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



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**Statement by**

**Dr. Ahmad Mohamed Ali**  
**President**  
**Islamic Development Bank Group**





## ISLAMIC DEVELOPMENT BANK

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**(78<sup>th</sup> Meeting of the Development Committee)**

The Islamic Development Bank (IsDB) Group has the honour and privilege to participate in the 78<sup>th</sup> Meeting of the Development Committee, which has on its agenda the following items (i) *Recent economic development and their effect on long-term growth and overcoming poverty; the role of the World Bank and the IMF in protecting vulnerable*, (ii) *Development and climate change; a strategic framework for the World Bank Group*, and (iii) *Enhancing voice and participation of developing and transition countries in the World Bank Group*. The background documents to the first two agenda items address major development challenges facing the developing countries, including the IsDB member countries. These two documents provide rich analysis on the impact of the twin food–fuel crisis on the deepening of poverty as well as its threat to the human capital of the poor and identify key operational areas aimed at mitigating the adverse consequences of climate change.

This meeting of the Development Committee is taking place in the midst of a full-blown global economic crisis. It is a triple-crisis that is enveloping both developed and developing countries - the twin energy-food crisis mainly affecting large number of developing countries, particularly putting the low income countries under severe stress, while the developed countries are experiencing a deep crisis of an unprecedented scale in their financial system which is posing a serious threat to the overall global financial system. According to the World Economic Outlook (WEO) of the IMF, the financial market meltdown in the United States and other advanced economies could lead to a longer and deeper recession with adverse consequences on the growth prospects of developing countries.

For the developing countries, an important issue is the impact of financial cycle on economic growth – the transmission channel is through the downgrade of creditworthiness of borrowers and de-leveraging of bank's balance sheet. In the face of higher external financing needs due to the twin energy-food crisis, the developing countries are now likely to experience evaporation of global liquidity accompanied by significant slowdown in private debt capital flows. In the present situation, growth prospects and overall macroeconomic stability of developing countries is under a serious threat – particularly, those countries that are more dependent on external financing and have a higher trade openness. An immediate short-term implication is that some developing countries can, to some extent, mitigate their external sector vulnerability through a drawdown of their foreign exchange reserves. However, with the onset of global liquidity crunch and the tightening of access to international capital markets, developing countries face serious challenges for attracting new FDIs and private debt capital flows. In these grave circumstances, the multilateral financial and development institutions have an obligation and an opportunity to prove their mantle and worth by initiating immediate and concerted actions aimed at mitigating the macroeconomic vulnerabilities and, more critically, the threat of poverty and human deprivation to socio-economic order and stability in many developing countries.

On this occasion, the IsDB Group wishes to reiterate its commitment to further widen different areas of partnership with the international development community in order to foster social emancipation and economic progress of the poor and the underprivileged people in the developing world. Along with the other participants, the IsDB Group welcomes the opportunity to participate in the discussions on the major developmental challenges during the 78<sup>th</sup> meeting of the Development Committee. The IsDB Group would like to briefly update the recent economic performance of its member countries and to share its perspectives on the agenda items of this meeting of the Development Committee.

## **I. Recent Economic Performance of IsDB Member Countries**

According to the WEO, the global economy which grew at 4.9 percent in 2007 is projected to slow down to 3.7 percent in 2008. This drop in growth has been mainly due to the food, fuel, and financial crises which have affected the growth performance of a large number of countries. The on-going financial market meltdown in the United States and its contagion impact in Europe have created major uncertainties and now there is a serious risk of the onset of a deep and longer global recession.

Over the past six years, economic growth in 56 IsDB member countries (as a group) has been sustained at above 6 percent. This has been possible largely because of improved terms of trade, strong domestic demand, favourable business environment and financial conditions, and growth in world trade. The GDP growth of IsDB member countries was 6.1 percent in 2007, but with the global slowdown this rate is projected to decline to 5.9 percent in 2008. At the same time the inflationary pressure has continued to increase and the inflation rate is projected to increase from 8.2 percent in 2007 to 12.2 percent in 2008. The overall current account balance which declined from \$303 billion in 2006 to \$291.2 billion in 2007 is improving and is projected to reach the level of \$500 million in 2008.

The core macroeconomic challenge facing member countries is to maintain the growth momentum during this and the next year. However, the most important challenge, in the face of sharp spikes in prices of energy and food commodities as well as potentially reduced access to international capital markets due to the on-going financial crisis in advanced economies, is to mitigate domestic inflationary pressures by calibrated balancing between fiscal and monetary stance, on the one hand, and protecting the most vulnerable groups in the society, on the other. In addition to the global risks emanating from the triple crisis, relatively higher inflows of FDIs and remittances have also resulted in rapid expansion in domestic credit leading to a rise in domestic asset prices, which has the potential for over-heating of the economy. In terms of developmental challenges, rising inequality in IsDB member countries shows that the distribution of gains from robust economic growth performance has yet to be institutionalized. In order to maintain social stability, it is critical to ensure that economic policies are tailored to produce equitable growth through sustained human development in developing countries, including IsDB member countries.

## **II. The Effect of Recent Economic Developments on Long-term Growth and Overcoming Poverty**

The IsDB Group would like to compliment the World Bank for preparing a well-researched background document on the threat of the rising food and energy prices to the human capital of the poor in the developing countries. Another related work of the World Bank has led to the revision in the global poverty benchmark, the International Poverty Line (IPL) from \$1-a-day to \$1.25-a-day. An immediate implication of the revised IPL is that the number of poor people in the developing countries has been estimated at 1.4 billion people in 2005, which is higher by 400 million people as compared to the earlier IPL of \$1-a-day. A good news, however, is that using the revised IPL, the number of poor has fallen from 52 percent of the developing world's population in 1981 to 26 percent in 2005. Except for Sub-Saharan Africa (SSA) region, the developing world is still on track to achieve the MDG target to halve the 1990 poverty rate by 2015. In terms of the new IPL, the number of poor in SSA region was estimated at 380 million and the poverty rate was estimated at 50 percent in 2005, the same that it was in 1981.

The twin food–energy shock now represents a threat to basic survival of the poorest households, particularly in low income developing countries. According to a recent IMF study, the food commodity prices are 44 percent higher and oil prices are double their levels recorded between end-2006 and mid-September 2008. In terms of macroeconomic impact, fuel importing low income countries are facing an increase in their oil imports equivalent to 3.2 percent of their GDP or US\$60 billion. For the 43 net food importing countries, the rise in their food imports is estimated at 0.8 percent of GDP or US\$7.2 billion. Although the rise in international prices of energy and food commodities have moderated in recent months, still the higher domestic prices in the developing countries have added an average of 3 to 5 percentage points in global poverty rates or pushed an estimated additional 100 million people in dire poverty.

Across all regions in the developing world, the twin food–energy crisis has led to an acceleration in inflation and serious deterioration in the balance of payments and fiscal balance positions. Given the limited space for fiscal response, the short-term prospects for building a sound and comprehensive social protection system aimed at mitigating survival risk of the poor appears to be limited. At the micro or households level, worrisome outcomes are mainly manifesting through an increase in malnutrition, reduced spending on education, and an overall increase household indebtedness.

For the international development community the implication is that efforts aimed at supporting the achievement of MDG targets needs to be intensified by scaling-up of financial resources and further sharpening the effectiveness of aid delivery. However, it is also apparent that the multilateral development banks (MDBs) alone cannot provide additional resources for achieving the MDGs. In fact, the MDBs through coordinated efforts need to collaborate with philanthropic foundations as well as partner with the private sector to implement projects that create employment opportunities and reduce poverty in the developing world.

Like other MDBs, the IsDB Group is determined to support the member countries through mitigating the immediate impact of food crisis and the longer-term need to revive growth in the agriculture sector. In this context, the IsDB Group has launched three inter-related initiatives for promoting human development and pro-poor growth in member countries. During the 33<sup>rd</sup> IsDB Annual Meeting, which was held on 2–4 June 2008 in Jeddah, the Board of Governors adopted the *Jeddah Declaration Initiative* with an assistance package of US\$1.5 billion over the five-year period. This Initiative is aimed at supporting member countries affected by the global food crisis to strengthen their food security and to revitalize the agricultural sector. Under this Initiative, the first phase of the short-term programme has been commenced with a grant allocation of US\$20 million for the 25 LDMCs to provide support to farmers acquire urgently needed agriculture inputs in order to boost local productions over the 2008–2009 cropping seasons. In the medium and long term, the IsDB Group will support improvements in the agricultural sector productivity and rural incomes through enhancing access to agricultural inputs and services, improving agricultural infrastructure and strengthening agricultural support institutions. In this regard, the IsDB Group has finalized preparation of 10 projects amounting to over US\$178 million in 10 LDMCs; in addition, trade operations amounting to US\$52 million have been approved to help improve food security situation in the LDMCs. Furthermore, a number of Technical Assistance operations are underway for developing a pipeline of projects in the agricultural sector in the coming years.

The second initiative is the launching of the Special Programme for the Development of Africa (SPDA), which is a five-year Programme for the period 2008–2012 for which the Bank has earmarked US\$4 billion. The sectoral priorities in the SPDA will target the twenty-two LDMCs in the SSA region to help achieve human development targets in the MDGs as well as to raise the competitiveness of their exports. So far during 2008, the total financing volume under the SPDA initiative has reached a total of US\$725 million. A unique feature of the SPDA that the Bank will play a 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 SPDA is targeting a total financing volume of US\$12 billion over the programme period.

The third initiative was the launching of the Islamic Solidarity Fund for Development (ISFD) in May 2007, which is a IsDB poverty fund with an initial principal targeted amount of US\$10 billion. During 2008, the total ISFD financing volume is expected to reach US\$304 million. In its work programme, the ISFD has devised two-front runner poverty reduction programmes; namely, the Vocational Education and Literacy Programme (VOLIP) and the Microfinance Programme for Entrepreneurship and Self-employment. These two front-runner 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.

Finally, the IsDB Group is currently in the process of developing an initiative for promoting partnership arrangements among the GCC countries to support their large-scale investments in developing exports of food commodities in other member countries with competitive agriculture sector. According to the FAO, food import dependency will reach 60 percent in the arid GCC countries by 2010. This also poses a major challenge as the GCC countries population is expected to double to nearly 60 million by 2030. The rising need for food imports in the GCC region has come up at a time when the exportable surplus and stockpiles of food commodities are declining. In order to ensure their food security, the GCC governments and in partnership with their private sector are planning greenfield investments in the food and dairy sectors in selected countries in the Asia and Africa regions that have large-scale agriculture sector. The expected IsDB Group initiative will support the GCC food security concerns by promoting private sector investments in the agriculture in other member countries.

### **III. Development and Climate Change**

The IsDB Group would like to compliment the World Bank for preparing a comprehensive paper and aligning its operational activities to supporting sustainable development in the face of adverse consequences of climate change. As articulated in the background paper, the design of the global climate policy requires an unprecedented cooperation among the nations and, in particular, the leadership role of the developed countries to supporting transformation of production process and lifestyle changes. The World Bank Group has rightly identified its operational responses to the six areas in the Bali Action Plan.

It needs to be stressed that mitigating the adverse consequences of climate change is critical for reversing the damage to the global eco-system and to ensuring the survival of the humans. Therefore, it is important that the concept of clean energy framework is expanded to the broader infrastructure sector power, telecommunication, mass transportation, and conserving scarce water resources. A broader approach to ensuring clean and environmentally-compliant new investments in the infrastructure sector, particularly, in the emerging economies in Asia and Latin America, will help to control the additional emissions of greenhouse gases.

The IsDB Group participated in the UN Climate Change Conference in Bali, Indonesia, which was held in December 2007. The Bank supports the Bali Road Map, including the Bali Action Plan, which provides a new negotiating process designed to tackle climate change with the target date of completion by 2009. During the Conference, the Bank announced its commitment to support member countries cope with the impact of climate change by encouraging adaptation of clean technologies.

The Bank launched its first IsDB Infrastructure Fund with a total size of US\$730.5 million in December 2001. The demand for infrastructure investment in the IsDB member countries has been estimated around US\$1,183 billion over the next ten-year period. In order to support such huge investment needs, the Bank is currently in the process of launching its second IsDB Infrastructure Fund with the target size of about US\$2 billion. Under its commitment to support the implementation of the Bali Action Plan, the IsDB

Group will support clean energy investment framework under its commitment in the Bali Conference as well as ensure compliance of Bank-financed infrastructure projects to international environmental and clean energy standards.

With these words, I wish the 78<sup>th</sup> meeting of the Development Committee every success.