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THE EFFECT OF ISLAMIC DEVELOPMENT BANK PROJECTS ON ECONOMIC GROWTH IN THE GULF COOPERATION COUNCIL COUNTRIES

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ABSTRACT
Background: *Islamic Development Bank in GCC countries facilitates economic growth by funding infrastructure projects, promoting Islamic finance, and fostering collaboration among member states. It supports diversification efforts, social development, and sustainable initiatives, aligning with regional priorities and Islamic finance principles for inclusive prosperity.* ***Objectives:*** *The study seeks to elucidate the significance of the Islamic Development Bank in fostering economic expansion in GCC countries via foreign direct investment.* ***Methods/Approach:*** *In this work, we employ the Panel data approach to analyze the GCC countries from 1980 to 2023.* ***Results:*** *We discovered a notable and meaningful correlation between foreign direct investment, the expansion of individuals, and the overall population with the economic growth of GCC countries. Additionally, we observed a detrimental effect of inflation on growth. The Islamic Development Bank's projects in the Gulf Cooperation countries are highly significant as they encourage intra-Arab investments among these nations. Initiating this study involves examining the pertinent literature on the programs of the Islamic Development Bank and their influence on the economies that receive benefits from them, either directly or indirectly.* ***Conclusions:*** *The findings of this study can serve as a reliable resource for decision-makers in the GCC countries to facilitate economic development through the implementation of projects by the Islamic Development Bank. Researchers and academics might derive advantages from it and regard it as a study that introduces novel perspectives to the issue being investigated.*

Keywords: Islamic Development Bank, Economic Growth, Projects, GCC countries.
JEL classification: *E42, F15, E22, F21.*
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INTRODUCTION

Islamic nations experience a widespread state of economic underdevelopment, highlighting the pressing necessity for economic advancement within these countries. Each of these countries endeavors to enhance their economic development to different extents, with varying levels of commitment and success. However, due to internal divisions and political conflicts among Islamic nations, as well as the adoption of foreign development models, such as socialism or capitalism, the movement of capital does not serve the best interests of Islamic countries.

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The countries with a financial surplus, however few in number, provide their funds to the international community, while countries with a capital deficit seek external sources to fulfill their financial requirements, so substituting for there should be a transfer of funds between the regions with excess capital and the regions with insufficient money within the Islamic world. Furthermore, a key challenge that Islamic countries encounter in their pursuit of development is the acquisition of sufficient financial resources and their effective allocation towards the attainment of desired objectives. Non-oil-producing Islamic countries face significant challenges in securing adequate financial resources for economic development. These challenges stem from low savings rates and low real incomes, which have forced them to rely on external borrowing. As a result, these countries have accumulated substantial debts and are now faced with the difficult decision of whether to prioritize debt service payments (including interest and installments) or financing necessary imports for development purposes (Sidak et. al., 2023).

The establishment of a non-traditional financing institution is necessary to prioritize the positive effects of aid over the negative ones. This institution should be tailored to the specific characteristics of Islamic countries, support the development process, and adhere to the provisions of Islamic law, which serves as the primary reference for all Islamic countries and peoples. The establishment of The Islamic Development Bank (IsDB) in 1975 has facilitated the mobilization of capital from Islamic countries. This capital is then utilized to support economic and social development activities within these countries, fostering cooperation and exchange in the economic sector. The ultimate goal is to enhance the standard of living for Islamic societies.

The Islamic Development Bank is a multilateral financial institution that adheres to Islamic law and aims to support member states in their efforts to achieve economic development and social progress. It also aims to strengthen their ability to effectively address regional and global challenges. Over the course of several decades, this organization has broadened the range of its activities and varied its offerings. As a result, it has been able to enhance its services to both its member states that follow the Islamic faith and to Islamic communities in non-member states. Nevertheless, this expansion has presented additional obstacles, particularly when considering the development issues faced by these countries and the significant disparity in economic performance between different Islamic nations (Beggache, 2013).The stark reality of Islamic nations, coupled with the establishment of the Islamic Development Bank as a means to alleviate this predicament by offering essential funding for the development process, undoubtedly prompts us to examine the role played by the Islamic Development Bank in promoting development in Islamic countries through diverse programs. Furthermore, this pertains to the operations and assistance offered by the Bank to GCC countries, who were its founding members, in order to facilitate the development process from 1980 to 2020.The significance of this study lies in its focus on a crucial subject pertaining to the developmental circumstances of Islamic nations and the challenges they face. It emphasizes the value of utilizing Islamic financial models as a viable solution to overcome the predicament of underdevelopment.

The Gulf Cooperation Council (GCC) nations have undergone substantial economic expansion in recent years, propelled by factors such as infrastructural development. Yet, it is crucial to evaluate the exact influence of projects financed by the Islamic Development Bank on this growth path. This study aims to investigate the correlation between IsDB-funded projects and economic growth in the GCC region. This research intends to analyze the impact of IsDB financing on important economic variables like GDP growth, employment rates, and infrastructure development to evaluate the usefulness of Islamic finance in fostering sustainable development in the region. Although infrastructure investment plays a crucial role in economic advancement, there is a lack of thorough studies assessing the direct influence of IsDB programs on economic growth in GCC countries. Existing literature provides insights into many facets of Islamic financing and individual case studies, but there is a lack of a comprehensive evaluation of the overall performance of IsDB-funded initiatives in promoting economic progress in the region. This project aims to address the following research issues in order to fill the existing gap. What is the IsDB's level of participation in funding infrastructure projects in GCC countries? How do projects sponsored by the Islamic Development Bank impact important economic indices in the Gulf Cooperation Council (GCC) region? What are the mechanisms that cause IsDB programs to impact economic growth? Do IsDB programs have varying impacts across different industries or nations in the GCC region? What policy recommendations can be made based on the findings to improve the effectiveness of IsDB efforts in fostering sustainable economic growth in GCC countries? This study intends to offer policymakers and stakeholders significant insights to promote economic development in the GCC region through a thorough analysis of these questions.

The significance of this research is in elucidating the nature and functioning of the institution. The Islamic Development Bank is a financial institution that aims to gather and allocate financial surpluses from Islamic nations for optimal utilization. The Islamic Development Bank is widely regarded as the primary catalyst for economic growth in Islamic nations. It achieves this by providing insight into its historical origins and its pivotal role in promoting development in these countries. The bank operates in accordance with Islamic law and employs strategies that align with its principles. Additionally, it fosters collaboration among Islamic nations, recognizing that cooperation is essential for progress. The bank also addresses key challenges that hinder its operations and actively seeks solutions to overcome them. The study revealed a notable and statistically significant influence of foreign direct investment, individual growth, and total population growth on the economic development of GCC nations. These findings align with the conclusions drawn by other researchers, such as Louail (2019), Louail (2015), and Zouita et al. (2020). Furthermore, the adverse influence of inflation on growth aligns with the conclusions made by other scholars (e.g. Louail, 2019; Riache et al., 2020). The findings of this study can serve as a reliable basis for decision-makers in GCC countries to enhance their economies by implementing initiatives funded by the Islamic Development Bank. Researchers and academics might derive advantages from it and regard it as a study that expands the possibilities for the subject being investigated.

This study was broken into four components, with section one being the introduction. Section two consists of literature reviews, whereas section three focuses on study technique. The final segment presents a discussion and draws conclusions.

LITERATURE REVIEWS

Only a few scientific and academic studies and research have been carried out on the subject of the Islamic Development Bank, which we will discuss below:

The study by Soumadi & Al Smadi (2023) found that financing in Jordanian Islamic banks did not have a statistically significant impact on the gross domestic product and inflation. However, it did demonstrate a statistical influence of financing in Islamic banks on the public commercial sectors, housing, and construction. The study found that the majority of financing in Jordanian Islamic banks is focused on the construction and housing sector, with the public services sector following closely to meet the economic objectives of Islamic banking finance.

Orujlu, (2019) conducted a Master's thesis at the University of Yarmouk in Jordan, titled "The role of the Islamic Development Bank in facilitating trade among Islamic countries." The researcher conducted an analysis of the trade and economic collaboration among the member nations of the Organization of the Islamic Conference. The researcher conducted a formal statistical analysis of the Islamic Development Bank's programs for financing trade among its member countries. The analysis utilized data provided by the Bank and other relevant organizations, as well as standard models. The researcher discovered a lack of intra-trade activity among Islamic countries. Furthermore, it was found that the increase in intra-trade volume is influenced by factors beyond the level of financing provided by the Islamic Development Bank for trade purposes.

In study of Alam, (2007) master's thesis at the University of Algeria, titled "The Islamic Bank for Development and Development Finance in Islamic Countries," examined the state of development in Islamic countries between 1990 and 2000. He specifically analyzed the role of the Islamic Development Bank in promoting cooperation among member states. During that same period, he also addressed the obstacles that impeded the Bank's operations. He determined that it is necessary to implement concrete measures in order to form a coalition that encompasses Islamic nations. These measures include the unification of monetary, financial, customs, transport, and transit policies, as well as the anticipation of establishing a unified Islamic market. Additionally, it is important to address matters related to economic protection, support, competition, and freedom, while simultaneously working towards the activation of existing regional alliances and the enhancement of cooperation and trade between different Islamic countries.

Mustafa & Razak (2012) study evaluates the impact of the Islamic Development Bank (IDB) Group on promoting economic growth in African Muslim Countries (AMCs) through foreign aid initiatives. Analysis of balanced panel data from 1987-2010 using a Simultaneous Equations Model shows that investment and human capital have beneficial effects on economic growth. The study suggests giving priority to these strategies to ensure efficient aid distribution.

Abasimel (2023) seeks to narrow the knowledge disparity in Islamic banking and economics by an analysis of its principles, instruments, features, relevance, and impact on economic growth. Islamic banking follows Sharia law, which is based on the Quran and Sunnah. The main characteristics include of adherence to Sharia law, prohibition of usury, uncertainty, and injustice, as well as the promotion of efficiency, stability, and poverty reduction. It focuses on risk-sharing and provides loans without requiring collateral, promoting entrepreneurship and growth. Islamic bonds (sukuk) involve profit and loss sharing between issuers and investors, unlike conventional bonds which pay interest. Islamic banking plays a key role in fostering economic progress and is gaining attention for its unique offerings.

The study by Daud & Abdul-Razak (2011) investigates the adherence of Islamic Development Bank Sukuk to Maqasid Al-Shari'ah, with a specific focus on human development. The text illustrates a theoretical model showing how Sukuk can attain Maqasid Al-Shari'ah by promoting social fairness through wealth circulation, development, and preservation. Data is gathered through semi-structured interviews and content analysis of Sukuk papers using qualitative technique and empirical case study. Findings indicate the Medium Term Note (MTN) Sukuk program positively serves wealth safeguarding, contributing to human well-being and sustainable development. Recommendations suggest improving Shari'ah oversight for Sukuk formation.

The chapter of monography "Legislation on the Distribution of Financial Services in Selected EU Member States and the Innovative Way of Financial Intermediation in the Slovak Republic" by Sidak et.al. (2023) analysed the regulation of financial intermediation (because it has evolved dynamically over the last eleven years and has undergone numerous changes).

METHODOLOGY

This study employed a panel data regression model to ascertain the noteworthy economic drivers in GCC countries. In addition, we employed the EViews 12 software for analysis.

Data

The variables utilized in this study consist of both a cross-sectional element, encompassing 6 GCC countries, and a time-series element spanning from 1980 to 2023. Data were collected from the World Bank's database for all variables during the study period and the integration of data sources. Table 1 provides a summary of the variables.

Table 1: Variables employed in the panel data regression model and their anticipated impacts

Nature	Variable	Characteristic	Expected sign
Dependent variable	LNGDP	Gross Domestic Product (GDP) (current US$)	
	FDI	foreign direct investment, net inflows (balance of payments, current US$)	+
	POP	population, total	+
	GDPpc	GDP per capita (current US$)	+

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	OPENNESS	[import value index (2000 = 100) + export value index (2000 = 100)]/GDP	+
Independent variable	LNINF	inflation, consumer prices (annual %)	-
	LNREER	real effective exchange rate index (2010 = 100)	+ / -

Source: The data shown here are sourced from the World Development Indicators' Data Bank provided by the World Bank (databank.worldbank.org/wdi)

Descriptive analysis

The study factors are described in Table 2. The table demonstrates that the set of panels utilized for GCC countries comprises 258 observations during the course of the year.

Table 2: Descriptive Analysis

	GDP	FDI	INF	OPNESS
Mean	3.65E+08	1.20E+07	6.235	6.52E-06
Median	3.56E+08	2.21E+06	3,153	1.02E-06
Maximum	6.64E+09	0.95E+08	123,455	1.42E-04
Minimum	1.15E+06	-3.19E+09	-8,152	1.17E-06
Std. Dev.	7.88E+08	3.48E+07	12,458	3.01E-06
Observations			258	

Source: Output of EViews 12

Model and estimation

Model

The functional form of the model is as follows:

$$GDP_t = f(FDI_t, INF_t, GDPpc_t, POP_t) \qquad (1)$$

$$GDP_t = \beta_0 + \beta_1 * FDI_t + \beta_2 * INF_t + \beta_3 * GDPpc_t + \beta_4 * POP_t + \varepsilon_t \qquad (2)$$

Where GDP_t: is the gross domestic product, $FDIG_t$: is the flows FDI percentage of GDP, INF_t: is inflation, $GDPpc_t$: is GDP per capita (current US$), POP_t: is the population total, $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4$: is the parameters and ε_t: is the error term.

Estimation

The model was calculated using a three-stage approach, as outlined below:

1. Estimation of Panel Data Model (None)

By employing the general form of panel data analysis on GCC countries, without imposing time series restrictions or assuming randomness, it was discovered that foreign direct investment, individual and total population growth have a positive and significant influence on the economic growth of GCC countries. Conversely, inflation has a negative impact on growth. The findings are depicted in Equation 3 and Table 3:

$$GDP_t = 3.125 + 12.253 * FDI_t - 5.572 * INF_t + 2.248 * GDPpc_t + 19.015 * POP_t + \varepsilon_t \quad (3)$$
$$(0.021) \quad (0.005) \quad (0.046) \quad (0.002) \quad (0.007)$$

Table 3: Estimation of Panel Data Model (None)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDPPC	2.248	22.705	9.786	0.002
FDI	12.253	0.873	17.43	0.005
INF	-5.572	2.125	-2.842	0.046
POP	19.015	18.632	11.18	0.007
C	3.125	4.125	-0.785	0.021
R-squared	0.682			
Adjusted R-squared	0.679			
Prob (F-statistic)	0.001			
Obs	258			

Source: Output of EViews 12

2. Estimating a Panel Data Model with Fixed Periods

Estimating the model using panel data for GCC countries, with fixed time series, revealed a strong and positive influence of foreign direct investment, individual growth, and overall population growth on the economic growth of these countries. Furthermore, inflation has a detrimental effect on economic growth, as demonstrated by Equation 4 and Table 4:

$$GDP_t = 1.72 + 15.63 * FDI_t - 4.53 * INF_t + 18.68 * GDPpc_t + 16.99 * POP_t + \varepsilon_t \quad (4)$$
$$(0.05) \quad (0.005) \quad (0.002) \quad (0.025) \quad (0.015)$$

Table 4: Estimating a Panel Data Model with Fixed Periods

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDPPC	18.68	23.51	8.023	0.025
FDI	15.63	0.829	17.68	0.005
INF	-4.53	2.05	-2.44	0.002
POP	16.99	17.25	10.11	0.015
C	1.72	4.15	0.326	0.05
Effects Specification				
The period fixed (dummy variables)				
R-squared	0.7296			
Adjusted R-squared	0.717			
Prob (F-statistic)	0.002			
Obs	258			

Source: Output of EViews 12

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3. Estimating a Panel Data Model with Period Random Effects

Upon analyzing the panel data for GCC countries with random time series, it was discovered that foreign direct investment, individual growth, and total population have a noteworthy and favorable influence on the economic expansion of these nations. Furthermore, inflation has a detrimental effect on economic growth, as demonstrated by Equation 5 and Table 5.

$$GDP_t = -3.18 + 15.05 * FDI_t - 5.69 * INF_t + 22.15 * GDPpc_t + 20.03 * POP_t + \varepsilon_t \quad (5)$$
$$(0.05) \quad (0.001) \quad (0.004) \quad (0.001) \quad (0.003)$$

Table 5: Estimation of Panel Data Model (Period random effects)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDPPC	22.15	21.56	10.159	0.001
FDI	15.05	0.831	18.103	0.001
INF	-5.69	1.95	-2.955	0.004
POP	20.3	15.25	11.614	0.003
C	-3.18	4.18	-0.814	0.05
		Effects Specification		
	S.D.		Rho	
Period random	0.0001		0.0002	
Idiosyncratic random	6.18		1.00	
R-squared		0.6803		
Adjusted R-squared		0.679		
Obs		258		

Source: Output of EViews 12

To account for the potential impact of variations between nations on the dependent variable GDP, we utilize a fixed-effects least squares dummy variable approach. This method takes into consideration the differences among the 6 countries and allows each country to have its own intercept. Upon conducting the random-effects model estimation and the Hausman test, the null hypothesis was disproven (indicating that there is a difference between the REM technique and FELSDV model method), with a P-value of 0.002. Hence, the FELSDV approach surpasses the REM model method, as seen by the test results presented in Table 6.

Table 6: Test of Hausman

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	58.123	5	0.002

Source: Output of EViews 12

The empirical section should provide appropriate citations to the methodology used. Paper's argument should be built on an appropriate base of theory, concepts, or other ideas. The research or equivalent intellectual work on which the paper is based should be well designed. Methods employed should be appropriate.

CONCLUSION AND DISCUSSION

This study employs the Panel data approach to analyze data from GCC countries over the period from 1980 to 2023. We discovered a favorable and substantial influence of foreign direct investment, as well as the expansion of both the individual and total population, on the economic advancement of GCC nations. Additionally, we observed an adverse effect of inflation on growth. The findings of this study can serve as a reliable basis for decision-makers in GCC countries to enhance their economies by implementing projects facilitated by the Islamic Development Bank. Researchers and academics might derive advantages from it and regard it as a study that introduces novel perspectives to the issue under investigation. Mameche and Masood (2021).

The Islamic Development Bank is a multilateral financial institution that operates in accordance with Islamic law. Its primary goal is to support member states in their efforts to achieve economic development and social progress, while also strengthening their ability to effectively address regional and global challenges. Over the course of several decades since its establishment, the organization has broadened the range of its activities and diversified its offerings. This has enabled it to deliver enhanced services to its member states that follow the Islamic faith, as well as to Islamic communities in non-member states. Nevertheless, this expansion has presented new obstacles due to the developmental issues encountered by these nations and the significant disparity in economic performance among different Islamic countries. Mameche, (2020).

The stark reality faced by Islamic nations, coupled with the establishment of the Islamic Development Bank as a means to address this situation by offering essential financing for development initiatives, undoubtedly prompts us to examine the role played by the Islamic Development Bank in promoting development in Islamic countries through diverse programs. Additionally, the Bank has offered many activities to Algeria, particularly as a founding member, in order to assist in the advancement of the development process between 1980 and 2020.'

This study has the potential to cover a wide range of elements. Further investigation should prioritize the execution of thorough evaluations on the various programs implemented by the IDB in GCC countries to determine their overall impact. This would require assessing the immediate and indirect impacts of these initiatives on many aspects of economic expansion, such as the rise of Gross Domestic Product (GDP), the creation of employment opportunities, the improvement of productivity, and the alleviation of poverty. Researchers could analyze the distribution of IDB projects across different sectors in GCC nations and examine how these initiatives have varying implications on economic growth. This would entail evaluating the impact of IDB-funded initiatives on critical sectors such as infrastructure development, education, healthcare, agriculture, and renewable energy, among others. Future research should examine the extent to which IDB programs have mitigated regional differences in economic development across GCC countries Riache et al., 2020. This would involve analysing the spatial distribution of initiatives sponsored by the IDB and their impact on fostering equitable regional development.

Research might investigate the impact of IDB programs on enhancing financial inclusion and facilitating access to finance for SMEs and underprivileged people in GCC nations. This will require evaluating the efficacy of IDB initiatives, such as Islamic microfinance and SME financing programs, in promoting comprehensive economic growth. Furthermore, in relation to Innovation and technical Development, it would be worthwhile to assess the degree to which IDB programs have fostered innovation and technical advancement in GCC countries. This would entail assessing the impact of IDB-funded programs on research and development, the transfer of technology, and the use of innovative technologies in crucial economic sectors.

Assessing the Long-Term Viability and Ecological Consequences: Researchers have the potential to examine the sustainability and environmental consequences of IDB initiatives in GCC nations. This would entail evaluating the degree to which projects sponsored by the IDB comply with environmental criteria and advance sustainable development practices, such as the use of renewable energy, mitigation of climate change, and initiatives towards environmental conservation.

Regarding policy implications: Further investigation might also prioritize deriving policy implications from empirical studies on the impact of IDB initiatives on economic growth in GCC nations. The task at hand entails offering guidance to policymakers and development practitioners on how to optimize the beneficial effects of IDB initiatives on economic growth and sustainable development in the region.

Author Contributions:

Conceptualization, B.L. and F.C.; methodology, S. Riache.; software, B.L, S.Radukanov, N.P., S. Radukanov., N.P.; validation, B.L., S. Riache. and F.C.; formal analysis, B.L.; investigation, B.L., N.P; resources, S. Riache and N.P; data curation, B.L., S.Radukanov, N.P.; writing—original draft preparation, F.C.; writing—review and editing, S. Riache; visualization, F.C.; supervision, B.L.; project administration, S.R.; funding acquisition, F.C. All authors have read and agreed to the published version of the manuscript.

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