Statement by

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The Islamic Development Bank (IsDB) Group appreciates the invitation to attend the 80th meeting of the Development Committee and to share its views on some developmental issues requiring our collective efforts to assist our common member countries to achieve internationally agreed development goals. The IsDB Group recognizes the enormity of the challenges, which are exacerbated by the recession that engulfed the global economy, facing the development community. Even though the tide of the recession appears to be subsiding, urgent attention is needed to address the development challenges.

In today’s world, poverty is endemic across the regions and countries of the world; unemployment is on the rise amid the recession; climate change continues to ravage environmental serenity with detrimental developmental consequences; global trade is yet to rebound after declining because of the recession; and volatility of oil prices continues to haunt the global economy. These challenges confront the development community and the success of development assistance is contingent upon mitigating their adverse effects on the social and economic well being of the people.

Recent developments in the global economy have underscored the need to strengthen coordination and enhance synergy in addressing these development challenges. The financial crisis that originated from the US morphed into a global economic recession due to the interconnections of the world economies. Despite limited exposure of many developing countries to the international financial system, the contagion effect has been pronounced due to reduced FDI and private debt flows, weakened global import demand and decreased remittance inflows.

**Impact of the Global Recession on Member Countries of IsDB**

Most member countries of the IsDB Group are developing countries that have been hit hard by the global economic downturn. Let me turn to the impact of the global recession on IsDB member countries, its responses to the evolving needs of member countries and perspectives of the IsDB going forward.

The global recession has affected the economies of member countries of the IsDB Group through a number of channels including dwindling remittances, low export earnings due to falling commodity prices and falling FDI flows. The economic growth of IsDB member countries (as a group) declined from 6.1 percent in 2007 to 5.1 percent in 2008 and is projected to further decline significantly to 1.3 percent in 2009.
The economic growth of the IsDB 28 Least Developed Member Countries (LDMCs), which has been rising in recent years, slowed down from 8.1 percent in 2007 to 6.6 percent in 2008 and is projected to decelerate to 4.5 percent in 2009. The steeper deceleration of the economies of LDMCs relative to the whole 56-member countries is due mainly to the sharp decline in resource flows (e.g. remittances, ODA, etc.), inherent structural weaknesses and weak macroeconomic fundamentals in responding to external shocks. The economies of the non-LDMCs slowed down from 5.9 percent in 2007 to 4.9 percent in 2008 and are projected to decelerate to 0.9 percent in 2009, mainly due to lower export earnings which were adversely affected by the global financial and economic crisis. In particular, the current account of these countries deteriorated from a surplus of 9.5 percent of GDP in 2008 to a deficit of 0.8 percent of GDP in 2009, compared to LDMCs’ current account surplus of 0.7 percent in 2008 to a deficit of 3.1 percent in 2009.

Current account balance of member countries as a group improved slightly from 8 percent of GDP in 2007 to 8.8 percent of GDP in 2008 but is expected to be negative in 2009. The moderate increase in current account balance in 2008 is attributable to the gains that accrued from increase in international commodity prices during the first half of the year. This means that, the reverse impact of sharp fall in prices that started in the second half of 2008 did not completely counterbalance the revenue gains that accrued from the commodity price increases of the first half of the year. However, the deepening effect of the recession is expected to take a significant toll on the current account balance of member countries in 2009 leading to a negative current account balance, especially as global trade is not expected to show strong signs of recovery.

The global recession has exacerbated the development challenges facing IsDB member countries. Given that a steady economic growth is a prerequisite for poverty alleviation and social safety nets for enhancing the welfare of the people, the slump in economic growth of member countries, coupled with their relative macroeconomic weaknesses, portends a serious setback for member countries in achieving internationally agreed development goals. This is even more ominous for IsDB’s 28 LDMCs.

IsDB’s Responses

The IsDB Group has responded to the situation in various ways with a view to assisting member countries to cope with the impact of the crisis on their economies.

In the wake of the outbreak of global financial crisis in September 2008, the IsDB Group invited leaders, scholars and experts from the Islamic financial industry for a Forum on ‘Global Financial Crisis and its Impact on the Islamic Financial Industry’, which was held at IsDB Headquarters on 25 October 2008. Following the recommendations of the Forum, the IsDB, after consultations with key stakeholders, established a Task Force on “Islamic Finance and Global Financial Stability”, chaired by the Governor, Bank Negara Malaysia, whose work is aimed at contributing to the reform process of the global financial system with a view to enhancing its resilience and preventing future recurrence.

The Bank initiated special intervention programs targeting member countries with critical needs. In order to ensure adequate resource availability for sustaining the support, the IsDB adopted leveraging and resource mobilization measures to bolster its liquidity, including the issuance of Sukuk (Islamic bonds) to raise financial resources for its interventions in member countries. The Bank will increase its annual OCR financing by 30 percent per annum over the next three years, which translates to additional $2.5 billion of financing that would target, mainly physical and social infrastructure projects in member countries to spur the growth of their economies.

In order to shore up the private sector in member countries to enable them to spearhead the process of economic growth, the Islamic Corporation for the Development of the Private Sector, (ICD), a member of
the IsDB Group, increased its authorized capital from $1 billion to $2 billion and the capital is open for subscription from $500 million to $1 billion.

The World Bank estimates that additional 55 million more people will fall below the poverty threshold of $1.25 a day in developing countries in 2009 because of the combined effects of the economic and food crisis. The ILO indicates that the global financial and economic crisis could increase the number of unemployed by 59 million from 2007 to 2009 across regions of the world. In recognition of the worsening unemployment and poverty situation caused by the global economic meltdown, the IsDB has intensified its efforts in assisting member countries to cushion these negative effects.

Reducing poverty is a high priority in the operations of the IsDB and employment generation activities is the kernel of our poverty alleviation programme under the concessional Islamic Solidarity Fund for Development (ISFD). So far, the ISFD has financed about 26 projects in different sectors and has created two thematic programmes for poverty alleviation; Vocational Literacy Programme for Poverty Alleviation (VOLIP) and Microfinance Programme for African Member Countries.

Considering that one of the main sources of transmission of the impact of the global recession on member countries is the precipitous decline in trade volume aggravated by constraints on trade financing, the IsDB Group has initiated measures to scale-up trade financing operations from $5 billion to $7.5 billion. In addition, the International Islamic Trade Finance Corporation (ITFC), the trade affiliate of the ISDB Group is collaborating with other MDBs to further increase trade financing operations through leveraging. These include collaboration with the International Finance Corporation (IFC) for $1 billion of trade financing ($400 million from IFC and $600 million from ITFC); African Development Bank (AfDB) for $200 million and Arab Monetary Fund (AMF) for $100 million. Furthermore, the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), the insurance affiliate of the IsDB Group plans to modify its insurance coverage policy to include import of capital goods, domestic insurance and possibility of 100 percent insurance coverage as part of its efforts to bolster trade.

It is recognized that adequate financing of development projects per se would not be enough to tackle the mounting development challenges facing IsDB member countries. Appropriate macroeconomic policy environments anchored on fiscal efficiency and effective utilization of resources to enhance the value adding capabilities of factors of production is very critical. In addition, domestic public expenditure patterns need to accord prominence to education and health sectors. This could create the requisite conditions for human capital development, innovation and technological progress, which are the key ingredients for attaining sustainable and inclusive growth, prosperity (poverty alleviation) and indeed, overall development.

For our part, we would continue to support member countries in key sectors, especially education, health, and infrastructure based on thorough evaluation of country constraints and niche areas for intervention.

**Looking Ahead**

The IsDB Group welcomes the commitments of G20 countries for augmenting the resources of the IMF and other MDBs along with other measures to help in restoring confidence in the financial markets and stimulating economic growth, offsetting credit crunch in trade financing, mitigating the tightening of access to international finance and counteracting reduced remittances and ODA flows. The IsDB Group recognizes that mainstreaming the G20 reform agenda in the global financial system will entail implementation challenges for national authorities and standard setting bodies at the regional level. It is pertinent that IMF and other MDBs, including the IsDB Group, coordinate their support for capacity building aimed at further strengthening the domestic and regional financial sector.
The IsDB Group has two distinct characteristics. First, it is the only South-South development institution. Given the potential significance of South-South cooperation in fostering a steady global economic growth, the role of the IsDB Group in addressing perennial development challenges is very crucial. Secondly, the financial instruments used by IsDB follow the principles of Shari’ah (Islamic law).

The intrinsic feature of Islamic finance is participatory finance in which both the financiers and business partners share in the \textit{ex post} outcome of risk and reward. It is therefore not a coincidence that Islamic banks and financial institutions have remained largely resilient to the global financial crisis because of their insulation from ‘toxic’ financial assets, prohibition of speculative activities, and ensuring productive linkage between the financial sectors to the real economy.

As the international development community braces up for reforming the global financial system in recognition of the weakness of conventional banking practices that triggered the global financial crisis, the principles and instruments of Islamic Finance emerge as viable option. The Islamic tenet of risk sharing combined with the adherence to universal ethical values, restrictions on the sale of debt and its further securitization, has the potential of enhancing soundness and stability of institutions as well as the market and, thereby, reducing the emergence of asset bubbles.

In conclusion, as signs of recovery are manifesting, especially in advanced economies complemented by the robust resilience of the emerging economies, member countries of the IsDB need to evolve cohesive strategies for economic growth and cope with a newly emerging international financial landscape. While the economies of many IsDB member countries have demonstrated sound economic fundamentals to weather the current global economic downturn, there are many challenges ahead, especially in the realm of macroeconomic policies and fiscal efficiency. There is the need for intensive public and private investments that accord priorities to key sectors in order to promote recovery and sustain higher levels of growth.

The IsDB Group recognizes the growing relevance of knowledge and ideas in achieving development in that the application of knowledge in harnessing productive resources provides avenues for innovation and technological progress that propels economic growth and development. Hence, the IsDB Group encourages member countries to anchor their macroeconomic policies and development strategies on building a robust knowledge economy to gain a competitive edge. Application of policies that emerge from a robust body of knowledge provides the platform for effective utilization of resources for achieving inclusive growth, development and poverty alleviation.

At present, the IsDB along with the member countries concerned, the Islamic Financial Institutions and the International Institutions, is actively engaged in strengthening the legal and regulatory framework of the Islamic Financial Service Industry to facilitate its mainstreaming in the global economy.

Also, as a signatory of the MDBs statement on corporate governance and in recognition of the paramount role of governance in the healthy development of the global economy, the IsDB will pursue its efforts with other MDBs for the promotion and dissemination of good corporate governance practices.

On behalf of the IsDB Group, I wish the Development Committee, fruitful deliberations in its 80\textsuperscript{th} Meeting and reiterate the full commitment of the IsDB Group in intensifying global cooperation for achieving internationally agreed development goals.