



DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)



SEVENTY-SEVENTH MEETING
WASHINGTON, DC – APRIL 13, 2008

DC/S/2008-0027

April 13, 2008

Statement by

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ISLAMIC DEVELOPMENT BANK

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(77th Meeting of the Development Committee)

I would like to express the deep appreciation of the Islamic Development Bank (IsDB) to the Development Committee for inviting it to attend to this 77th Meeting. The IsDB always looks forward to attending this important meeting, which discusses global economic issues and provides valuable policy guidance for dealing with them in the most effective manner.

It is a great honour for me to represent the IsDB in this meeting, which has on its agenda the subjects of overcoming poverty in the poorest countries, particularly in Africa; and the recent market developments including higher commodity prices: challenges and opportunities for low and middle income countries. Both of these items are very relevant to the IsDB and its member countries, particularly the Least Developed Member Countries (LDMCs). Before commenting on these issues, I would like to briefly highlight the economic performance of the IsDB member countries in 2007.

1. Economic Performance of IsDB Member Countries

The IsDB member countries¹ as a group sustained their GDP growth of above 6 percent in 2007 – the fifth consecutive year. Although the 2007 growth rate of 6.1% was very close to the 2006 level of 6.2%, the overall growth performance of these countries was still below the average GDP growth of 8.1% for the developing countries. The inflation rate in IsDB member countries was 7.8% in 2007, which was also above the average inflation rate of 6.4% in developing countries.

The gross capital formation in the Islamic Development Bank's member countries as percentage of their GDP increased from 22.3% in 2006 to 24.1% in 2007. This again was below the value of 30.5% for the developing countries as a whole. There was also a substantial decline in the current account balance of the Bank's member countries from 9.6% of GDP in 2006 to 7.5% in 2007 – a reduction of almost 2 percentage points in a single year. The external debt of countries increased by US \$75.7 billion, from \$954.9 billion in 2006 to \$1030.6 billion in 2007.

Two major challenges, which the IsDB Member Countries, like the other developing countries, are facing are the rising energy and food prices which are putting considerable strain on their economies and seriously affecting the lives of the masses especially the low income groups. These are also hampering the governments' efforts towards achieving the Millennium Development Goals and the IsDB 1440H Vision targets, especially those that are related to reduction in poverty.

¹ Islamic Development Bank has 56 member countries, 26 of which are in Asia, 27 in Africa, 2 in Europe, and 1 in South America.

2. The Challenge of Poverty and achieving the MDGs

Despite improvements in the global fight against poverty, alleviating poverty and promoting human development remain major challenges for many IsDB member countries. Using the Human Poverty Index (HPI) which measures the extent of human deprivation that exists among the populations, the UNDP Human Development Report 2007-2008, ranks 177 countries including 108 developing countries. Ten countries at the bottom of the list of developing countries that have the highest levels of poverty are all IsDB member countries. Out of 22 member countries for which data are available on the poor, there are seven countries in which more than one-fourth of the total population is still living below the income level of \$1 a day.

Poverty situation in various regions of IsDB member countries is as follows: Sub-Saharan Africa has the highest rate of population living in absolute poverty (46.4 percent), representing an increase of nearly 2 percentage points from the benchmark year of 1990 (44.6 percent). In Southern Asia the population below poverty is 30 percent (down from 39.4 percent in 1990; representing a reduction by about a quarter). In East Asia the poverty rate is 15 percent (down from 30 percent in 1990, which represents a 50 percent reduction). The rate is 5.3 percent in CIS countries (up from 0.4 percent in 1990); and 2.7 percent in the Middle East and North Africa (MENA) (having increased marginally from 2.2 percent in 1990).

In terms of progress towards achieving the MDG of reducing poverty by half by 2015, out of 26 IsDB member countries, for which data are available, 19 members are making satisfactory progress and are on track, while in 7 other member countries the progress is rather slow and they may not be able to achieve the target by 2015.

In the field of education, while 21 IsDB member countries have literacy rates above 80 percent, in 12 others more than half of the population is still illiterate i.e. cannot read or write with understanding a simple statement of everyday life. Based on the latest available statistics, our assessment is that 27 of the 56 member countries are making good progress towards achieving the MDG target of primary completion rate by 2015, while of the remaining 29 countries, 26 are not on track and need special efforts to achieve this target.

The health situation in the IsDB member countries is also not very encouraging. The average under-five mortality in Bank's member countries was 89 per 1000 live births in 2005 compared to the developing countries average of 83 deaths per 1000 live births. Similarly, in 24 member countries the maternal mortality was above the developing countries' average of 440 deaths per 100,000 live births. These included 10 countries where the maternal mortality rate was above 1000. The Bank's assessment of the progress in its member countries towards achieving the MDG target of under-five mortality rate shows that 29 countries are making good progress and are expected to achieve the target, while the remaining 27 countries are not making enough progress and may not achieve the target. In the case of maternal mortality, only 22 countries are making good progress and the remaining 34 countries are not on track and may not achieve the target by 2015.

It may be mentioned here that IsDB is also a member of the MDG African Steering Group which was established by the U.N. Secretary-General. The Group comprises the heads of various institutions and aims at boosting assistance to Africa.

3. Initiatives of the Islamic Development Bank

Given the above situation, I would like to mention the following major initiatives of the Islamic Development Bank which were recently launched to assist the member countries in their development

efforts and which, directly or indirectly, will contribute towards improving the quality of life of the poor and ultimately in achieving the MDGs. These initiatives are the establishment of the Islamic Solidarity Fund for Development (ISFD), Special Programme for the Development of Africa, the International Islamic Trade Finance Corporation, and Malaria Program

(i) Islamic Solidarity Fund for Development

In 2006, the IsDB launched the implementation of its 1440H Vision. Alleviation of poverty, promotion of health, and universalising of education are among the key thrust areas of this vision. The idea of alleviation of poverty had already received a big boost with the decision taken at the Third Extraordinary Session of the Islamic Summit which was held in the holy city of Makkah in Saudi Arabia in December 2005. The Summit called for the establishment of a Special Fund within IsDB to help address the major issues facing OIC members such as poverty alleviation, elimination of illiteracy, eradication of major communicable diseases (i.e. malaria, tuberculosis and AIDS), creation of job opportunities, and support for capacity-building.

In compliance with this decision, the IsDB launched the \$10 billion "Islamic Solidarity Fund for Development" on 10 January 2008. Through this Fund, the IsDB operational activities with regard to poverty reduction programmes will be country-driven, results-oriented, community-based and actionable. The Fund will support innovative activities and provision of basic public services that could impact positively on the lives of the ordinary people. Attention will be given to projects that facilitate pro-poor economic growth with direct support to education and health sectors. It will also provide safety nets for vulnerable groups and take advantage of opportunities to replicate projects on a multi-year and multi-sector basis. Thus, priority will be given to employment and income-generation activities such as micro-enterprises, high-value non-traditional sectors, and mainstreaming women in the development process. To leverage the Fund's resources, IsDB will redouble its efforts for partnering with other bilateral and multilateral agencies, local development financing institutions, UN agencies, and civil society organizations. Forging twinning arrangements between countries and institutions and cooperation with the private sector are part of the implementation strategies envisaged under the Fund. While this will benefit the poor segments or vulnerable groups in the society in member countries, particular emphasis will be given to the least developed member countries.

(ii) Special Programme for the Development of Africa

Twenty-two of IsDB's 56 member countries are in Sub-Saharan Africa. About 46 percent of the population in these countries, estimated at 360 million, lives below the extreme poverty threshold of \$1 a day. In order to assist these countries in their development efforts and towards achieving the MDGs, the IsDB has recently launched a Special Programme for Development of Africa (SPDA). The priority sectors that have been identified for the Programme include the following:

- Agriculture and food security;
- Water and sanitation;
- Power generation and distribution;
- Reinforcement of national and regional transport infrastructure;
- Support for education to prepare the youth for the workplace and inculcate ethical attitude and passion for achievement; and
- Support for fight against major communicable diseases and contribution to the strengthening of the health system.

This Programme is initially for a period of 5 years. The amount of financing to be provided by various entities of the IDB Group for the Programme is envisaged to be US\$600 million for the first year,

to be increased by 15 percent each year, making a total amount of little over US \$4 billion during the Programme's 5-year period.

(iii) IsDB Roll-Back Malaria Programme

Malaria is the single biggest cause of death among the young children in Africa. According to the World Health Organization (WHO) estimates, there are at least 300 million acute cases of malaria each year globally, resulting in more than a million deaths. Around 90% of these deaths occur in Africa, mostly in young children. Malaria is Africa's leading cause of under-five mortality (20%) and constitutes 10% of the continent's overall disease burden.

There are twenty-eight IDB member countries where the burden of malaria continues to remain high and where the incidence of malaria is a major hurdle in achieving the MDGs. Twenty-one of these countries are in Sub-Sahara Africa. The economic costs of malaria are huge. It has been estimated that the annual cost of malaria in Africa is more than \$12 billion in terms of lost GDP. It aggravates the problem of poverty through reduced earning capacity, lost income due to sickness, reduced productivity, increased expenditure on medical treatment, etc.

In order to support the member countries in their efforts to effectively address this challenge, the IsDB has started implementing its Roll-Back Malaria Programme for which it has allocated \$50 million. This initiative is part of the Bank's Quick-Win Programme under its 1440H Vision. The IDB is partnering with the WHO and International Federation of the Red Cross and Red Crescent Societies (IFRCRCS) for the implementation of the programme in targeted countries. The Programme is focusing on: (i) enhancing the efficiency of prevention; (ii) implementing effective case management; (iii) institutional support and human resource capacity building; (iv) advocacy and social mobilization; (v) operational research; (vi) monitoring and evaluation; and (vii) programme coordination and management. Four IsDB member countries were targeted for implementation of the Programme in 1428H (20 January 2007 - 9 January 2008). These are: The Gambia, Mali, Senegal, and Sudan. The next batch of countries will include Burkina Faso, Chad, Indonesia, Guinea Bissau, Mauritania, and Niger.

(iv). International Islamic Trade Finance Corporation (ITFC)

The Islamic Development Bank was the first multilateral development financing institution to finance trade. It considers trade as a tool for promoting economic growth and development and also for helping the poor through increased employment and income generating activities. Trade financing operations gained importance over time and outpaced the growth in project financing and technical assistance operations of the Bank. Up to the end of 2007, the total trade finance operations of the IsDB Group had reached US\$29.8 billion. During the recent years, the IsDB realized that in view of their growing importance, the trade financing operations need to be separated from the ordinary operations of the Bank and that a separate entity needs to be established for this purpose. In May 2006, the IsDB Board of Governors approved the establishment of a new entity within the IsDB Group named International Islamic Trade Finance Corporation (ITFC). Forty-seven member countries and 8 financial institutions signed these Articles of Agreement. The First General Assembly of the ITFC was held in Jeddah on 24 February 2007. The ITFC became fully operational from 10 January 2008.

The principle objective of ITFC is to supplement the activities of the IsDB by providing, in accordance with principles of Shariah, trade finance and promoting trade in member countries, and in particular by: (a) promoting and financing intra-trade among member countries; (b) enhancing the development impact of trade financing in member countries; and (c) enhancing the export capabilities of member countries of ITFC. All trade financing operations performed by the various windows will be conducted under the ITFC which will go a long way in enhancing the intra-trade of the member

countries. On the other hand, the establishment of ITFC with its own capital structure will enable the IsDB to focus more on its core development activities in member countries.

4. IsDB Interventions in Member Countries with Fragile Situations

Addressing fragility is one of the highest priorities of the Islamic Development Bank. The IsDB participated in the meeting of Heads of MDBs/MFIs in October 2007 which discussed the report of the MDB Working Group on “fragile states” and “weakly performing countries” which was set up for developing a more harmonized approach of MDBs for their engagement in fragile situations.

The IsDB shares with other MDBs/MFIs the view that the goals of their assistance in fragile situations are “to strengthen national ownership of recovery and reform, build capacity and accountability in national institutions, and contribute to peace building through economic and social programs that minimize the risk of conflict and help consolidate stability.” There are 17 IsDB member countries which have fragile situations. The Bank has been providing financial assistance and technical assistance to these countries under its different program. The total amount approved for these countries during 1428H (20 January 2007 - 9 January 2008) amounted to US \$358.11 million. The examples of this assistance include Sudan where IsDB approved in July 2007 an emergency support of approximately \$11 million. In addition to this amount, the total emergency support by IsDB for operations in Darfur and Southern Sudan amounted to US \$71.28 million. In the case of Afghanistan, the Bank approved \$16.5 million of loan in 2007, for regional power transmission project which will interconnect Tajikistan with Afghanistan.

The IsDB also approved a comprehensive programme for the reconstruction of Iraq in December 2003 amounting to \$500 million including \$50 million in soft loans, \$245 million in ordinary financing, \$5 million in technical assistance grants and \$200 million in export and import financing. In this programme two operations amounting to \$25 million have been approved through loan and technical assistance grants – the first one for a primary education programme and the second for vocational training. Given the current instability in Iraq, the Bank is yet to fully implement this reconstruction programme. The IsDB is currently involved in discussions with the World Bank to streamline its operations and utilized the World Bank’s presence in the field.

In July 2006, the Bank also approved, \$250 million for the development and reconstruction of Lebanon.

5. Recent market developments including higher commodity prices: challenges and opportunities for low and middle income countries.

The recent developments in the global economy which have posed both challenges and opportunities to the developing countries include higher commodity prices, depreciation in the value of US dollar, lower food reserves, growing consumer demand in emerging Asian economies including China and India, and high levels of unemployment.

Consumers worldwide are facing rising food prices. One of our concerns at the IsDB is that the world's poorest nations which include several member countries are still facing the risk of hunger. In recent months, like elsewhere in the world, we have seen demonstrations against higher food prices taking place in Burkina Faso, Jordan, Morocco, Niger and Yemen. As of December 2007, 37 countries faced food crises, and 20 had imposed food-price controls. According to the FAO, food costs worldwide increased 23 percent from 2006 to 2007. Prices of grains went up by 42 percent, oils 50 percent and dairy 80 percent. In the first quarter of 2008, there have been further food price increases, resulting in the

World Food Programme facing a \$500 million shortfall in funding this year to feed 89 million needy people.

The IsDB is of the opinion that higher food prices reflect a combination of both temporary and longer-term factors. The longer-term structural price increase is to a large extent driven by the rising biofuels production in the United States and European Union which accounted for almost half of the increase in consumption of major food crops last year. Hence, the situation is simply a supply-demand imbalance, with the supply of crops for food consumption declining due to the increased use of these crops for the production of biofuels. Secondly, the growth in per capita income in emerging economies has resulted in robust increase in demand.

Meanwhile, record oil prices have boosted the cost of fertiliser and freight for bulk commodities which increased by 80 percent last year compared to 2006. Although oil exporting member countries are benefiting from the surplus, they nonetheless face the challenge of managing revenues and planning development in a manner that does not further fuel inflation in their countries. In some instances, higher incomes received by oil exporting economies are also resulting in higher levels of government capital expenditure which is exacerbating the demand for commodities. Fuel imports represent more than 20 percent of total merchandise exports for at least 10 IsDB member countries, and fuel prices are subsidized by many of our member countries with the resultant burden on national budgets. Thus, higher petroleum prices (over 63 percent increase from February 2007 to February 2008) are resulting in inflationary pressures in both oil exporting and importing nations. The short-term oil prices are also to some extent driven by the declining value of the dollar.

The persistent depreciation of the US dollar against other major currencies continues to be a source of anxiety. Globally, the situation has rekindled concerns about global trade imbalances embodied in the US trade deficit and associated surpluses in other countries such as China and Japan. This has resulted in a weakening in the levels of confidence in the US dollar. The robustness and stability of the US dollar is of particular importance to the IsDB. Twenty nine out of our fifty six member countries have pegged exchange rate arrangements. Hence, these countries' currencies will be depreciating against other major currencies. Many member countries are attempting to control inflation that has resulted from ties to a depreciating dollar. For oil exporting countries where sales are in dollars, but trade on the other hand is conducted with European and Asian countries whose currencies are rising against the US dollar, the weakening dollar has resulted in increased prices for non-dollar denominated imports originating from Europe and Asia. Moreover, by pegging their currencies to the dollar, these economies are also "forced" to follow US monetary policy. The resultant effect has been negative real interest rates in some countries, which has in turn stimulated borrowings and consumption, further fuelling inflation.

The rising inflationary pressures and the consequent higher levels of unemployment are causing apprehension amongst all development institutions including the Islamic Development Bank. Unemployment is one of the major socio-economic challenges facing IsDB member countries. High levels of poverty and other related human development issues are a direct consequence of high unemployment rates in many member countries.

Overall, there is some degree of uneasiness since high levels of inflation, and the resultant higher levels of unemployment impacts on our ability to facilitate the achievement of the MDGs in member countries, specifically those relating to poverty reduction. In this regard, the IsDB is monitoring the situation of rising prices in its member countries. We are also aware of the potential opportunity the

higher prices offer to those countries with additional capability and capacity in agricultural production. If these countries speed up the adjustment by investing in agriculture, the high prices could prove to be a growth stimulus, thus, in the long-term, to some extent mitigating the adverse effects of higher prices.

The two items on the agenda of the Development Committee are of global importance. Actions taken on the basis of deliberations in this Committee will impact the lives of millions of people across the globe. I wish the 77th meeting of the Development Committee success in its deliberations and assure the participants that the Islamic Development Bank fully supports the efforts of all its development partners in their struggle towards reducing poverty and improving the quality of life through increased economic growth and development.