Statement by

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On behalf of the Islamic Development Bank (IsDB) Group, I would like to express our sincere thanks and appreciation to the Development Committee for inviting us to its 79th Meeting. The IsDB always attaches great importance to this forum which discusses the major development issues affecting the global economy with special reference to the developing countries and provides valuable policy guidance for addressing them in the most effective manner.

It is indeed a great honour and privilege for me to represent the Islamic Development Bank Group in this august gathering of distinguished leaders and policy makers from around the globe who will be discussing in this meeting two items: the implications of the global economic crisis for developing countries and the role of the international financial institutions; and the update on the issue of voice and participation.

The year 2008 was a challenging year for the global economy in which countries across the globe suffered from food, energy, and financial crises. The magnitude of these crises, particularly the latter, was so enormous that they have adversely affected years of development efforts and it will take a long time to counter their negative impacts. The bold decisions taken by the G-20 leaders in their Summit in London on 2nd April 2009 were indeed very timely. I will briefly highlight the impact of these crises on the economies of IsDB member countries, the actions taken by the Bank to assist these countries in mitigating the adverse effects and, as a member of the MDB family, the role that it intends to play in the light of G-20 decisions.

We all know that the global economy is going through a very difficult period. The major economies are going through an economic recession – the most serious of its nature in the past more than fifty years. The world output growth which was 5.2 percent in 2007 declined to 3.2 percent in 2008, and according to the latest IMF projections will be negative 1.3 percent in 2009.

The world trade will also be shrinking in 2009. The volume of world trade which increased by 7.2 percent in 2007, registered a growth of only 3.3 percent in 2008 and is projected to decline by 11 percent in 2009. Being heavily dependent on their exports, many IsDB member countries will suffer as a result of this decline, which is likely to severely curtail their development plans.

While it will take a long time to assess the full impact of the financial crisis on the member countries, preliminary estimates by the IsDB show that the impact has been enormous in terms of economic growth, current account balance, fiscal balance, foreign exchange reserves, losses in stock markets, increase in
unemployment and poverty, and reduction in investment particularly foreign direct investment. It has also added to the debt vulnerability of several member countries which are already in risk of debt distress.

The real GDP growth in IsDB member countries as a group decelerated from 6.1 percent in 2007 to 4.9 percent in 2008, and is projected to decline further to 2.3 percent in 2009. Although their current account surplus as a percentage of GDP improved from 7.9 percent in 2007 to 12.7 percent in 2008, it is projected to drop to 8.8 percent in 2009. Although this looks like a reasonable number, it hides the variations at country and regional levels. For example, the member countries in sub-Sahara Africa which had a current account surplus of 7.5 percent in 2008 are expected to have a deficit of 0.03 percent in 2009.

The food and fuel crises came at a time when IsDB member countries as a group were already behind in terms of achieving the Millennium Development Goals (MDGs) and the goals set in the IsDB 1440H Vision. Our estimates show that there are several IsDB member countries which are not on track to achieve the MDGs by 2015. And there are member countries where the available statistics show a regressive situation in terms of poverty, undernourished population, maternal mortality, etc. According to recent estimates, the food and fuel crises have pushed between 120-155 million more people below the poverty line. We believe that a significant number of these, in both Africa and Asia, are from the IsDB member countries.

The global financial crisis has made the already serious problem of unemployment even more acute. According to ILO "Based on new developments in the labour market and depending on the timeliness and effectiveness of recovery efforts, the global unemployment in 2009 could increase by a range of 18 million to 30 million workers, and more than 50 million if the situation continues to deteriorate." The ILO report also adds that in this last scenario some 200 million workers, mostly in developing economies, could be pushed into extreme poverty. The IsDB is also quite concerned about the employment situation in its member countries. A recent study by the IsDB showed that unemployment in member countries was increasing over time both in absolute terms and as percentage of labour force. It is therefore apparent that the targets of poverty alleviation in IsDB 1440H Vision and MDGs cannot be achieved without effectively addressing this problem.

The financial crisis had a tremendous impact on the stock markets in IsDB member countries resulting in a loss of hundreds of billions of dollars in stock value. Between 1st September 2008 and 15 April 2009, the market capitalization in several GCC countries declined by around 40 percent. During this period, several IsDB member countries also experienced depreciation of their national currencies against both U.S. dollar and euro. Currencies of 38 countries depreciated vis-à-vis U.S. dollar and 12 countries vis-à-vis euro. There were 11 member countries whose currencies depreciated between 10 percent and 25 percent against the U.S. dollar. This depreciation is not helping these countries in terms of boosting their exports because of the economic recession or slowdown in the countries which are their major trading partners. But at the same time it is hurting them in terms of increased debt burden.

I would like to highlight some of the initiatives that have been undertaken by the Bank to assist its member countries in mitigating the adverse effects of the food, fuel, and financial crises. These include: (i) The Jeddah Declaration; (ii) Launching of Special Programme for Development of Africa; (iii) Launching of Islamic Solidarity Fund for Development; and (iv) the IsDB Forum on Global Financial Crisis. I will briefly highlight these initiatives.

**Jeddah Declaration**

During its 33rd Annual Meeting held in Jeddah, in June 2008, the IsDB Board of Governors adopted a programme which aimed at supporting member countries affected by the global food crisis to strengthen their food security and to revitalize the agricultural sector. The Programme, which was announced
through *Jeddah Declaration*, includes an assistance package of $1.5 billion for a five-year period. The first phase of the programme commenced immediately with projects and trade operations for LDMCs totaling $210 million to provide support to farmers acquire urgently needed agriculture inputs in order to boost local productions. In the medium- and long-term the IsDB Group will support improvements in agriculture productivity and rural incomes through enhancing access to inputs and services, improving infrastructure and strongly supporting institutions in this sector.

**Special Programme for the Development of Africa**

The second initiative is the Special Programme for the Development of Africa (SPDA), which is a five-year Programme for the period 2008–2012, and for which the Bank has earmarked $4 billion. The sectoral priorities in this Programme will target the 22 least developed member countries of the Bank in the Sub-Saharan Africa region to help achieve human development targets in the MDGs as well as to raise the competitiveness of their exports. During 2008, total financing under the SPDA was $994.3 million. A unique feature of this Programme is that the Bank will play its facilitating/catalytic role by attracting additional resources from other development partners particularly through the regional funds, the private sector, and the Islamic banks. Through this catalytic role, the Programme is targeting a total financing volume of $12 billion over its five-year period.

**Islamic Solidarity Fund for Development**

The third initiative is the establishment of the Islamic Solidarity Fund for Development (ISFD). This Fund was established following the decision taken at the Third Extraordinary Session of the OIC Islamic Summit held in Makkah in December 2005 with the purpose of alleviating poverty, enhancing capacity building in member countries, eliminating illiteracy, and eradicating diseases and epidemics, particularly malaria, tuberculosis and HIV/AIDS. Establishment of the Fund was also a step towards the implementation of the Bank’s 1440H Vision 1440H which includes alleviation of poverty as one of its strategic thrusts. The Fund was officially launched during the 32nd Annual Meeting of the IsDB Board of Governors which was held on in Dakar, Senegal, in May 2007. During the first year of its operation, the ISFD approved $320.3 million in different sectors in 20 member countries.

The ISFD has devised two-front runner poverty reduction programmes within its first Five-Year Strategy (2008-2012); namely, the Vocational Education and Literacy Programme and the Microfinance Programme for Entrepreneurship and Self-employment. The cost of these programmes is $500 million each and the contribution by ISFD to each of these will be $100 million over a five-year period. These programmes will be implemented through a country programming process with the aim of creating a significant impact on the targeted poorer communities in selected regions.

**Forum on Global Financial Crisis**

As the financial crisis started unfolding, the IsDB immediately established an in-house team of experts to monitor on a daily basis the rapidly changing situation and to assess its implications for both the Bank and its member countries. The Bank also organized a forum on *global financial crisis and its impact on the financial industry* at its headquarters in October 2008. The participants in the forum were unanimously of the view that the crisis was primarily a result of “highly excessive leverage and speculations, leading to unsustainable expansion of the financial sector …” It was observed that despite its widespread implications, the impact of the financial crisis on the Islamic financial industry was quite limited.

The Forum called upon the IsDB, central banks, and stakeholders to enhance the institutional and regulatory infrastructure of the Islamic financial industry, consistent with the values that govern its
activities. It also suggested the establishment of major investment institutions to promote Islamic finance and to add value to economic activity.

**G-20 Summit Decisions**

Islamic Development Bank highly appreciates the bold and timely decisions taken by the G-20 leaders in their Summit in London on 2 April 2009 to address the issues of global financial crisis and to get the world economy out of recession. The IsDB believes that the addition resources of $1.1 trillion in the form of tripling of IMF resources to $750 billion, general SDR allocation to inject $250 billion into the world economy, support for $100 billion of additional lending by Multilateral Development Banks, and support for $250 billion for trade finance will definitely have a major and sizeable impact on the global economy in terms of putting it back on the path to recovery through increase in trade and investment.

IsDB collaborated with the World Bank and other MDBs in the G-20 Working Group No. 4 which prepared a coordinated response in terms of financial resources to assist developing countries in dealing with the negative impact of the global financial crisis. In its meeting held in Jakarta, Indonesia, on 1st March 2009, the IsDB Group had informed the Working Group that its assistance to member countries through front-loaded instruments, additional or new measures, and leveraging will amount to $6.6 billion. ($3.13 billion through front loaded instruments, $1.68 billion through additional or new measures, and $1.8 billion through leveraging).

The IsDB is currently preparing its new strategy to further scale-up its commitments and disbursements in the near future. In this context, among other things, it is preparing to launch a new infrastructure Fund with target private equity size of $1.5 billion. It is also contemplating the establishment of various other specialized funds and significantly increasing the size of its current operations plan. The Bank Group is also taking measures to expedite its disbursements for its current projects and programmes.

I am pleased to say that Islamic Development Bank was the first multilateral development financing institution that started trade financing. It started its trade financing operations soon after its establishment in 1975. Up to the end of December 2008, the IsDB Group had approved $32.43 billion for its trade financing operations. It highly appreciates and welcomes the decision of G-20 leaders for their support for $250 billion for trade finance. The IsDB is providing both trade finance and insurance for investment and export credit. These services are being provided through two specialized entities with the IsDB Group viz. International Islamic Trade Finance Corporation (ITFC) and Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC). Both of these entities are working out their strategies to significantly scale up their operation. The final decisions in this regard will be taken at the Annual Meeting of the Bank’s Board of Governors which will take place Ashgabad, Turkmenistan, in June 2009.

The Islamic Development Bank also appreciates the G-20 decision to review the flexibility of the Debt Sustainability Framework (DSF). With several of its member countries either already in debt distress or in high risk of debt stress, the review of DSF would come as welcome relief.

For enhancing the voice and participation of developing and transition countries in the World Bank Group, the IsDB is pleased with the decisions of the World Bank Group Board and looks forward to their speedy implementation.

In the end, I would like to say a few words about the lessons that we have learnt from the global financial crisis.

One of the most important lessons that has been learnt from the recent financial crisis is the excessive leverage and a weak linkage between the size of the global financial sector and the world output. The
exponential growth in financial derivatives which was worrying many experts had already reached the unsustainable levels in 2007, and by September 2008 their size stood at $600 trillion as compared to the world GDP of $65 trillion. It was evident that the financial sector could not expand at this rate indefinitely.

I am pleased to say that as a multilateral development financing institution with 56 member countries and annual approvals in excess of $6 billion, the impact of the global financial crisis on IsDB was very modest – much lower than one would have expected. This is due to the fact that as an institution that operates in accordance with Shariah, it was not involved in any financial transactions involving buying of debt instruments. The IsDB operations are asset-based and thus closely linked to the real economy. The strength of this system has become abundantly clear and other institutions have started showing interest in learning from the IsDB experience.

In order to underpin the soundness of Islamic financial institutions, the IsDB, in partnership with other stakeholders, has established 8 specialized institutions to facilitate the adaptation of best practices, standards in areas of capital adequacy, risk management, transparency and disclosures, and corporate governance. In this regard and in support of national policies, the IsDB has established a technical assistance Sub-account with the International Monetary Fund, and recently it has also established the Islamic Finance Joint Working Group with the World Bank. Similar joint initiatives are also being explored with other MDBs.

In order to promote the resilience of Islamic finance and enhance its contribution in reforming the global financial architecture, the IsDB has recently established the “Islamic Finance and Global Stability Task Force” which is headed by Tan Sri Dr. Zeti Akhtar Aziz, Governor, Bank Nagara, Malaysia.

I assure you that the IsDB stands ready to share its knowledge and experience in the field of Islamic banking and finance with institutions in both member and non-member countries.