



Permanent Mission of
Malaysia
to the United Nations

Statement by
The Honourable Dr. Mohamad Shahrum Osman
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on Agenda Item 52: Follow-Up to and Implementation of the Outcome of
the International Conference on Financing for Development, at the Second Committee of the
61st Session of the United Nations General Assembly
New York, 10 October 2006

Madam Chairperson,

1. I would like to align Malaysia with the statement made by South Africa on behalf of the G77. I would also like to thank the Secretary General for his useful report contained in document A/61/253.
2. This session of the UN General Assembly is critical for the issue of Financing for Development (FfD). More than four years after the adoption of the Monterrey Consensus, the international community as a whole needs to further strengthen efforts to fulfill the commitments undertaken therein. We must build on the World Summit Outcome (WSO), which recognized the importance of mobilizing financial resources and the effective use of those resources as part of the developmental process. Just as importantly, the WSO also placed the Monterrey Consensus at the center of the global partnership for development. We must also expand on the sections related to FfD contained in the development follow-up resolution. We must also ensure that the UN system as a whole continues to play an important path breaking and implementation role in the issue.
3. These are the challenges that we face on this issue during this General Assembly. In order to achieve this in a coherent and systemic manner, it is important that an international meeting be convened to take stock of the progress since the adoption of the Monterrey Consensus. In this regard, we would like to thank the generous offer by the Government of Qatar to host such a meeting in the near future.

4. Beyond the issue of implementing fully the provisions of the Monterrey Consensus, Malaysia firmly believes that efforts to reform the UN, most notably the strengthening of the ECOSOC and the work of the Secretary General's Panel on UN System-Wide Coherence in the Areas of Development, Humanitarian Affairs and the Environment must not detract from the key role of the FfD in developmental issues. More specifically, in the context of strengthening of the ECOSOC, the proposed establishment of the Development Cooperation Forum (DCF) and the Annual Ministerial Review (AMR) must complement existing FfD follow-up mechanisms.

Madam Chairperson,

5. Within the framework of addressing systemic issues, the Monterrey Consensus also touched on the need to improve the governance structure of the international financial institutions. Indeed, just a few weeks ago, we witnessed the adoption of the first phase of the revision of the IMF quotas at the meeting of the Fund's International Monetary and Financial Committee in Singapore. The mainstream media have portrayed the revision of the quotas as a significant step in the efforts of the developing countries to have the IMF quota reflect more accurately today's international economic realities.

6. Malaysia does not share this view. Of the four countries whose quotas increased in the first phase of reform, namely China, Mexico, the Republic of Korea and Turkey, only one is from the ranks of the G77. On the other hand, some members of our Group saw a reduction in their quotas. Malaysia for example, saw our quota reduced from 0.7 percent to 0.68 percent. Other members of the Group which also saw reductions included India, Brazil and Nigeria.

7. Many of us including Malaysia, reluctantly joined the consensus, as it is our belief that it would ensure the speedy resolution of the entire IMF reform agenda, and on the understanding that our concerns will be taken up on the second phase of the revision process. Therefore, the real test lies in the second phase. In this regard, Malaysia calls for a stronger commitment

from the advanced countries to limit their claims for higher quotas to allow the developing world to have greater voice representation, reflecting today's realities.

8. Further, Malaysia is of the view that the any new formula must be simpler and more transparent, as compared to the one used in the first phase. More importantly, prejudging that GDP would be the predominant factor in the new formula must also be avoided. All four variables, namely, GDP, openness, variability and reserves are important indicators of a country's influence within the global economy, and should therefore be adequately considered.

9. At stake in this exercise is not merely the revision of percentages, but the legitimacy, credibility and functioning of the IMF itself. It is therefore important that the discussions on the second phase begin immediately, the criteria for the revised formula be clear, transparent, determined and defined and in the end the votes and quotas reflect today's, and not yesterday's realities.

Madam Chairperson,

10. The Monterrey Consensus recognized the importance of mobilizing domestic financial resources for development. It also recognized the critical role that national governments have to play in this regard.

11. The Malaysian government has long recognized this fact and has undertaken proactive steps to ensure that the potential of domestic financial resources are mobilized fully. This in effect meant taking steps to ensure that all strata of society are provided the avenue to participate in the financial system, in a manner consistent with their beliefs and way of life. In this regard, the government had recognized that Malaysia, despite being a Muslim majority country, did not possess an avenue for Muslims to participate in a financial system that is consistent with the tenets of Islamic economic jurisprudence. The key feature of Islamic economic jurisprudence is the prohibition of usury, which is replaced instead by the principle of profit sharing. It was partly to address this situation that since the early 1980s, the

Malaysian government has taken steps to establish, promote and strengthen the Islamic financial system in the country.

12. Since then, the Islamic financial system has grown by leaps and bounds in Malaysia, as evidenced by these facts:

12.1 One, in 2005, Islamic investments accounted for 11 percent of total banking assets. This is expected to grow to 15 percent next year and at least 20 percent by 2010;

12.2 Two, nearly one-quarter of all Islamic banking business in Malaysia is being transacted by non-Muslims. Among the key attractions is the fact that Muslim-friendly mortgages, which operate more like leases than loans, are competitive with traditional interest based financing;

12.3 Three, In 1994, Malaysia created the world's first Islamic interbank money market;

12.4 Four, Malaysia is home to the Islamic Financial Services Board (IFSB), a global organization of Muslim bankers in charge of baking regulation and supervision that works closely with the Bank of International Settlements; and

12.5 Five, on 28 September 2006, Malaysia's state investment arm, Khazanah Nasional launched a US\$750 million landmark Islamic bond sale, which are the world's first Islamic exchangeable bonds. It is noteworthy that this is the largest exchangeable instrument launched this year in Asia, excluding Japan.

13. It is also pertinent to note that according to the International Islamic Finance Forum, there are currently 265 Islamic banks and other financial institutions operating in some 40 countries with total assets exceeding US\$262 billion. Indeed, in some parts of the world, Islamic finance is the largest growth area. This has prompted many leading financial groups based in the world to establish their own Islamic finance arms. Further, the range of products offered is increasing in number and sophistication. All over the world, Islamic finance is becoming the norm, and no longer a novelty.

14. The development of Islamic finance is significant for a variety of reasons. It has enabled greater participation of Muslims in the financing for development process. It has shown that

far from Islam being parochial and backward in nature, Islam does indeed offer solutions for problems in everyday life. But perhaps just as importantly, the participation of non-Muslims in Islamic finance can contribute in some way towards enhancing contact between Muslims and the non-Muslim world at a practical level.

Madam Chairperson,

15. I would like to conclude by saying that the role of finance in development is more critical than it was ever before. However, promoting inclusiveness is critical if the full potential of finance in the development process is to be realized. Malaysia stands ready to participate effectively and meaningfully in these efforts.

Thank you.