Statement by

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to the 71st Meeting of the Development Committee
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The Islamic Development Bank (IsDB) Group has the privilege and honour to participate in the 71st Meeting of the Development Committee, which has on its agenda the following items: *Global Monitoring Report 2005: MDGs - From Consensus to Momentum* and Progress Reports on (i) *Financing the Development Agenda*, and (ii) *Voice and Participation of Developing and Transition Countries*. All these agenda items cover critical development challenges facing the developing countries, including the IsDB member countries, and assume special significance in terms of their immediate operational relevance as well as enhancing the effectiveness of assistance provided by multilateral development banks, including the IsDB Group.

As the developing countries and development community approach the sixth anniversary of the U.N. Millennium Declaration, there is hope that many regions in developing countries will be able to achieve wide-ranging improvements in various socio-economic indicators. However, progress towards attainment of various Millennium Development Goals (MDGs) and targets by many African countries remains a cause for serious concern. Sincere efforts of various members of the development community, including the IsDB Group, to assist the African countries by way of debt relief, supporting poverty alleviation programmes, and unhindered exports market access have certainly improved their overall economic prospects and resources to tackle entrenched socio-economic indicators.

On this occasion, the IsDB Group wishes to reiterate its commitment to forge further collaboration with the development community in the common cause of social emancipation and economic progress of the poor and the underprivileged people in the developing world. Along with other participants, the IsDB Group is expecting fruitful discussions and debate during the 71st Session of the Development Committee. The IsDB Group would like to take this opportunity to briefly present recent economic performance of the IsDB member countries, to share its perspectives on the agenda items, and to identify areas for further cooperation and partnership.

**Recent Economic Performance**

According to the latest World Bank estimates, the global economic growth reached 3.8 percent in 2004, which is the highest rate in the past four years. Real GDP growth of developing countries increased from 5.3 percent in 2003 to 6.6 percent in 2004. Excluding China and India, the economic growth achieved by developing countries was 5.8 percent in 2004 as compared to 3.9 percent in 2003. However, different regions of the developing world, in particular where IsDB member countries are located, seem to indicate a less than desirable economic performance. In the Middle East & North Africa region, the economic growth declined from 5.8 percent in 2003 to 5.1 percent in 2004 while, in the South Asia region, the growth rate declined from 7.8 percent in 2003 to 6.6 percent in 2004. However, the silver lining is that, despite many imponderables, the Sub-Saharan African countries grew from 3.4 percent in 2003 to 3.8 percent in 2004 and are further expected to grow at 4.1 percent during 2005.
As regards the real GDP growth of fifty-five IsDB member countries, as a group, it remained almost unchanged at 5.7 percent in 2003 and is estimated to be 5.6 percent in 2004.¹ The LDMCs maintained their rising rate of economic growth: 5.3 percent in 2002, 5.6 percent in 2003, and an estimated rate at 6 percent in 2005.² Inflation in IsDB member countries remained largely subdued under 8 percent in 2004 while the current account balance showed rising surpluses owing mainly to higher income of oil-producing member countries.

The IsDB member countries recorded the highest flow of net foreign direct investment (FDI) at US$29.16 billion in 2003 and then declined to an estimated flow of US$25.7 billion in 2004. The LDMCs continued to receive net FDI flows of over US$5 billion, both in 2003 and 2004. On the external debt front, the stock of IsDB member countries foreign debt rose by about US$6 billion to reach an aggregate level of US$888.4 billion. The stock of LDMCs external debt rose by US$5.7 billion to reach a total of US$114.4 billion in 2004.

In terms of economic prospects, the World Bank forecasts that the global economic growth will decline from 3.8 percent in 2004 to 3.1 percent in 2005 while the economic growth of developing countries, excluding China and India, is expected to slide from 5.8 percent in 2004 to 4.8 percent in 2005. The current financial imbalances pose a risk of a global economic slowdown. The emerging economies face new set of vulnerabilities arising directly from the burgeoning increase in the U.S. current account deficit that reached US$666 billion, which is equivalent to 5.6 percent of U.S. GDP. The baseline forecast of a milder economic slowdown in 2005 could turn out to be more severe depending on the extent of disorderly exchange rate movements and renewed inflationary pressures causing interest rates to rise further.

For the IsDB member countries, risks and uncertainties arising from global financial imbalances generate concerns for the future economic development prospects. Adverse movements in financial variables and a potential economic slowdown, particularly in the U.S. and the E.U., could setback the gains achieved through wide-ranging market reforms, sectoral restructuring, trade liberalization and integration measures implemented over the past two or more decades. Set against these challenges, the emergence of major growth nodes in the Asian region provides an opportunity to developing countries, including IsDB member countries, to diversify and strengthen new economic and trade relations. In this regard, the IsDB Group would like to call upon the major economies in the Asian region to launch an initiative for granting of unhindered market access to exports from the least developed countries, in particular to exports of Sub Saharan African countries. Such an initiative by the major emerging Asian economies will most likely accelerate growth impetus of Sub Saharan African countries, assist in the attainment of MDGs, and strengthen South-South cooperation.

¹ The IsDB member countries related economic performance data is based on estimations made in September 2004.
² Of the fifty-five member countries, the IsDB Group classifies or treats 28 countries as the 'least developed member countries' (LDMCs), which makes them eligible to receive concessional financing and flexible terms and conditions in ordinary financing.
Global Monitoring Report 2005: MDGs – From Consensus to Momentum

The IsDB Group would like to express sincere appreciation and commend the World Bank for producing the Global Monitoring Report, 2005. The previous Global Monitoring Report, 2004 identified a number of actions aimed at accelerating the attainment of MDGs in the least developed countries. Also, the U.N. Human Development Report, 2003 had identified crisis countries against the various MDGs targets, i.e. where the current indicators are extremely entrenched and the current rate of progress is also slipping back. Given the inadequate levels ODA flows to full fund the implementation of MDGs, such crisis countries need the donors' attention and to target resources in the light of their absorptive capacities. The international donor community needs to urgently commit to supporting crisis countries by providing grant-based financing to implement poverty alleviation programmes. It has been estimated that additional aid need to increase in the range of US$40-100 billion annually in order to fully support the implementation of MDGs and related targets. It requires almost doubling the current level of ODA to reach 0.43 percent of DAC countries' gross national income, which is still below the target of 0.7 percent reaffirmed in the Monterrey Consensus.

More than half of the low human development countries and one-third of the medium human development countries are accounted for by the IsDB member countries. In terms of implementation progress towards MDG target 1, there are thirteen IsDB member countries which are characterized by both entrenched or extreme income poverty and the rate of progress is also slipping back. There are four more member countries where the rate of progress is too slow to meet the income-level poverty reduction target by 2015. For the other MDGs targets related to education, health care, and environmental sustainability, the situation of the IsDB member countries is not desperate and many member countries appear to be on track.

Given that the majority of the LDMCs are in Sub Saharan African region and also face serious challenges to attain the MDGs, the IsDB Group committed itself to substantially increase the volume of financing within the framework of the New Economic Partnership for Africa (NEPAD). The IsDB Board of Governors, on the occasion of the 27th Annual Meeting held in Ouagadougou, Burkina Faso in October 2002, issued a 'Declaration on IsDB Group Cooperation with Africa'. Under this Declaration, the IsDB Group pledged to attain financing target of US$2 billion over a five year period from 1424H to 1428H (2003-2007). After two years of its implementation, the IsDB Group cumulatively approved projects and trade operations amounting to US$850 million by February 2005, which represents 42.5 percent of the US$2 billion earmarked under the Declaration.

Financing the Development Agenda

The international development agenda is basically encapsulated in the form of U.N. Millennium Declaration and the action plan emanating from the Monterrey Consensus. The overall thrust of the international development agenda is to strengthen global economic environment which is conducive to sustaining high growth in low-income countries. It also includes support for participatory approach to setting national development agenda for resource allocation and distribution policies aimed at poverty reduction and sustained improvements in important aspects of human welfare.
While there is little disagreement on the development agenda itself, there are many imponderables in the way of mobilizing appropriate types of financing. It is well understood that profligate external borrowings with little regard to its costs is no longer an option. Given the slow progress towards achieving MDGs, it is more opportune that the international community moves towards some kind of an agreement on innovative approaches to mobilizing concessional and grant-based type of resources. Some of the innovative proposals to mobilize grant-type of resources, like the international finance facility or tax on international passengers, have yet to find consensus among the DAC member countries.

According to the Global Development Finance 2005 report, the total private and official net debt flows reached US$325 billion in 2004, which is significantly higher than the flows in 2000-2. It also appears that, in recent years, the official aid is shifting from loans to grants. Net private capital flows, including debt and equity to developing countries, rose by $51 billion to $301.3 billion in 2004. Of this, net foreign direct investment totaled $165.5 billion, up by $13.7 billion in 2004.

The net resource flows to fifty-five IsDB member countries totaled US$32.7 billion in 2003, which is higher than US$28.8 billion in 2002, but still lower than US$36.3 billion in 1998. There were five member countries who had negative net resource flows during 2003. The ODA commitments for all IsDB member countries stood at US$35.5 billion in 2003, which is significantly higher than US$24 billion in 2002. Quite obviously, there are large variations of ODA commitments among the member countries.

In 2003, the IsDB Group adopted a Strategic Framework whose three objectives are promotion of Islamic financial industry and institutions, poverty alleviation, and cooperation among member countries. To realize these strategic objectives, the IsDB Group committed itself to providing development assistance and related operational activities in the following six priority areas: human development, agricultural development and food security, infrastructure development, promotion of intra-trade among member countries, private sector development, and research and development (R&D) in Islamic economics, banking and finance. In line with the Strategic Framework, the IsDB Group continued to expand its development assistance to member countries in a variety of ways. The total net approved operations increased from US$3.6 billion in the Hijra (H) year 1424H (2003-04) to US$4.9 billion in 1425H (2004-05). Of these net approvals, the sectoral distribution were mainly in intra-trade and project financing in sectors such as education, health, public utilities, and transport and communication.

A recent development in the IsDB Group strategy for resource mobilization was the issuance of five-year US$400 million Sukuk in August 2003. At this moment, the IsDB Group is in the process of mobilizing US$1 billion under the ‘Euro Medium-term Note’ Sukuk programme which

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3 The Global Development Finance 2005 report raises various concerns regarding the rapid build up of the foreign exchange reserves by the developing countries. In this regard, it may be noted that the share of central banks investments the IsDB Group Sukuk paper was close to 40 percent. Thus, investments by central banks in Sukuk papers is an efficient mechanism to recycling of foreign exchange reserves back as financing of infrastructure projects. Other MDBs may also consider adopting this financing mechanism and thereby provide the utilization of developing countries foreign exchange reserves in infrastructure investment opportunities.
will fund the implementation of the Strategic Plan providing development assistance to member countries during 2005 and 2006. In addition, the resource mobilization strategy led to the setting up of US$730.5 million IsDB Infrastructure Fund in December 2001, which is the first public-private investment vehicle of making equity investments in infrastructure projects in member countries. Also, the Awqaf Properties Investment Fund was established in 2001 to utilize income from the real estate endowment properties towards economic uplifting of the poorest and the destitute while the World Waqf Foundation was established in 2001 to manage and safeguard endowments as well as to develop synergy among the pro-poor investment activities of NGOs and philanthropic organizations.

Earlier, the resource mobilization strategy led to the establishment of a number of entities and affiliated funds designed to serve the specific developmental needs of member countries. For instance, the Islamic Corporation for the Development of Private Sector was established in 1999 to serve as vehicle for the promotion of private sector activities, the Islamic Banks Portfolio for Investment and Development was established in 1987 to mobilize the liquidity available with Islamic banks for long-term investment in member countries, and the IsDB Unit Investment Fund established in 1989 to mobilize resources through securitization of long-term assets.

Turning to the development assistance extended by the IsDB Group to the LDMCs, total net approvals totaled US$836 million during 1425H (2004-05) while the cumulative amount stood at US$6.8 billion. In addition, the IsDB Group approved debt relief packages amounting to US$144 million in 2003 NPV terms to the fourteen HIPC eligible member countries.

Finally, it may be noted that the recent evolving scenario in the international energy market has also become an important development issue for the developing countries, including the IsDB member countries. These developments suggest the need to develop a common approach by the multilateral development banks towards the financing of efficient mix of renewable and non-renewable energy resources. The outlook for the energy market suggest that some energy resource-rich least developed countries will require institutional capacity building assistance to both manage resource mobilization and development of their untapped energy resources. Moreover, many other developing countries would need short-term assistance to mitigate the adverse impact of oil prices on their balance of payments. In the past, the share of the IsDB Group financing of oil imports in its import trade financing operations stood at 41 percent. Activation of similar financing facilities of oil imports by multilateral financing institutions will assist the oil importing developing countries to tide over their short-term balance of payments difficulties.

**Voice and Participation of Developing and Transition Countries**

The IsDB Group welcomes the efforts of the World Bank and the International Monetary Fund to enhance the voice and participation of developing and transition economies in their decision-making process. Needless to say, the IsDB stands ready to learn from the experience of other multilateral development banks for the benefit of our member countries. The IsDB Group supports the strengthening of the developing and transition countries ownership of their development programmes and to build their capacities to these ends. We believe that these are important elements to enhance their voice in the policy making at the multilateral level.
Better cooperation between the World Bank and the IMF by clearly identifying the division of labour is essential for harmonized approach and increase the participation of developing and transition countries in their decision-making process. This enhanced participation is consistent with the current efforts for improving development assistance effectiveness by instilling a sense of greater ownership of poverty reduction strategy papers. The IsDB is confident of the capacity of the both the World Bank and the IMF to carry forward changes that will strengthen the participation of their developing and transition member countries.

However, the IsDB Group does not face internally this issue since its membership is entirely composed of developing countries and countries in transition. Unlike other regional development banks, there are no developed countries as non-regional members in the IsDB Group. However, some of the issues raised under this subject are also relevant to the IsDB Group. These include mainly the voting structure and strength, the capacity for owning programmes and projects financed, the level of decentralization, the degree of transparency, and the diversity of staffing.

Like other multilateral development institutions, the voting structure in IsDB Group is dependent on the number of shares subscribed. Traditionally, the approach is to rely more on consensus rather than on majority or vote counting on specific issues. This consensus approach has facilitated the participation of all IDB member countries in the process of decision-making, both at the level of the Board of Governors and the Board of Executive Directors. In addition, the election of the President, increase in the capital of the Bank, and diversity of senior Management from Asia, Middle East, and Sub Saharan regions, the establishment of regional offices in three regions, the diversity in staffing, the launching of new initiatives are all undertaken in the spirit of giving greater voice to member countries and regions that have relatively low voting share. The consensus approach of decision making at the highest level automatically leads to greater participation of the twenty-eight least developed member countries (LDMCs) as well as transition member countries in Eastern Europe and Central Asia in the affairs and activities of the IsDB Group.

Furthermore, the voice and participation of the LDMCs in the affairs and activities of the IsDB Group is enhanced through periodic evaluation of its operational activities by setting up an outside group of ‘eminent persons’. The objective of setting up of such an eminent persons evaluation exercise is to provide voice, to obtain feedback from the beneficiaries of operational activities as well as to provide future directions to operational focus of the IsDB Group. Another example of giving voice to the stakeholders of the IsDB Group is to regularly conduct dialogue with member countries on operational and strategic issues. For instance, the IsDB Group recently held discussions in April 2005 with representatives from member countries regarding the terms and conditions of its development assistance. This approach can be also viewed as a part of the consultative process which the IsDB Group periodically embarks upon to obtain feedback from its membership in order to improve the development effectiveness of its assistance.

The IsDB Group is aware of the concerns expressed by developing countries about the weakness of their voice in various international forums as well as improving their participation in the process of decision-making. In this regard, the IsDB Group responded by providing opportunities for consultation on issues related to the new economic, financial and trade order. For instance,
the IsDB Group assist its member countries in general and the LDMCs in particular, in strengthening their negotiation skills and institutional capacities in order to address challenging emanating from the WTO negotiations.

With these words, I wish the 71st meeting of the Development Committee every success.

DC AZ/FM

April 16, 2005