Statement by

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Mr. Chairman, Distinguished Delegates,

On behalf of the Islamic development Bank (IsDB) Group, I would like to extend my sincere appreciation for the invitation to attend the 72nd meeting of the Development Committee. This session of the Development Committee is significant in many ways.

It is taking place immediately after the 60th anniversary of the UN and against the backdrop of a decelerating global growth which is attributable to many reasons including the hike in oil prices. The meeting has also a special significance as it relates to Africa and its action plan along with aid and trade issues in Doha Round. Many of the current issues which directly affect the development prospects of our member countries are also being discussed. Infrastructure, conditionality, PRS review and the impact of climate change have all developmental implication and are of major concerns to many of our member countries.

Accordingly, I would like to take this opportunity to briefly review the IsDB Group’s point of views and to share some of my observations on the issues raised in the agenda of this year's meeting.

Recent Economic Performance

The world economy experienced one of its strongest years of growth in 2004. The growth is expected to continue in 2005 but at a slower pace, especially for the rest of the year. At an aggregate level, growth prospects for industrial countries are estimated to be around 2.5 percent in both 2005 and 2006. Though lower than last year’s 3.5 percent, this rate is slightly better than the past 5 years’ average of 2.4 percent. The performance of developing countries in general is encouraging. However, their volatility remains high mainly due to the country-specific factors. In the Asian region, it is predicted that the whole region expand at 6.6 percent in 2005 and 2006, with India and China as two of the key players in the region’s economy. In terms of the world trade, it experienced a robust expansion into the first half of 2005, though with some pullback from the vigorous expansion of 2004. A major development in the world trade has been the downswing in the production cycle of high-technology industries which has negatively affected industrial production and world trade.

In the United States, where output and unemployment gap are essentially closed, the growth is estimated to continue at 3.6 percent. The trade balance, which was a major drag on growth in the second half of 2004, also improved in 2005 and provided that oil prices do not jump further and the housing market calms gently, the overall outlook is mildly positive for the US economy. It is, however, to be noted that the recent devastation caused by Hurricane Katrina may have some negative short-run effects on the U.S. economy. The Japan’s economy grew by 1.3 percent in the first half of 2005, following a mild recession in 2004. The euro zone economy also grew by 1.2% in the first half of 2005 and is recovering from a cyclical low in the last quarter of 2004. The growth outlook of the euro zone economy remains bleak, as persistently high unemployment continues to erode consumer confidence and consumption demand.

The real GDP growth of IsDB Group member countries as a group increased from 3.3 percent in 2001 to 5.7 percent in 2003 and 5.6 in 2004. Although the overall economic performance of
IsDB Group member countries in terms of GDP growth rate was higher than the growth rate of the world as a whole, it remained well below the growth rate of developing countries. The IsDB Group Least Developed Member Countries (LDMCs) were able to surpass and sustain the average GDP growth rate of the developing countries with a growth of 6.6 per cent in 2004, which is projected to exceed 6.2 percent in 2005.

A major development which will have profound impact on both developing and developed countries is the rise in energy prices. The price of world crude oil has risen nearly 75 percent since the beginning of 2005. Although prices at today’s level were not anticipated, markets now suggest that they will stay high for sometimes. The effects of this shock will mainly depend on the resilience and policy actions of different countries. Superimposed on this effect is the devastation caused by Hurricane Katrina which would take sometimes before its macroeconomic impact could emerge.

For the IsDB Group member countries, risks and uncertainties arising from recent global developments, especially higher energy prices and global financial imbalances, generate concerns for the future economic development prospects. Fluctuations in financial variables and a potential economic slow down in the world, particularly in E.U and other industrialized countries 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.

**Strengthening the Development Partnership and Financing for Achieving the MDGs: An Africa Action Plan**

Regarding the first item in agenda, the IsDB Group firmly believes that achieving MDGs in its African member countries is a daunting challenge. Eradicating poverty and hunger is a critical and perennial issue currently facing them and we raise our concerns over significant gaps in the achievement of the MDGs by IsDB member countries, particularly the target of halving the number of people living below US$1 a day by 2015. In Sub-Saharan African member countries, the proportion of the population struggling to survive on $1 per day or less has not changed since 1990 and most of them are experiencing a negative and reversal trend toward achieving the goal of extreme poverty and hunger. Many of IsDB Group member countries are trapped in a downward spiral of contagious diseases, resurgent Malaria, falling food output per person, deteriorating shelter conditions and environmental degradation. Moreover, the external challenges such as climate change have worsened the situation of LDMCs by increasing food insecurity, spreading diseases and increasing the likelihood of natural disasters.

The IsDB Group welcomes the commitment by African countries to intensify their efforts for promoting growth, governance, removing trade barriers, peace and stability. We also commend the initiatives of donors and developed countries to double the amount of aid to Africa by 2010 and debt cancellation heavily indebted poor countries. We believe that African countries have made a tremendous progress in their developmental efforts. An improved level of accountability and ownership of their development programs, a satisfactory rate of economic growth and a better institutional setting are all indicative of how Africa is taking its share of responsibility in
the development process. The IsDB Group is of the view that in order to reinforce their efforts, more fiscal resources are needed to invest in infrastructure, social services, environment, export-led economic activities and human capital.

The IsDB Group's past performance was focused toward poverty alleviation and human development. In its thirty years of service, 38 per cent of the IsDB Group financing from its ordinary capital resources has been devoted to sectors with a relatively greater impact on social development and poverty alleviation, namely agriculture, health and education. The development of infrastructure (rural roads, electrification, irrigation, public utilities, etc.) has also been accorded high priority as a means to alleviate poverty and promote economic growth. To this end, 48 percent of project financing has also taken place in public utilities, transportation and communication projects of the IsDB member countries.

The financing needs of the Sub-Saharan African countries to achieve MDGs are estimated to be $20 billion in 2006 and are expected to rise to $50 billion in 2015. Though the IsDB Group's resources are far less from sufficiency to respond to member countries' financing needs for development, it is considering establishing a poverty reduction fund through financial contribution of all member countries to fight against poverty.

The overall priority accorded to the projects and activities involving the twenty-three LDMCs have been a major orientation for the Bank. The highest levels of concessionality are applied to loans made to these countries in the form of very low fees charged, together with much 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. Furthermore, in 2002, the IsDB Group pledged to support its least developed African member countries, with an overall financing of US$2.0 billion from its resources over a period of five years, under the Ouagadougou Declaration.

IsDB Group strongly believes that MDGs are too important to fail and it is time to put them on the fast-track they require and deserve. We also believe that the development partnership has been too slow in developing the means to achieve MDGs. IsDB Group stands ready to mobilize its resources for the Africa Action Plan and as always is ready to join hands with other MFIs to further enhance development partnership efforts in Africa.

The IsDB Group supports the future focus of the World Bank in areas related to economic growth, improving performance and participation of poor in growth process. We further believe that country based frameworks are effective instruments for monitoring performance, and we stand ready to cooperate in building a vibrant private sector to push export growth activities and to reduce the gap in infrastructure investment.

**Debt Relief and HIPC Initiative**

The IsDB Group shares the concerns of the development community over the unsustainable external debt of its low-income member countries and welcomes the new G-8 initiative for a
complete write-off of their debt and supports that debt cancellation must be part of a financing package to achieve MDGs.

The IsDB Group believes that more efforts on debt reduction need to be devoted to achieve debt sustainability. Only four countries so far have succeeded in getting to ‘sustainable’ levels of debt according to the criteria of the HIPC debt-relief programme. The current state of the economic conditions in LDMCs clearly signals inability to repay their debt, and their scarcity of domestic financial resources further calls for a continual inflow of external funds.

The importance of a complete debt write-off for IsDB Group member countries become more critical by looking at the number of member countries that have already been qualified for debt relief under enhanced HIPC initiative. There are nineteen IsDB Group member countries potentially eligible for debt relief under HIPC initiative, of which eight countries have reached completion point, six countries are in the decision point stage and five countries are in the pre-decision stage. IsDB Group member countries that have reached the completion point have either received or are in the process of receiving all debt relief under the HIPC initiative. Although some member countries have shown improvements in indicators such as debt-to-export ratio, these do not necessarily mean that they were effective in poverty reduction or in achieving their MDGs.

For its part, the IsDB Group has provided its share of relief assistance. In this context, the IsDB Group has approved and fully implemented relief packages for some LDMCs such as Benin, Burkina Faso, Cameroon, Chad, Gambia, Guinea, Mauritania, Mozambique, Niger, Senegal, Sierra Leone and Uganda. The implementation of the IsDB Group debt relief package for Mali is currently in progress. Moreover, there are five other member countries (Comoros, Cote d’Ivoire, Somalia, Sudan and Togo) still to be considered for relief. It is estimated that four of our member countries have external debt in excess of the HIPC initiative threshold which aggregates to US$ 500 million in NPV terms. Some others still retain excessive debt owed to official creditors (such as Bretton Woods Institutions) even after relief. A few of our middle-income countries are also in similar situation received little or no debt relief.

The challenge faced by the MFIs for a complete write-off of the low-income countries’ debt with its enormous cost implications is considerable. The IsDB Group stands ready to assist its member countries and provide its technical assistance for improving their governance. We share the view that without efficient fiscal practices, greater accountability and transparency, efficient financial markets, and a sound risk management framework their growth efforts would be hampered and the achievements of MDGs would be largely in jeopardy. The IsDB Group also takes into account the fact that unless the developed countries commit themselves to a continual inflow of the funds to make up the losses of MFIs resulting from debt write-off, their future role in development assistance would be in large ambiguous. The IsDB Group further believes that the success of the global initiative for debt cancellation also depends on a well designed mechanism for preserving the ability of MFIs to provide further concessional funding in the future.
Regarding the Doha Development Agenda and Aid for Trade, the IsDB Group is of the view that the Doha agenda should ultimately remove developing countries’ supply-side constraints, improve their trade infrastructure, diversify their export capacities and enhance their overall productivity and competitiveness.

The IsDB member countries' share of world trade and intra-trade are estimated to be around 7 and to 12 percent, respectively. Moreover, the past trends do not show a reversing pattern and continue to stagnate or even decline. As the spirit of dynamism and competitiveness evolves toward manufacturing in other parts of the world, the majority of IsDB member countries, especially the LDMCs, remain mainly dependent upon exports of primary commodities. Appropriate initiatives could be considered in the Doha Development Context to boost the share of trade of developing countries, including IsDB member countries in the world trade.

In line with the development policies of developing countries, an MDG-based international trade policy, should focus on improved market access and terms of trade for poorer countries and on improving supply-side competitiveness for low-income member countries' export, through increased investment in infrastructure, trade facilitation and capacity building. To establish such an overarching framework for development, the Ministerial Meeting of WTO in December of 2005 could set a reasonable time horizon for the total removal of barriers to merchandise trade, a substantial and across-the-border liberalization of trade in services, and the universal enforcement of the principles of reciprocity and nondiscrimination, taking into account the special and differential treatment clause of developing countries. Specifically and within the context of the Doha Development Agenda and its Goals, IsDB Group supports the future consideration of the following issues.

In agricultural trade issues, improved market access with significant reduction in tariff peaks, escalation and the phasing out of specific duties on the export goods is crucial for developing countries. This is particularly true for some of the agricultural commodities exports such as cotton and sugar. In terms of services, the issue of liberalizing of temporary movement of labor to provide services to developed world should be adopted as a high priority in the Doha round and supports the efforts of developing member countries to further facilitating cross-border supply of services and foreign direct investment. Moreover, Special and Differential Treatment must be made to work better for developing countries by making resort to legal disputes conditional on assessing development concerns.

The concept of "Aid for Trade" is a way to strengthen the trade infrastructure, reduce supply-side constraints, and address the adjustment costs associated with the implementation of Doha Reform Agenda is quite crucial for a steady economic growth in the developing countries, including IsDB member countries. We express our support for the World Bank and IMF’s activities for “aid for trade” in the areas of technical assistance, capacity building, institutional reforms and other related areas. We also welcome the significant progress made on aid for trade, especially the projected increase in trade lending and in the Integrated Framework (IF) of Trade-related Technical Assistance to assist least developed member countries. The IsDB Group stands ready to support the enhanced IF initiative and to further contribute to the strategic partnership
within multilateral agencies. The IsDB Group is ready to take its share of responsibility and strengthen its technical assistance activities with respect to aid for trade to its member countries.

**Aid Financing and Aid Effectiveness**

The critical role of external aid in the economic growth and development of developing countries can hardly be overemphasized. Aid promotes economic growth and advances specific sectors when it is directed to real investments in countries with reasonable governance. The IsDB Group supports the view that to increase the growth, and to make considerable progress towards the Millennium Development Goals, the volume and quality of external aid to its member countries, especially those in Sub-Saharan Africa needs to be substantially improved.

The IsDB Group stands ready to further strengthen its support and cooperation with the international community to make the system of aid financing and its effectiveness more efficient. This is in accordance with the Bank’s existing policies and initiatives of actively seeking collaboration and cooperation with its member countries, regional and international development partners. In this context a number of improvements have been enacted to make our development assistance more effective. The Bank has increased its emphasis on strengthening institutional capacity building and governance in member countries. It also periodically reviews the financing policies, delivery procedures and reviewing impact of assistance on target population in general and on national economy in particular. Most of our financing activities have direct impact on MDGs in our member countries, and sectoral needs are periodically reviewed to assess their further needs. The level of coordination with its stakeholders and an enhanced partnership has already started and will be supported in the future as well. Being conscious of the expectations of its stakeholders, the IsDB Group has re-oriented its focus towards devising an effective implementation mechanism, as highlighted in its Strategic Plan.

IsDB Group’s financing activities and its resource mobilization are expanding at a rapid pace. While the value of ODA in real terms has not been increased recently, and the FDI does not provide a significant portion of our member countries’ financing need, the IsDB has increased its net approved operation from US$3.6 billion in 2003-2004 to US$4.9 in 2004-2005. Moreover, with the success of recently launched tradable bonds compatible to the principles of Islamic Shari’ah (called Sukuk), the IsDB Group is in the process of raising more funds from the international markets to further enhance the level of its financing and thereby support the developmental activities of its member countries. The concessional funding for our LDMCs continues its operation providing interest free and long-term loans and the IsDB Group’s cumulative amount of financing for its LDMCs up to 2004-2005 stands at US$6.8 billion.

**Infrastructure and The World Bank: A Progress Report**

With regard to this item of agenda, the IsDB Group stresses the fact that any strategy for growth and poverty reduction must take seriously the issue of infrastructure. Problems with roads, rail, ports, air transport, energy, telecommunications and other infrastructure are cited by many policy
makers, multilateral development institutions and business communities as one of the main constraints on economic growth in developing countries.

IsDB Group welcomes the World Bank’s initiative to re-engage in infrastructure through more lending and policy advice, and we are pleased with the progress made in its Infrastructure Action Plan. However, a number of challenges need to be addressed in the future course of actions of the Bank. The first issue relates to the fiscal constraints of developing countries. Any commitment to infrastructure development should be sustained financially. Moreover, developing countries need more assistance in order to strengthen their governance and supply capacities, and mobilizing the potentials of private sector and other civil society organizations to contribute to program preparation and implementation of infrastructure development.

From inception till mid 2004, a large portion of the IsDB Group financing has been devoted to infrastructure development of its member countries. In the year 2004, 75 percent of the approved operations (US$ 627 million) from our Ordinary Capital resources were allocated to three sectors, namely: public utilities, transport & communication and agriculture, with the transport sector experiencing a substantial increase of 22 percent compared to its previous year. The overall share of cumulative approval of IsDB Group in its thirty years of service is estimated to be around 62 percent (US$5 billion) for the above three sectors, excluding its approvals for the social sectors. At the ground level the IsDB assistance led to the construction of at least 6,000 km. of roads, 3700 water points, 3200 classrooms, 170 health centres and to the development of 250,000 hectares of irrigated land in its member countries. IsDB Group further strengthens its operations in infrastructure projects of its member countries through its Infrastructure Fund which is established in 2001. The Fund has focused its operational activities on the infrastructure development opportunities and has currently invested US$332 million in eight projects in member countries.

**Review of the World Bank Conditionality**

Regarding the agenda item on conditionality, the IsDB Group welcomes the way the World Bank paper on this long debated issue. We welcome the fact that many challenges and concerns of the developing countries, along with their remedies are being addressed in this report.

The IsDB welcomes substantial reduction in the number of single and aggregate conditionalities of the World Bank and the IMF over the last decade. The review undertaken by the World Bank on conditionality reveals an impressive and significant reduction of the average number of conditions from 35 to 12 in the last two decades. Furthermore, we also welcome the fact that the aggregate conditionality with the IMF has also declined in a range of 14 to 25 percent for middle-income and low income countries. In doing so, the World Bank has also correctly shifted its focus from macroeconomic adjustment problems to longer term challenges of developing countries on matters including ownership, public governance, social sector reforms and capacity building. In order to see more harmonization and aid effectiveness, the bilateral donors should also consider dismantling their conditionalities as well.
The IsDB Group welcomes the proposed initiative of the World Bank to interact with borrowers and partner countries to further incorporate their concerns in the implementation of conditionalities. The IsDB believes that sharing the good practice principles and dissemination of best practices to member countries will contribute to reducing the challenges and tensions arising from the implementation phase.

Finally, the IsDB Group views the conditionality reforms of the World Bank as part of a larger reform on lending policies and moving more toward simplification and harmonization of operational policies. We support the idea that conditionality should be a tool for the World Bank and other MFIs and the recipient country to manage funds for development results and to provide accountability toward their constituencies.

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

The IsDB Group reiterates its full support of the World Bank and IMF initiatives for a broader participation of developing countries in the decision-making process of these institutions. We commend the recent initiative of the World Bank in progress of implementation of the Voice Secondment Program and enhancing the electronic communication facilities of the Executive Directors. The IsDB Group believes that the increase in voting power of developing countries and economies in transition is imperative for establishing a fair global economic governance directed toward achieving MDGs.

The IsDB Group does not really face internally this kind of issue since its membership is composed exclusively of developing countries and countries with economies in transition. Unlike some 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 programs and projects financed the level of decentralization, the degree of transparency, the diversity of staffing, etc.

Like Bretton Wood institutions and other multilateral development institutions, the voting structure in IsDB Group is dependent on the number of shares subscribed. However, the tradition to rely more on consensus rather than on majority has facilitated the participation of all IsDB Group 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 increase in the number of Executive Directors, the establishment of regional offices and the diversity in staffing have improved the participation of LDMCs and member countries in transition from Eastern Europe and Central Asia in the activities of the IsDB Group.

The IsDB Group is fully aware of the concerns expressed by developing countries about the weaknesses of their voice in various forums as well as their proposed solutions and is confident of the capacity of both the World Bank and IMF to carry forward changes proposed by these countries. We also take note of the complexity involved in the Voice issue. Needless to say, the IsDB Group stands ready to learn from the experience of Bretton Wood institutions and other organizations in different areas such as the inclusion of a better communication channels in
Bank-financed projects, an improved representation of member countries national at the senior management levels of the Bank as well as the measures to improve its Board’s effectiveness.

The 2005 Review of the Poverty Reduction Strategy (PRS) Approach

Against the backdrop of the need to improve the PRS design with a view to deliver poverty reduction results, study of the impact of PRS on poverty reduction of developing country on a case by case basis is appropriate. It is also quite encouraging that the World Bank has reported the preparation of poverty reduction strategies by 49 countries. As the report indicates there are ten more countries that are in the process of preparing and eleven countries have produced interim strategies.

Countries’ development models should properly address their continued commitment to institutional changes and capacity building as well as strengthening governance and their accountability. A main issue in poverty reduction strategies is the lack of strong linkages to achieving MDGs and in some countries the link between PRS and the national budget could be inadequate due to the incomplete costing of programmes in budget considerations.

PRS appears as the core framework for harmonizing and aligning donor assistance and a vehicle for prioritising capacity building needs that are essential for improving aid effectiveness. Furthermore, PRS review and conditionality review should be linked together. The PRS review could also examine the full impact of conditionality on the PRSP process, content and its outcome.

To address the current challenges in PRS, IsDB Group supports the idea that all countries engage in preparing MDG-based PRS assessment through 2015 as a basis for a 10-year policy framework. This policy framework should then guide the more detailed and shorter term MDG-based poverty reduction strategy.

The World Bank and IMF could organize their technical efforts around supporting countries to develop and implement MDG-based poverty reduction strategies. We recommend that agency specialists be trained to complement their existing sector-specific knowledge with basic skills to support country-level budgeting processes. The UN Development Group can play a major role in mobilizing its human resources to support the governments to achieve the Goals.

In addition to supporting fast track countries, we recommend that interested developing countries produce, before the end of 2005, an MDG needs assessment and an MDG-based poverty reduction strategy. This strategy may contain for enhanced investment at the village, town, and city levels, a financing scenario, and a governance strategy to ensure implementation of the program with minimized leakages. The host country could lead and own the effort to design the MDG strategy, drawing in civil society organizations; bilateral donors, the UN specialized agencies, the World Bank and the IMF, and relevant regional development banks.
We also believe that the development partnership needs to focus more on MDG-based aid process approach to reducing poverty and the partnership process should be looked at as a long-term process and much beyond the time frame in the majority of PRSPs.

**Climate Change, Energy and the World Bank**

IsDB Group welcomes the initiative of the World Bank to address the issue of environment preservation in general and the issue of climate change in particular in this year’s meeting. Environmental issues are important to consider for forging sustainable development. Weather-related disasters brought on by land clearing, deforestation, and climate change are catastrophic for the world’s poorest citizens; environmental degradation is exacerbating poverty and further contributing to global instability. The IsDB Group believes that achievements in the fight against disease, hunger, poverty, and environmental degradation risk are being unraveled by climate change.

Climate change is of particular concern to the IsDB Group member countries, especially those in Africa and Central Asia. The weather is becoming more volatile and rains seem to be falling more frequently in parts of Africa. Current predictions indicate that Africa will get warmer at a rate of 0.2-0.5°C per decade, making its tropical region wetter and the northern and southern latitudes drier. The incidence such as rising sea-level, coastal erosion, flooding, salt water intrusion and changing ecosystems will have a profound impact on coastal communities and the economies of IsDB Group member countries in the years to come and they will negatively affect agricultural productivity, food, water and energy security.

Over the past two decades, floods and other weather-related disasters were among factors prompting some 10 million people to migrate from Bangladesh to India. In Mozambique devastating floods made half million homeless and caused economic growth to fall from eight percent to 2 percent in year 2000. Recently, the incidence of Tsunami took the life of many people and left a huge economic burden to a number of our member countries.

We support the view that the development community must take immediate actions to mitigate climate change by stabilizing greenhouse gas emissions. In this context, high-income and some of the rapidly growing middle-income countries should address unsustainable patterns of consumption and production, and to a large extent, the financial burden for mitigating climate change impacts.

The IsDB Group stresses the fact that more resources are needed to improve scientific understanding of climate change and support the capacity building of research institutions in developing countries to improve climate observation and helping to respond to the effects of climate change. Moreover, we support the World Bank and governments in our member countries to include the consideration of climate change in their poverty reduction strategies in the future.

We are confident that the outcome of the meeting will provide an opportunity to the IsDB group and its member countries to shares development knowledge and institutional experience, with a
view to further coordinating and focusing efforts in enhancing the effectiveness of our development financing.

With these, I wish the 72nd meeting of the Development Committee every success.