Statement by
Dr. Ahmad Mohamad Ali
President
Islamic Development Bank Group
On behalf of the Islamic Development Bank Group (IsDB Group), I would like to express our thanks and appreciation to the World Bank and the International Monetary Fund for the invitation to participate as an observer at this year's 86th meeting of the Development Committee.

This meeting is being held at a critical period when the world economy, which showed signs of recovery a year ago, is now faced with unprecedented growth and job challenges. Some factors dragging down the global growth are the unresolved Eurozone debt crisis, persistent food and energy crisis, sluggish growth in emerging market economies (mainly BRICS, which until recently were drivers of global growth), and high unemployment especially among the youth. These factors affect both advanced and developing countries disproportionately but Sub-Saharan Africa and Asia regions have so far recorded impressive growth despite not being decoupled from the events in the advanced countries.

**Fragility and Uncertainty in the Global Economic Recovery**

By first quarter of 2012, the world economy, according to the IMF\(^1\), grew by 3.6 percent; this is despite the sluggish growth recorded in the US and China, and the recession in Euro over the same period. Weak demand for goods by developed countries has continued to affect global trade which is expected to expand by 2.5 percent in 2012 (down from the April forecast of 3.7 percent) and further by 4.5 percent in 2013\(^2\).

With global economic outlook remaining weak with downside risks, the recent policy responses from the European Central Bank (which announced unlimited bond-buying of sovereign debts) and the US Federal Reserve Bank’s third quantitative easing (QE3) (plus flat policy interest rates until 2015) are game changers that can help improve the global growth prospect in 2013 and beyond. Meanwhile, rising political uncertainty and instability in many parts of the world, increased youth unemployment, and the specific problem of fiscal cliff in the US remain major concerns, going forward.

Some of these concerns are transient, others such as youth unemployment has increasingly become a perennial problem compounded by Eurozone crisis. As more and more graduates leave school every year,

---

\( ^1\) IMF’s World Economic Outlook Update, July 2012
\( ^2\) WTO website, accessed on 23 September 2012
they are confronted with the challenge of securing elusive decent work. Jobless growth often leads to criminality and violence among the youth. This was the case during the turmoil in the Arab world when their youth who were marginalized from reaping the benefit of economic growth took to the streets to demand for jobs and more roles in the development process of their countries. The turmoil led to the overthrow of governments with attendant consequences of political, economic and financial instabilities. In its latest report, the ILO paints a bleak picture of youth unemployment worldwide predicting that the global youth unemployment rate will reach 12.9 percent by 2017, up by 0.2 percentage points from their forecast for 2012. The unemployment hotspot still remains the MENA region where youth unemployment rate is projected to average above 25 percent over the next years and might even rise further if policymakers do not put in place adequate measures and strategies to address the problems which include youth bulge, skills mismatch, outdated curriculum, etc.

In recent months, food-related crisis hit the headline again, raising another food security concern. Most of the staple food prices have risen substantially, threatening millions of poor families and households who have to spend more from their meagre incomes on food. Unlike the 2008 food crisis which was caused by high energy prices, this new food crisis is due to severe drought in the US, the worst in over 60 years, which has reduced food production considerably. In the Sahel region, the UN has estimated that about $8 billion is needed to address the food-related crises but so far only about half of that amount has been pledged. With the international response slowed by the global economic crisis, rising global food prices could pile more pressure on an overstretched humanitarian system.

**Growth Outlook of IsDB Member Countries**

The fragile global economic recovery is having repercussions on the economies of IsDB member countries in varying degrees through various transmission channels such as trade and capital flows in the form of ODA, remittances, and FDI.

The economic growth of member countries is expected to slow from an average of 5 percent in 2011 to 4.6 percent in 2012 and slightly down to 4.4 percent in 2013. Nine member countries are expected to post growth rates of 7 percent or more this year as compared to eleven countries in 2011. This is due to a combination of the negative spillover effects from Eurozone recession, stagnation in advanced economies, and slow growth in a number of emerging market economies.

Member countries in the MENA region and those belonging to Countries in Transition are projected to record decline in growth in 2012. For MENA region, growth will slow from 4.7 percent in 2011 to 4 percent in 2012 and further down to 3.6 percent in 2013. Likewise growth in member countries in transition will decrease from an average of 6.6 percent in 2011 to 5.4 percent in 2012 and 5.2 percent in 2013. By contrast, economic activities in both SSA and Asian member countries are expected to pick up respectively from 4.5 percent in 2011 to 5.4 percent in 2012 and 2013 and from around 5.2 percent in 2012 to 5.6 percent in 2013.

The turmoil in some countries in the MENA region is yet to be completely over. The economic prospects of these conflict-affected countries are at risk due to continued political and social instability as well as unfulfilled pledges by donors to support the transition period. In fact, some of these countries face serious balance of payments crisis as well as the daunting task of rebuilding their economies from the scratch which requires technical and financial support to help them make progress. As many western donor

---


4 IsDB staff computation based on IMF’s World Economic Outlook, April 2012.
countries are in austerity mode, transition countries in MENA region need to woo their rich neighbours to come to their aid. On 4 September 2012, a two-day donors’ conference for Yemen was held in Riyadh, Saudi Arabia where US$6.4 billion was pledged to support the country’s urgent stabilization and development needs and to assist its ongoing political transition over the next 18 months. Key pledges were from the government of Saudi Arabia ($3.25 billion), World Bank ($400 million in new resources) and the IsDB ($100 million).

As 2015 draws near, the challenge of achieving the targets set in the MDGs is of major concern especially for many member countries that are off-track on some of the targets. Some of the main challenges facing member countries in attaining MDGs-targets are low levels of growth, resource constraints, lack of institutional reforms, inadequate capacity development, uneven income distribution, the lack of an enabling environment conducive to private sector development and the lack of inclusive growth. Concerted efforts are needed to address all these challenges.

Mainstreaming Islamic Finance in the Global Financial System

In this fast changing global development and financial landscape, Islamic finance has come of age providing ample opportunities and solutions to challenges facing countries worldwide. Precisely, the fragile global economy needs a new financial strategy for the post-crisis era. While efforts are being made to fix the global financial system, it is high time to mainstream Islamic finance into the global financial system. Islamic finance, with its global footprint in 75 countries (where over 600 Islamic financial institutions -- comprising some 450 Islamic banks and about 200 conventional banks with Islamic windows -- are located), is an ethical financing which is based on risk-sharing and which links the growth of credit to the growth of the real sector in the economy. Its financial products and services are opening new opportunities for businesses in the financial and non-financial sectors thereby creating new jobs.

Islamic financial institutions have proved relatively more resilient during the global financial crisis of 2008/2009 than their conventional counterparts. For instance, the IsDB maintained AAA rating before, during and after the financial crisis which reinforces the importance of mainstreaming Islamic finance into the global financial system.

To date, the global Islamic banking assets have surpassed $1 trillion - growing twice as fast as conventional banking assets. The global Islamic finance industry is growing at 20 percent per annum and is expected to double in size over the period 2011-2015. In this context, IsDB Group will continue its pioneering and leadership role in promoting Islamic finance and Islamic capital markets worldwide. In particular, given its experience, the IsDB Group will support and encourage member countries to mobilize capital resources by launching Sukuk, which in the first half of 2012 alone reached US$66.4 billion globally, representing a year on year growth of 40.1 percent, mainly triggered by large sums of money from sovereign authorities and Central Banks to absorb excess liquidity. Sukuk is becoming a household name actively used by firms and countries to mobilize much-needed resources for various projects. Its simplicity and structure has appealed to a wide audience not only confined to Islamic countries.

The Islamic capital market and Islamic financial architecture remain central to the IsDB. The IsDB along with other shareholders is currently in the process of establishing a Mega Islamic Bank (MIB) whose business model seeks to originate and finance large scale transactions (especially in infrastructure

---

5 See the Global Islamic Finance Report, 2012
6 S&P’s latest estimate
projects) and to facilitate growth of Islamic finance globally. The MIB will also provide innovative liquidity management solutions and facilitates the creation of an Islamic interbank money market. The aim will be to provide a reliable platform for the standardization of products and to ultimately provide shareholders and customers with attractive returns on shares and products respectively.

**IsDB Group Responses**

The IsDB Group, as a south-south international financial institution, has been assisting its member countries through provision of loans and grants to address their development challenges. The unfolding Eurozone crisis and country-specific challenges are placing additional burden on the development partners including the IsDB Group for resources and technical supports in the form of analytical and advisory services.

In recognition of these challenges, the IsDB Group has embarked on a number of new initiatives and programmes as follows:

1. **Scaling up IsDB Group development assistance and resource mobilization:** Up to the end of September 2012, the IsDB Group approvals (net of cancellation) totalled US$85.2 billion for 7,504 projects/operations benefiting several economic sectors that are employment generating such as energy, transportation, water sanitation & services, agriculture, education, industry & mining, health and finance. This financing also targeted development themes such as poverty alleviation, comprehensive human development, capacity development, and private sector development.

   During the current crisis, the IsDB Group net approvals increased significantly by 55 percent from US$5.4 billion in 2008 to US$8.4 billion in 2011. This increase was due to IsDB’s active resource mobilization activities. Until 2003, the IsDB had been relying exclusively on its internal resources to finance its operations. This has changed since 2003 when the first Sukuk of US$400 million was issued in the market. This was followed by a second issue of US$500 million in 2005. Thereafter, the IsDB has been issuing Sukuk regularly in the market (one Sukuk issuance per year). In 2005, the IsDB established an MTN program which currently stands at US$6.5 billion.

   Meanwhile, the IsDB Group, following the decision emerging from a two-day OIC Extraordinary Islamic Summit held in Makkah, Saudi Arabia on 14-15 August 2012, is working toward increasing its capital.

2. **Addressing Youth Unemployment:** Given the huge challenge of creating jobs for millions of job seekers in member countries especially the youth, the IsDB Group has launched the following employment-focused initiatives: (i) US$250 million Youth Employment Support for the Arab countries, (ii) SMEs Development Fund and related Advisory Services, (iii) targeting creation of 81,000 jobs through a US$55 million Vocational Literacy Program for Poverty Reduction in five least developed member countries, and (iv) US$50 million Regional Initiative under the Education for Employment (E4E) Program.

   In addition, the IsDB Group is supporting the formulation of employment-focused development strategy in member countries through the following three interrelated instruments: (i) mainstreaming diagnostics and programming with employment growth as a focused area in the Member Country Partnership Strategy (MCPS), (ii) preparing sector-level policies to cover issues related to choice of technology and its employment impact, and (iii) fostering operational-level partnership arrangements with the UN agencies, particularly the ILO, and other MDBs to support implementation of national employment strategies.
3. **Achieving Food Security and developing agricultural sector:** The IsDB Group recognizes the vital role of agriculture in the economic development of its member countries. It therefore promotes agriculture and food security in order to counter the effect of unstable food prices and its negative impact on the poor in member countries. Some of the key initiatives of the IsDB Group include (i) Jeddah Declaration which allocates US$ 1.5 billion through a 5-year assistance program to restore food security in African member countries and (ii) the Special Program for the Development of Africa (SPDA), a US$ 4 billion, five-year program which focusses on 6 major areas namely improving crops productivity, water supplies, transportation infrastructure, power generation, educational investment and financing health projects. Because of the success of the SPDA, the IsDB Group has already commenced the preparatory work on developing the second SPDA with a view to further stimulating and developing its African member countries.

4. **Catalyzing private sector for economic growth:** Since 1999, the private sector arm of IsDB Group, Islamic Corporation for the Development of the Private Sector (ICD), has approved over $2.2 billion in 36 member countries and added further value to the economic and social development of the beneficiary member countries through job creation, technology transfer and cross-border investment. The IsDB Group financing for PPPs has also increased significantly in recent years. In addition, the IsDB in partnership with the Asian Development Bank has established the Islamic Infrastructure Fund for our common member countries in Asia, and is working with the World Bank on the Arab Infrastructure Finance Facility.

In 2011, the IsDB Group launched a Special Economic Zones Program in order to enhance governments’ capacity within effective public private partnership models. This program is already helping Mauritania, Yemen and Libya in setting up Special Economic Zones and it is hoped that others will follow soon.

As noted above, the MENA region has the world’s highest youth unemployment rate at over 25 percent costing the region about $50 billion each year. Accordingly, the IsDB and IFC of the World Bank have jointly launched the Education-for-Employment (E4E) Initiative for the Arab Youth in April 2011. The initiative is to engage with the private sector to create new job opportunities for employment-based education, and enhance labor market skills for the youth.

5. **Fostering inclusive development, policy dialogue and capacity development:** The IsDB organized a knowledge-sharing event in the form of Symposium on the theme of “Fostering Inclusive Development in Member Countries” during the Annual Meeting of its Board of Governors, in Khartoum, Sudan in April 2012. The Symposium recommended a number of ideas for member countries to pursue inclusive development.

On its part, the IsDB Group continues to promote inclusive development through (i) Sustainable Village Programme which focuses on low-cost, sustainable and community-driven interventions that are tailored to the specific needs of communities in rural areas. The programme covers a cluster of villages containing between 45,000 to 60,000 inhabitants in deprived regions of the selected countries, and are envisioned to be implemented over a period of three to four years with a total cost of around $20 million; and (ii) policy dialogue undertaken through the MCPS which aimed at achieving alignment between the Group’s strategic thrusts and the member countries’ development needs and priorities.

Through the MCPS framework, the IsDB Group develops mutually agreed strategy to address development challenges facing its member countries. In all, the IsDB Group has initiated 24 MCPSs, of which ten have been completed. Among the main implementation modalities for the MCPS, Reverse Linkage activities, take central stage in the MCPSs.
Reverse Linkages are specific cooperation activities whereby member countries themselves are primary, forefront, and direct agents in the provision of specific expertise, knowledge, know-how, investments, success stories, and best practices. Cross-country business partnership is assisted by IsDB through identifying unique market opportunities and fostering mutually beneficial arrangements. Cooperation areas under Reverse Linkages include Islamic financial sector development, poverty reduction, community development, Halal industry, SMEs development and promoting renewable energy.

6. **Leveraging global partnership:** The IsDB has recently partnered with the Bill and Melinda Gates Foundation to eradicate polio in Afghanistan, Pakistan and Nigeria. This ground-breaking proposed new mode of Islamic financing which operates on the basis of IsDB extending *Murabahah* (Islamic finance based on a mark-up) financing, and the respective governments will reimburse the principal loan amount, while the Bill and Melinda Gates Foundation will pay the IsDB directly the corresponding mark-up on behalf of the respective government. This innovation if successful opens new opportunities for Least Developed Member Countries to finance for investments in the social and agricultural sectors. In addition such a mechanism will begin to address the challenge of ratification of concessional resources.

The IsDB Group has also assumed the secretariat function of the International Financial Institutions (IFIs) Coordination Platform under the auspices of the **Deauville Partnership** which was launched at the G8 Summit in May 2011 in Marseilles, France. This partnership brings together G8 and nine international development partners to address and support country-owned economic programs for MENA region. The IsDB Group has set up a dedicated team to handle all work related to the IFI Coordination Platform, and it is envisaged that the IsDB Group will seize the opportunity to propose new initiatives and financing mechanisms to the other financial institutions in order to support countries in the Arab region with their transition.

**Concluding Remarks**

The rapidly changing global economic and financial landscape has brought both risks and opportunities for member countries and their development partners. It is important that member countries focus on pursuing sustainable, pro-poor, and inclusive development in the post-crisis era. The development partners, on their part, need to be proactive and strategic in their engagement with member countries and adapt to their changing environment and needs.

Tackling the development challenges facing member countries is beyond any single institution. In this regard, the IsDB Group will continue to forge strategic alliances with other development partners and stakeholders to leverage additional development assistance to its member countries.

I am confident that this meeting will deliberate on major development issues facing the world and will provide insights and solutions on how to address them.

Lastly, I would like to reaffirm the IsDB Group’s commitment to working closely with the development community on all new initiatives needed to support the economies of our member countries.