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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



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The Islamic Development Bank Group (IsDB Group) wishes to express its thanks and appreciation to the World Bank and the International Monetary Fund for the invitation to participate in this meeting of the Development Committee -- an important platform for discussing topical issues and challenges facing the global economy.

The Global Context

A number of headwinds are shaping the global development landscape in an unprecedented way. As we gather here today, the global economy is buffeted by volatile commodity prices, dollar appreciation, slow growth in major emerging economies (especially among the BRICS countries), divergent monetary policies by advanced economies, geopolitical risks (including terrorism, instability and conflicts in many regions), persistent youth unemployment, outbreaks of communicable diseases (such as Zika), the impact of climate change, and the refugee, migrant and humanitarian crisis. These challenges present an opportunity for the international community to strengthen cooperation and coordination in order to find lasting solutions.

Against this backdrop, it is crucial that we safeguard the historic agreements reached in 2015 at major events – including Paris climate change conference, SDGs Summit, and Addis Ababa development finance summit -- by encouraging countries to play their role in ratifying them, a critical step towards a world, in which no one is left behind. For us at IsDB Group, we shall continue to work with our development partners to support the efforts of our member countries as well as the international community to achieve the objectives on the international agenda.

Economic Performance of IsDB Member Countries

2015 was indeed a difficult year for many member countries as their economies navigated and responded to multiple external shocks. Some of these shocks have reversed the gains made by them in recent years. For instance, some oil exporting member countries, faced by fluctuating oil prices, were forced to tap their reserves or seek support from their development partners to balance their fiscal budgets. How long the oil crisis will persist remains to be seen, but the sooner the oil producing countries coordinate their action and take bold steps to address the underlying factors, the better for their economies in particular, and the world

economy in general. The non-oil exporting countries, on the other hand, will need to channel their savings accrued from low oil prices to productive ventures with a view to achieving inclusive economic growth. The economic outlook for member countries is mixed, and will be closely linked to their efforts in deepening reforms and undertaking structural transformation, including by cutting back subsidies and plugging financial leakages. More specifically, member countries need to make their economies resilient to headwinds by focusing on fast-tracking economic diversification, macroeconomic stabilization, and fiscal sustainability.

IsDB Group Responses

The IsDB Group has been supporting its member countries through provision of loans and grants to finance their development activities in both public and private sectors. In the face of the challenges highlighted above, the IsDB Group undertook the following steps:

1. **Scaling up financing:** In order to help its member countries reduce the impact of external shocks on their economies and to respond to their priority development needs, the IsDB Group increased the volume of its operations in 2015 by 13 percent to \$12.1 billion from \$10.7 billion in 2014. Member countries in the Middle East and North Africa received the largest share of IsDB Group's net approvals at 44.3 percent (\$5.4 billion), followed by Sub-Saharan Africa at 29.7 percent (\$3.6 billion), Asia at 20.8 percent (\$2.5 billion), and the Commonwealth of Independent States at 3.2 percent (\$382.8 million).

Infrastructure accounted for the largest share of IsDB Ordinary Capital Resources' net approvals at 78.4 percent, followed by agriculture and rural development at 8.5 percent, education at 6.9 percent, health at 4 percent and other sectors at 2.1 percent. Within infrastructure financing, the transport sector accounted for the largest allocation at 46 percent, followed by energy (29 percent), water and sanitation and urban development (10 percent), and industry (4 percent).

2. **Broadening resource mobilization activities:** In an effort to finance additional development assistance activities in its member countries, the IsDB scaled up its resource mobilization efforts and diversified its placement strategy. In 2015, four series of Trust Certificates (*sukuk*) under its updated and upsized \$25 billion Medium Term Note (MTN) program were issued, of which one series was via a benchmark public issuance for \$1.0 billion with the remaining three series issued through private placements. The public issuance in March 2015 was a \$1 billion deal, which was oversubscribed and issued at an improved launch spread of 8 bps above the prevailing five-year \$ mid-swap rate (the tightest spread in the Bank's history). This global issuance also witnessed participation from new, high-quality investors, which demonstrates the acceptance of the IsDB credit rating in the global fixed income space.

In the private placement space, which is tailored to specific investors' demands in terms of currency and tenor, the IsDB issued a €100 million five-year *sukuk* maturing in July 2020, in addition to another €100 million five-year *sukuk* maturing in September 2020. Also in 2015, the IsDB issued a €300 million four-year *sukuk* maturing in October 2020. These series were placed directly to a group of private investors in Europe and North Africa.

The resource mobilization activities, apart from the fund-raising objective, were also aimed at promoting the Islamic financial industry in member countries and in the global arena. The IsDB's *sukuks*, in addition to being listed on the London Stock Exchange, are also listed on member country securities exchanges including Bursa Malaysia (Exempt Regime), Nasdaq Dubai and Borsa Istanbul.

3. **Strengthening partnerships with philanthropic institutions to foster development:** The IsDB and the Bill & Melinda Gates Foundation (BMGF), formally launched a global partnership in June 2015 with a \$500 million grant facility, known as the *Lives & Livelihoods Fund* (LLF) to address poverty and diseases in IsDB member countries. Through this innovative facility, the IsDB, the BMGF, and other donors will support poverty-focused programs worth \$2.5 billion over the next five years in primary healthcare, disease control, smallholder agriculture and basic rural infrastructure in IsDB member countries, especially in the least developed member countries.

The LLF will be deployed along with \$2 billion from IsDB's ordinary capital resources to scale-up support to poverty alleviation programs in IsDB member countries, financed on concessional terms. The BMGF is committed to providing 20 percent (\$100 million) of the LLF capital, and the IsDB's Islamic Solidarity Fund for Development (ISFD) will contribute \$100 million of grant financing to LLF. The IsDB and BMGF are also seeking \$300 million of grant funding from donors to fully capitalize the LLF. The launch of the LLF builds on the success of the IsDB-BMGF partnership in Pakistan, where the two organizations joined forces to support Pakistan's polio eradication program through a \$227 million financing from IsDB and a full buy-down of the market premium by the Gates Foundation.

4. **Bolstering private sector development:** The role of private sector as a critical driver of economic growth and poverty reduction is well recognized. The Bank contributes to the development of private sectors in its member countries through the activities of its private sector arms -- the Islamic Corporation for the Development of the Private Sector (ICD), the International Islamic Trade Finance Corporation (ITFC), and the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC). The ICD, for instance, approved in 2015 a total of \$666.9 million of financing and disbursed \$289.5 million with a disbursement/approval ratio of 43.4 percent. Most of the financing was in the high-impact sectors such as agribusiness, energy, industry, and infrastructure. The ITFC's approvals, which are mainly trade financing, almost tripled to \$6.4 billion in 2015 from \$2.2 billion in 2008. The ICIEC, targeting to expand trade transactions and encourage investment flows among its member countries, recorded growth of 22.3 percent in business insurance to reach \$5.3 billion in 2015 from \$4.3 billion in 2014, while its new commitments totaled \$3.8 billion in 2015, representing a growth of 5.6 percent over the previous year's figure of \$3.6 billion.
5. **Developing Islamic Economics and Finance:** The IsDB Group continues to promote development of Islamic Economics, Islamic Banking and Finance through its various entities, programs, and initiatives in order to facilitate and foster the use of Sharia-compliant development financing solutions by its member countries. The Islamic Research and Training Institute (IRTI) has been responsible for the development of a dynamic and sustainable Islamic Financial Services Industry (IFSI) through knowledge creation and dissemination, human capital development, and advisory services. In 2015, IRTI completed many research papers in collaboration with different centers of excellence, produced a range of new publications in Arabic, English, French and Portuguese languages covering different areas of Islamic Economics and Finance, and conducted regular training programs on various aspects of Islamic Economics, Banking and Finance, both under the Member Country Assistance Training (MCAT) program and under its fee-based training program targeting the private sector.

With respect to programs and initiatives in 2015, the Bank financed several technical assistance projects through its Technical Support Program to support new and existing Islamic financial services industry in Afghanistan, Gambia, Mozambique, Tajikistan and Uganda to enhance their infrastructure and build their capacity; provided technical assistance to a number of Islamic financial infrastructure institutions – CIBAFI, AAOIFI, IFSB and IIRA – to enhance their

effectiveness and strengthen their capacity; finalized with local partners to create Islamic Microfinance institutions (IMFIs) in Bangladesh, Indonesia, Senegal, and Tunisia while engaging with stakeholders to find suitable local partners for Egypt, Pakistan and Tajikistan; and announced the first-of-its-kind Award for the Best Application of Agent-Based Simulation (ABS) in Islamic Finance in collaboration with the SABIC Chair of Islamic Financial Markets Studies and the Islamic Financial Engineering Lab.

6. **Strengthening cooperation with international organizations to address refugee, internally displaced people and migrant crises:** Conflict, war, and terrorism are an antithesis of development with very severe consequences – they disrupt lives and normal activities by forcing people to flee from the affected areas. The refugees with their family members often risk (or even lose) their lives to reach physical and economic safety, and they frequently face many challenges in the host countries especially when the host communities are already trying to address their own development problems with limited resources.

The challenge of coping with the influx of refugees/displaced people and migrants from conflict-affected countries and areas is now on the agenda of all major conferences and is a priority concern for a large number of countries, especially in Europe, which are facing an unprecedented inflow of migrants. So far, this phenomenon has strained relations between countries and therefore there is an urgent need to bring together various stakeholders to strengthen the resilience of communities to cope with the shocks of conflicts, and to lay foundations for peace and stability.

The IsDB Group is actively cooperating with international organizations to address the ongoing refugee and migrant crises. In addition to utilizing its own resources to support refugees in its member countries, the IsDB Group has partnered with the World Bank, the UN and other regional institutions to provide much needed assistance to the affected people with a view to restoring their hope and preserving their dignity. In March 2016, the IsDB, the World Bank, and the UN launched the New Financing Initiative to Support the MENA Region, an innovative initiative that aims to convene the international community to provide an urgent development support needed for countries across the MENA region impacted by the Syrian refugee crisis, conflict and economic instability. The leaders of the three institutions inaugurated a joint mission to Lebanon to rally support for the initiative as well as to listen to the refugees and interact with the governments and the actors on the ground. During the mission, the IsDB signed five agreements with the Lebanese government worth \$373 million while pledging that another agreement worth \$400 million would be signed soon.

A new IsDB initiative, ‘No Syrian Child Left Behind’, will offer an estimated two million children and orphans electronic access to the Syrian education curriculum with educational materials meeting the highest professional standards, no matter where the children are located. The IsDB, the Qatar Foundation and the Syrian Education Commission worked together to publish and distribute approximately 10 million Syrian curriculum-based textbooks. Additionally, the IsDB Group also supported the implementation of vocational training programs on market-relevant specialisations for young refugees to enhance their employment prospects.

Concluding remarks

All the regions where IsDB member countries are located are currently facing multiple challenges. No single country within the region is insulated, and there are no one-size-fits-all solutions. In the Sub-Saharan Africa region, terrorism and diseases are causing havoc and decimating innocent lives. In the MENA region, a conflict on many fronts is creating fragile states and spurring a rising incidence of poverty and a refugee crisis. In the CIS region, the sanctions on Russia and the country’s deteriorated economic situation are

forcing migrant workers to return home with a devastating effect on the remittances flows, which have hitherto contributed significantly to growth and development in the economies of the region's member countries. In Asia, climate-change risks, terrorism, and slowdown in China's economy are the key challenges for the IsDB member countries.

Faced with these challenges—some of which appear transient, while others may be more permanent—and coupled with global headwinds, it is critical that the international community strengthens its cooperation and boosts its intervention initiatives to help the affected countries. The IsDB Group is keenly interested to offer Islamic finance as a proven instrument to provide solutions and mobilize resources to tackle a wide range of global development problems.

Development partners need to work closely through effective coordination to address the adverse impacts of conflicts on children especially to prevent the potential danger of lost generations for refugee children deprived of education. Before concluding, let me quote the response of a refugee child when asked about her future: **“When I picture my future, I see nothing”**¹. It is the responsibility of global community to take timely measures to secure a conducive environment for all innocent victims of conflicts to live up to their full potential. The IsDB Group stands ready to work with global development partners to make sure that all refugee children have the opportunity to **paint a bright future for themselves, for their families and for their nations.**

¹ https://www.hrw.org/sites/default/files/report_pdf/turkey1115_brochure_web.pdf