

The OPEC Fund for International Development

Riyadh Trade Magazine Interview Q & A

– Suleiman J. Al-Herbish
Director-General
OPEC Fund for International Development
Vienna, Austria

Wednesday, October 19, 2005

1. Firstly, what is the OPEC Fund for International Development, how and when was it established, by whom, and what are its fields of activities?

The OPEC Fund for International Development is a development finance institution. It was established in 1976 by the member states of the Organization of the Oil Exporting Countries (OPEC). Its founding followed discussions at the March 1975 *Conference of the Sovereigns and Heads of State* of OPEC member countries, in Algiers, Algeria, which proposed the creation of a collective aid facility that would channel development assistance from OPEC countries to other developing countries. The Fund has 12 members: Algeria, Gabon, Indonesia, IR Iran, Iraq, Kuwait, GSP Libyan AJ, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and BR Venezuela.

The overriding goal of the Fund is to assist *other* developing countries in pursuit of their social and economic advancement. The Fund focuses, in particular, on the poorer, low-income countries and pays special attention to the most vulnerable population groups. It uses a diversity of financing tools to achieve its objectives, including: concessional loans for development projects and programs; grants for technical assistance, food aid, research and emergency relief; and, in the private sector, loans, lines of credit, equity and quasi-equity investments and leasing.

2. Is the Kingdom of Saudi Arabia an establishing country or just a supporting country?

Saudi Arabia was instrumental in the creation of the Fund and has been influential in its subsequent progressive development. The Kingdom has contributed over 35% of the resources of the institution and maintains a keen interest in its management and policy direction.

3. What are the countries that are eligible for Fund assistance, how is the assistance allocated, what are the criteria that influence the Fund's choice of countries and projects, are these based on developing and economic reasons or rather humanitarian?

All developing countries, with the exception of OPEC Fund member states, are eligible to receive assistance from the Fund. Higher priority is given to the poorer and least developed countries to help them alleviate poverty and to promote their social and economic advancement. The assistance allocated is influenced by factors such as population size, GNI/capita, stability and socio-economic performance.

Project and program selection is mostly based on recipient countries' priorities, with more inclination toward social projects (education, health), water supply, vocational training, transport and rural development.

Loans are supplemented by grants to support occasional emergency assistance, such as food aid, as well as technical assistance, research and training.

Over the years, the Fund has spread its intervention to 119 countries, and has further developed its assistance mechanisms to include less concessional lending to middle-income countries, as well as to the private sector.

The Fund pursues a flexible and responsive approach to development financing. This allows it to accommodate comfortably the constantly evolving requirements and demands of its partners and to maximize the impact of its contribution.

4. What is your opinion regarding the impact of oil price increases on poor countries; shall we therefore expect an increase of the OPEC Fund's contributions in the near future?

I should make clear, if I may, the distinction between OPEC and the OPEC Fund. Although we are indeed sister institutions with, by and large, the same membership, our mandates and fields of operation are entirely different. While OPEC is concerned with oil prices and oil market stability, the Fund's interests lie firmly in the area of development cooperation. Moreover, we are financially independent of each other and have different governing bodies. So, it is misleading to suggest that there is a link between the price of oil, on the one hand, and the operations of the Fund, on the other. Perhaps I can best illustrate this point with a couple of examples: 1975 was a poor year for oil

producers but, paradoxically, the very year of the Fund's conception! Even more significantly, there was no scaling-down of the Fund's activities in 1998 when the oil price dropped to US\$9 per barrel. Member countries' financial commitments to the Fund are long-term in nature and are not contingent on oil price movements or fluctuations in the earning capacities of the member countries.

5. It has been recently and frequently stated about establishing working organizations or groups under the aegis of the Organization of African Unity with a view to helping African countries that do not produce oil. What is the Fund's point of view regarding such independent initiatives?

The more resources that are made available for development financing the better, especially at the present time when greater commitments are needed to help countries meet the targets set out under the *Millennium Development Goals*. While applauding the efforts of others, the Fund's concern remains its own objectives and priorities, as stated in its mandate.

6. What does the Fund think about the international initiatives related to releasing the heavily indebted countries from their debts, what are the recommendations of the Fund's establishing countries relating to this matter as they are considered to be creditors as well as supporter of financing Funds?

The Fund fully understands the need to relieve poor countries of their debt burdens and has been wholly supportive of the efforts of the international community thus far in this respect, as led by the World Bank and IMF. Indeed, the Fund is an active participant in the *Heavily Indebted Poor Countries (HIPC) Initiative* and, to date, has provided debt relief to 28 eligible countries in the form of HIPC loans totaling US\$207 million. With regard to the recent proposals to completely cancel sovereign debt, the Fund is following discussions closely.

7. What are the major projects that have been achieved during the year 2005, in which fields, and what are the main characteristics of the next working plan for the year 2006?

With literally hundreds of projects underway at any one time, it is difficult to single out any for special mention. That said, however, there are certain achievements that we are particularly proud of this year. Of note is the impact of our work in the area of HIV/AIDS prevention and

care. We have a special, replenishable grant account for this purpose, with resources so far of US\$50 million. The bulk of this has already been committed and is being used to fight the disease in more than 64 countries in cooperation with a number of leading international agencies. For example, we recently concluded a successful joint project to reduce household vulnerability to HIV/AIDS in the Asia/Pacific region. Our partner on this occasion was the International Federation of Red Cross and Red Crescent Societies.

We are also pleased with the progress of the Fund's Private Sector Facility. This dedicated window was set up in 1998 to channel support directly to private initiative in our partner countries. In just seven years the facility has established itself as an important and integrated part of the Fund's operations, with a portfolio extending to 32 countries and encompassing a wide range of financial, as well as real economy, sectors. Year on year, our commitments through this window are growing and providing much-needed resources for private sector development.

We are equally pleased to report that the number of countries we work with continues to expand. At the last count, the total was 119. The most recent addition was Armenia, with whom we signed a US\$5 million loan agreement in April for a rural economic development project.

Apart from operational activities, 2005 has seen the Fund launch a global Public Information Campaign. The purpose of this is also to raise awareness of the contributions of Fund member countries to development cooperation, particularly to poverty alleviation efforts worldwide.

In 2006, we plan to continue with implementation of the Fund's 16th Lending Program. This three-year program, which began January 1, 2005, targets primarily the lower-income countries, but also includes allocations for middle-income countries who wish to access long-term, fixed-rate financing at modest levels of concessionality. A total of US\$1.2 billion has been allocated to the program and around 80 countries are eligible for assistance. In tandem with the Lending Program, we have launched a new financing window called the *Blend Facility*, which is endowed with its own resources of US\$300 million. The purpose of this facility, which is additional and complementary to other financing windows, is to help meet the demand for financing over and above that which is available under the Lending Program.

Indeed, the year 2006 has special significance, as it marks the 30th Anniversary of the establishment of the Fund. A host of activities is planned throughout the year to celebrate this milestone. Formal observance of the anniversary will take place at the 27th Annual Session

of the Ministerial Council of the Fund, scheduled to convene mid-June in Saudi Arabia.

8. Based on the Fund's experience in many poor countries, what do you think about the working environment, and how far has the phenomenon of financial and administrative corruption decreased, and what are the Fund's conditions in order to avoid negative influences of such widespread financial corruption in poor countries on its projects?

The Fund has rigorous disbursement procedures that include a series of checks and measures designed to prevent such problems. In addition, we make regular field visits to projects under implementation and are in daily contact with the responsible executing agencies and/or ministries. In almost 30 years of operations, the Fund has been fortunate not to have faced difficulties of this type.

9. It seems that the area of humanitarian work in the case of natural and human disasters has greatly increased, so, do OPEC Fund member countries intend to extend for example their activities and/or allow new memberships of oil exporting countries or adopt reforms in working strategies to be able to cope with the increasing responsibilities?

Emergency and humanitarian assistance is not a major aspect of Fund operations. Nevertheless, it has become Fund policy, at times of urgent need, whether in the wake of natural or human disasters, to join international relief efforts. Over the years, we have provided significant amounts of emergency aid for the victims of hurricanes, earthquakes, floods and other catastrophes. Our greatest contribution, however, has been in the area of food aid. Two particular instances are worth mentioning: the donation of US\$25 million to the International Food Reserve in 1981, and the setting up of a special food aid grant account in 2003, which allowed for the distribution of US\$20 million worth of food supplies to starving communities in nine African countries.

Sadly, it is true that our world seems to be suffering catastrophes of growing magnitude and frequency. It follows that the response from donors has to be greater and faster. The Fund's reaction has been to set up a *Special Account for Emergency Relief Operations*, a proposal that received Ministerial Council endorsement this past June. Although operational modalities still have to be finalized, it is envisaged that the account, which will be endowed with its own resources, will allow us to act with unprecedented haste at times when speed is of the essence.