IsDB and its member countries and have provided the opportunity for all concerned to share experience and to further coordinate efforts among development partners in order to reduce poverty in all countries and ensure education for all. The IsDB is confident that the discussion in the 65th Meeting of the Development Committee will contribute to enhancing the effectiveness as well as reducing the transaction costs of development assistance, particularly for least developed countries.