Statement by

Dr. Ahmad Mohamed Ali
President
Islamic Development Bank Group

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I would like to express the appreciation of the Islamic Development Bank Group to the World Bank and the International Monetary Fund for inviting us to participate as an observer at the eighty second meeting of the Development Committee. This meeting of the Development Committee is taking place during a period of increased uncertainty where the global economic recovery is at best fragile, and fraught with significant downside risks.

GLOBAL ECONOMIC RECOVERY

The recent global financial and economic crisis is widely accepted as the worst since Great Depression of the 1930s and has gone way beyond the financial sector and adversely affected the real economy. Despite concerted and coordinated efforts at the international, regional, and national levels, recovery remains precarious.

The fiscal stimulus provided temporary relief with a better than expected 2009 performance with global growth forecast at 4.3 percent in 2010 and 4.3% in 2011. This growth is predominantly from the developing countries which are estimated to grow at 6.3 percent in 2010 and 6.4 percent in 2011 compared to the developed world at 2.3 percent and 2.4 percent respectively. These forecasts will in all likelihood be achieved. Notable however are the wide disparities between advanced and developing countries.

The sudden slowdowns in US growth driven by a slowdown in household consumption (as households repair their balance sheets by increased savings) along with concerns on debt sustainability are underlying the lower growth expectations in advanced economies. Notably, the Greek crisis and the corresponding spreads have provided strong warning signals for fiscal consolidation in advanced economies. The implication of this is that it may crowd out capital markets and increase interest rates. These adverse influences have resulted in some volatility on the shape of the recovery in advanced economies.

Developing economies on the other hand, led by Brazil, Russia, India and China (BRICs) have been more resilient, and are driving the current recovery with a V shape recovery expected in the developing world. This would largely be fuelled by domestic demand, confidence in macroeconomic performance and an increase in public investment in infrastructure.
Hence, there are “two faces of the global recovery” based on the different growth trajectories of the advanced and developing economies. Clearly, the two groups of countries do not operate in isolation, and a double dip recession emanating in advanced countries will dampen the recovery in the developing world.

In light of this, multiple growth poles are likely to emerge, with developing countries leading the global recovery. However, this is easier said than done. To increase investment in developing countries, the business and investment climate must be significantly improved to increase the risk adjusted rates of return. Without an enabling environment, efforts to attract private investment flows will be fruitless. Hence, at the heart of the development agenda for developing countries is the need for reform. In this regard, governance and the business climate are paramount with a focus on institutions, incentives, investment and information.

It is therefore apparent that we are living in an era of turbulence where uncertainties and crises are the norm. We will need to ensure that we are able to rapidly adapt to the changing environment and the needs of our member countries. The changing global arena dictates that we need to be more “footloose” and adaptive.

The extent of resources required to sustain the recovery by stimulating growth and trade remains uncertain. Given limited resources at our disposal, it is critical that we “do better with less”.

The recent crisis, and the response thereto has among others impacted on the MDGs, the balance of economic power in the world, and on the role of MDBs as follows:

**MDGs:** There has been significant speculation on the impact of the crisis on the attainment of the MDGs specifically on the poverty reduction targets. However, it is too early to estimate the magnitude of the impact. Actual data will only become available over the next two years. In addition, the impacts will be over the medium to long term e.g. dropouts will only effect school completion rates down the line, lower investments in health and education will impact on mortality rates etc. over time, not immediately. At best, attempts have been made to estimate the impacts using indicator to GDP correlations, and extrapolating results based on GDP projections.

**Multi-polar world:** The higher levels of long-term growth in some developing countries is currently driving economic growth. Hence, there are early signs of the emergence of a new economic order. However, the time lags required for these economies to build the requisite capacity requires a long-term commitment. If a multi-polar world is to become a reality, human capital in the developing world will have to be significantly upgraded; good governance will have to play a more central role; the business and investment climate will need to be more conducive to private sector development; knowledge and innovation will have to be mainstreamed; and it is anticipated that new tradeable goods will emerge.

**MDBs:** In order for MDBs to be able to better serve their member countries and do “better with less”, it is imperative that they develop early warning systems to anticipate changes in the global economic environment that may adversely impact on their member countries and their operations. This implies that they will need to be aware of the prioritized needs of countries (moving target), and become more adaptive. Importantly, MDBs including the IDB will need to understand how it fits into the broader development context, along with its member countries and other development partners. Hence MDBs will need to provide “Just-in-Time” support from both financial and policy perspectives.
Shifting the focus away from the global recovery, the other major development challenges that we need to grapple with are poverty and food security.

**FIGHTING POVERTY AND RESTORING DIGNITY**

Providing resources to fight poverty and restore dignity is at the very core of IDBs raison d'être since its inception in 1975. The poverty situation in IDB member countries pre-dates the global recession. However, the recent crises exacerbated the poverty problem, has set us back in our fight against poverty and potentially reversed some of the gains made on poverty reduction (although it is difficult to quantify the exact impact at this stage). Over and above the impact of lower growth, is the knock-on effect on unemployment and remittances. The global financial and economic recession has also resulted in budget cuts, with aid to poor countries being adversely affected.

Estimates show that a 1 percent decline in developing country growth rates traps an additional 20 million people in poverty. As a result of the global recession, it has been calculated that an additional 90 million people would fall into extreme poverty by the end of 2010. For IDB member countries on average, a growth of 1% in GDP per capita is associated with a 1.5% decline in the incidence of $1.25 per day poverty. In terms of the $2.00 per day benchmark, a growth of 1% in GDP per capita is associated with a 0.88% decline in the incidence of poverty. Hence, lower levels of growth arising from the economic crises adversely impacts on the fight against poverty and our efforts to help restore dignity.

The poverty reduction challenges facing IDB member countries is evident on their Human Development Index (HDI) categorizations, where, of the 54 member countries covered, 14 are in the low-HDI category, 27 in the medium category. Furthermore, seven member countries are among the bottom 10 with the lowest three countries being IDB member countries. In addition, IDB’s least developed member countries particularly in Sub-Saharan Africa (SSA) are facing major challenges to improve their social conditions. According to the 2009 Global Hunger Index, out of the forty-six IDB member countries which are covered, twenty-seven countries have “serious”, “alarming” or “extremely alarming” levels of hunger.

Currently, approximately one-third of the population of IDB member countries are considered poor based on the $1.25 poverty line. The highest concentration of those living in poverty is in sub-Saharan member countries, where around 176 million (54% of the population) live in extreme poverty. Using the $1.25 per day measure, the incidence of poverty is significantly lower in the Countries in Transition and Middle East and North Africa sub-regions at 19.4 percent (13 million) and 3.36 percent (11 million) respectively.

Over 50 percent of the population in IDB member countries are living below the $2.00 per day poverty line. The problem is the most severe in sub-Saharan Africa where in excess of 75 percent of the population lives below the $2.00 per day line. In terms of absolute numbers, 660 million are considered poor, with 338 million being in Asia (majority of the poor are from Bangladesh, Indonesia and Pakistan).

Poverty reduction is a serious challenge in IDB member countries and effectively fighting poverty requires development partners to work jointly with common member countries. However, countries need to demonstrate commitment both at the political and institutional levels to ensure no leakages in the system when resources are committed to this key development challenge. Given the correlation between growth and poverty reduction, it is apparent that the crises has been a major set-back in the fight against poverty. Limited physical and financial resources, dictate that effective and efficient resource utilization is key. Improved governance, stronger institutions targeted incentives, investment promotion and access to information are vital to instil confidence and build partnerships in the fight against poverty.
ENSURING FOOD SECURITY

A necessary condition for the attainment of food security is the simultaneous fulfillment of four key dimensions, namely: physical availability of food in a country, economic access to food by households, nutritional status of the people and stability at all times of physical availability, economic access and nutritional status.

IDB member countries are still coming to terms with the global economic downturn, and the resultant setbacks in their efforts to achieve the goals and targets set in various global initiatives including the MDGs. The economic crisis has reduced exports as global demand shrank, foreign capital inflows declined, and remittances dropped, all of which may constrain the countries’ ability to import the required food. Food insecurity in developing countries (including IDB member countries) worsened between 2007 and 2009, with an additional 80 million people becoming food insecure (13 percent increase). In most cases, the deterioration in food security reflected the diminished purchasing power of the poor rather than a shortfall in food production. Many countries in sub-Saharan Africa do not have adequate supplies of food, and the inequality in purchasing power exacerbates the problem.

The recent rising trends in food prices and shortages of food in some countries have given prominence once again to food security concerns. The drought in Russia, resulted in sharp shortfalls in production. The possibility of a similar shortfall is also likely in Ukraine and Kazakhstan. The resultant effect of this it that the exportable surplus to world markets is likely to decline. Russia’s response of an export ban is reminiscent of India’s rice export ban which triggered panic in the rice markets and was one of the key drivers behind the 2008 crises.

Although concerns have been raised on another food crisis emerging, the key differences between the current situation and the 2008 crisis is that wheat stocks are significantly higher than their 2007/2008 levels; normal weather conditions in Argentina and Australia (with normal crop production anticipated in these countries); and a bumper crop production last year the US, with a similar crop production expected this year. In addition, the monsoons in Asia were good, and Asia is therefore likely to produce ample rice stocks. Furthermore, oil prices about half of their peak during the crisis. The markets have factored in worst-case scenarios, and this has driven up the prices. In reality, the fundamentals are sound, speculative activity and negative sentiment are behind the price rises. At this stage, it is premature to conclusively state whether speculative activity and market sentiment will prevail or if fundamentals triumph. To better serve the needs of our member countries, development partners including the IDB will need to be adaptive in order to meet the ever changing priorities of our member countries.

PROVIDING RESOURCES TO ADDRESS KEY CHALLENGES

The shifting priorities and the resource requirements of member countries coupled with the expanded mandates of MDBs (as a direct consequence of the global economic crisis), the IDB has been proactive in developing new initiatives to mitigate the impacts of economic crises on its member countries.

The first major initiative undertaken was to double ordinary capital resource operations over three years. To this end, the Bank mobilized Sukuk resources of around $850 million to fast track disbursements in infrastructure projects. A further financing of $2.5 billion was also made available for development assistance for the three-year period.

Secondly, the IDB launched a Programme aimed at scaling up commitments and disbursements, supporting economic recovery and capacity development in LDMCs. In this regard, the IDB launched the IDB Infrastructure Fund-II. The target size of this Private Equity Fund is $1.5 billion and IDB’s investment in the Fund is expected to reach $300 million. The Bank is also expediting its payment
processes and is considering advance disbursements. A further $350 million was allocated for concessional financing for the most affected countries. The IDB is also supporting capacity development through strengthening the enabling environment for expansion of Islamic finance; and helping them in improving their regulatory environment for financial sector and investment climate.

Thirdly, in order to assist, the twenty-two sub-Saharan Africa member countries with their development efforts and achieving the MDGs, the IDB launched the Special Programme for Development of Africa (SPDA). The IDB is expediting the implementation of the Special Programme for the Development of Africa (SPDA), which was launched in 2008. The SPDA is a five-year programme spanning 2008–2012 with an allocation of $4 billion to contribute effectively to alleviate poverty and promote sustainable economic growth in African member countries. The programme focuses on a number of priority sectors and activities including agriculture and food security, water and sanitation, energy, transport infrastructure, education system, health and the fight against communicable diseases. With the above focus areas, the SPDA aims to support investments in social and infrastructure sectors in sub-Saharan Africa, which will underpin inclusive or shared growth. In particular, SPDA will aim to provide affordable access to services used by the poor through twinning with regional infrastructure networking.

Fourthly, the Bank is actively implementing the $1.5 billion Jeddah Declaration which is aimed at supporting the member countries affected by the global food crisis to strengthen their food security and agricultural sector.

Fifthly, the IDB and FAO signed a $1 billion agreement to fund agricultural development in poor common member countries. Under the framework agreement, it is anticipated that additional resources will be leveraged, with the total investment in the IDB-FAO programme amounting to $5.0 billion by 2012.

Sixthly, the IDB is closely examining the role that the Islamic instruments of Zakat (compulsory wealth tax for Muslims) and, Awqaf (a voluntary, irrevocable amount that is invested, the returns of which are utilised for social good) could play in developing social safety nets in its member countries.

MOBILISING RESOURCES AND MAINSTREAMING ISLAMIC FINANCE

The Islamic Development Bank will continue its pioneering and leadership role in growing Islamic capital markets. Our funding strategy rests on the principles of transparency, liquidity and superior performance with the aim of positioning the IDB as a leading supranational issuer in capital markets, with a well-defined, transparent and liquid Sukuk yield curve, offering investors globally an investment opportunity of the highest credit quality, as evidenced by our AAA ratings from leading ratings agencies.

In this regard, the IDB will be approaching the market with a $1 billion benchmark Sukuk transaction soon. It is anticipated that as per past experience, investors in both member and non-member countries will recognise the value proposition IDB has to offer, and our sukuk will again be over-subscribed.

The IDBs efforts in mainstreaming Islamic financing will continue through our efforts to develop the industry by nurturing the development of standards making bodies such as the Islamic Financial Services Board, and the Accounting and Auditing Organization for Islamic Financial Institutions. In addition, the Bank has assisted in the development of specialised institutions such as the General Council for Islamic Banks and Financial Institutions (CIBAFI), International Islamic Financial Market (IIFM), Islamic International Rating Agency (IIRA) and the International Centre for Reconciliation and Arbitration (IICRA). By assisting in developing the relevant institutions, legal and regulatory mechanisms, the IDB is confident that the Islamic financing will be mainstreamed, and be a competitive alternative to non-Islamic financial services.
At the MDB level, we have collaborated with the Asian Development Bank to establish a $500 million shariah compliant private equity fund (the Islamic Infrastructure Fund). In addition, the World Bank via the International Finance Corporation (IFC) is the first non-Islamic financial institution to issue sukuk for term funding in the Gulf Corporation Council (GCC). Notably, this sukuk was oversubscribed, and the IFC is planning on issuing a sukuk every 12-18 months.

CONCLUDING REMARKS

The IDB is acutely aware that effectively tackling the development challenges facing its member countries is beyond any single institution. In this regard, the IDB forges strategic alliance with other development partners to leverage additional development assistance to its member countries. It also maintains a close working relationship with specialized bodies of the UN and participates in relevant initiatives of global and regional institutions which include the World Bank (WB), the International Monetary Fund (IMF), the Asian Development Bank (ADB), the African Development Bank (AfDB), and the European Bank for Reconstruction and Development (EBRD).

I am confident that this meeting will have fruitful deliberations on the key development challenges facing the World today, and more importantly, will provide valuable insights into potential solutions that the development community could adopt to tackle these problems.

With these few thoughts, I would like to reaffirm the IDBs commitment to working closely with the development community in its quest to providing resources, fighting poverty and restoring dignity.