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Statement by

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The Opec Fund for International Development

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Development Committee
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Financing the Development Agenda:
The Contribution of the OPEC Fund

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The second topic for consideration by this 71st Development Committee Meeting – *Financing the Development Agenda* – signals the perennial challenge the international community faces in mobilizing the US$100 billion estimated to be required each year to finance the *Millenium Development Goals (MDGs).*

Competition for resources is becoming increasingly fierce as pressures are mounting to achieve the ambitious poverty reduction and related MDGs by 2015. Ongoing efforts to reach the eight inter-dependent goals have increased demand for development financing in both low and middle-income countries. The OPEC Fund doubled its lending targets in response, extending lending programs to middle–income countries while continuing to prioritize the needs of the low-income countries (LICS), which receive priority in the allotment of the Fund's assistance.

Existing shortages of financing for development are compounded by man-made and natural disasters, such as the devastating Tsunami that hit South Asia in December 2004. The international community rightly offered assistance in an unprecedented global effort. The Fund and its sister organizations also responded quickly and generously to the crisis, together making available about US$1billion to help alleviate hardship for those affected, in addition to funds raised through voluntary actions at the national level. However, the international financial support for the Tsunami disaster inevitably entailed some diversion of resources - particularly from sub-Saharan Africa - that could otherwise have been made available to help finance the MDGs.

The need for extra financing for the MDGs is widely recognized. The United Nations High-level Panel on Financing for Development led by Ernesto Zedillo, former President of Mexico in June 2001 (Zedillo Panel) has estimated the total additional amount required at US$50 billion annually. It is also generally agreed that financing for the MDGs would need to be raised first and foremost at the domestic level, supplemented by external sources of financing. In the March 2002 *Monterrey Consensus* adopted in support of the MDGs, world leaders promised, amongst others, to help mobilize domestic resources, attract foreign direct investment (FDI) and other private flows, raise official development assistance (ODA), promote international trade, and speed up external debt relief. Despite some encouraging post-Monterrey donor initiatives, however, the MDGs continue to be critically underfinanced:

- *FDI* flows to developing countries, totaling some US$135 billion in 2003, are the dominant and most stable source of external financing for development. However, they remain concentrated in a few countries with favorable investment climates and relatively large, rapidly growing, and stable economies. Private capital flows other than FDI (e.g. bank loans, portfolio investment) can also be an important source of financing for development, but are notoriously volatile. There are dangers to premature capital account liberalization and financial integration, as painfully demonstrated by the 1997-98 Asian financial crisis;

- *ODA* remains critical as a source of external financing, particularly for the LICs, which lack domestic resources, and the capacity to attract private direct investment. However, budgets for development co-operation have not risen in ways commensurate with the identified needs in developing countries. Although ODA rose by US$6 billion in 2003, to US$58 billion, half of the increase came from debt relief - which according to critics has not been sufficiently forthcoming - rather than new aid to developing countries. Projected increases in ODA - from 0.25% of the combined national income of industrialized nations in 2003 to 0.29% by 2006 - remain a far cry from the target level of 0.7% adopted by the UN General Assembly on October 24, 1970;

- *International Trade* is a key engine for growth and poverty reduction. However, multilateral trade negotiations have not been sufficiently forthcoming in allowing poor countries to trade themselves out of poverty and underdevelopment. Although negotiations resumed in 2004 with the adoption of the *Doha Development Agenda (DDA) Framework Agreement*, progress has remained limited, both on liberalization of "sensitive" agricultural products, and on enhancing non-agricultural market access. Hopefully, the Framework Agreement will pave the way for realizing the DDA by enhancing market access as to enable developing countries to reap the full benefits from trade.

Several options are being explored to mobilize financing for development from alternative sources. Ways and means are sought to enhance the developmental effects of *workers' remittances*, which reached some US$93 billion in 2003, the two largest sources being the United States and Saudi Arabia. Remittance payments by migrant workers emerged as a stable and growing source of development finance, outpacing ODA, and coming second only to FDI as an external source of financing for development. Other proposals to create innovative mechanisms of financing have included the creation of *special drawing rights* for development purposes, the *International Finance Facility*, establishing a *global lottery*, levying various types of *global taxes* (the Tobin Tax, taxes on currency transactions, aviation fuel, e-mail, sales, etc.), and the exploration of new mechanisms for financing *global public goods*.

An early and innovative approach to establish a stable, predictable source of financing for development was the decision taken by OPEC Fund member countries in 1976 to designate part of their national oil revenues for development co-operation. Although most OPEC Fund countries are low-middle income countries, they together have made available a cumulative total of more than US$81 billion in development financing from their oil revenues through the OPEC Fund and other bilateral and multilateral channels as a token of global social responsibility. By voluntarily allocating part of their national revenues from oil – a finite resource on which they remain heavily dependent – OPEC Fund member countries have set an early example of innovative measures that could be taken to help mobilize financing for development.

The OPEC Fund was mandated by its founding fathers to reinforce financial co-operation between OPEC member countries and other developing countries, and to promote South-South solidarity and collaboration, in line with the *Solemn Declaration* adopted at the end of the First OPEC Summit of Heads of State and Government, Algiers, Algeria, 1975. Developing countries could derive considerable benefit from exploring regional arrangements for attracting financing for the MDGs, for reducing the risks and vulnerability associated with participation in the global financial system, and for increasing access to external funds by adopting region-specific strategies for increased trade and export diversification, and global trade and financial integration.

Limited resources for development have highlighted the need for available financing to be used efficiently. This has raised issues of priority setting and results measurement, as well as the need for greater effectiveness through alignment, harmonization and better ownership of development co-operation. The OPEC Fund is actively taking part in ongoing global efforts towards better harmonization of aid, as evidenced by its participation in the *High Level Forums on Harmonization,* Paris, France, February-March 2005, and Rome, Italy, February 2003.

In short, a combination of strategies will be required to mobilize financing for development. Among the many options at hand, the most straightforward remains an increase in ODA. According to a UN study undertaken by Professor Anthony Atkinson, the additional US$50 billion needed to achieve the MDGs would be realized if donors were to raise their ODA to 0.5% of GNP[1]. Raising the level of ODA would be in line with the findings of the March 2005 Report of the Africa Commission initiated by British Prime Minister Tony Blair which recommends, amongst others, a doubling of aid to Africa to $50 billion, and enhanced debt relief and trade liberalization.

An increase of ODA in turn requires greater public support and civic awareness about the need and importance of development co-operation in both donor and recipient countries. It is necessary to strengthen a sense of global citizenship and responsibility in order to mobilize additional financing, which can be made available if need be, as evidenced by the strong response provided by the international community to the Tsunami disaster. Recognizing the need and importance of heightening public awareness and support for development co-operation, the OPEC Fund recently launched a Public Information Campaign, which is in full swing.

In an increasingly inter-dependent world where some 800 million people in the developing world still go to bed hungry every night, and the spread of HIV/AIDS continues unabated, there is no time or money to loose. Each minute, and each drop of financing counts in our common search for ammunition in the war against poverty in all its forms, which remains the greatest single threat to security and sustainable development. A renewed sense of urgency is required for policy makers worldwide to live up to the commitments they made in Monterrey. This, together with innovative sources of financing for development, could allow the gap between rich and poor to narrow over time, and foster sustainable growth and prosperity for all.

[1] "New Sources of Development Finance, edited by A.B. Atkinson, UNU World Institute for Development Economics Research (UNU-Wider), Oxford, 2005.