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For

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"Toward a Sustainable and Inclusive Recovery"

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[For Distribution]

First of all, the Islamic Development Bank (IsDB) commends the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G-24) for having this important platform to discuss issues facing developing countries.

Over the past three years, the international development agenda has been disrupted by a series of crises – the COVID-19 pandemic and the Eastern Europe crisis – deeply affecting economies and people worldwide.

These crises have also called attention to the need for stronger and better coordinated global action to build resilience and ensure sustainable development.

In this regard, I would like to highlight a few key priorities: (i) harnessing support to recovery from the COVID-19 pandemic, especially in low-income and vulnerable economies; (ii) preserving macroeconomic and financial stability; and (iii) fostering a just transition to a green economy.

Harnessing support for inclusive recovery

With the unfolding crisis in Eastern Europe, the global economy is hit by an intense geopolitical shock, compounded by the continuously evolving COVID-19 pandemic whose waves have not yet been fully absorbed.

Above the economic impacts that may continue materializing over the medium-term, there are major concerns about the humanitarian consequences triggered by the crisis: the sizeable death toll and the massive migration and displacement of people.

The unfortunate situation in Eastern Europe tells us that political instability and conflicts are jeopardizing years, if not decades, of development efforts.

The economic repercussions of the crisis in Eastern Europe will undoubtedly weigh down on global COVID-19 recovery prospects, already hindered by disparities in capacities to effectively roll out mass immunization campaigns and provide monetary and fiscal stimulus. As divergent recoveries from the pandemic persist across economies, the associated medium-term global output loss is expected to be borne mainly by Emerging Market and Developing Economies (EMDEs).

The COVID-19 pandemic crisis has already reversed recent gains in poverty reduction, pushing over 100 million additional people into extreme poverty across the world. Moreover, it has caused global hunger to rise again after years of decline. The recent surge in food and energy prices, exacerbated by the crisis in Eastern Europe, will have other devastating impacts on the livelihoods of most people, especially in the least developed economies where multidimensional poverty is widespread.

Further to the Eastern Europe Crisis, exports restrictions, the collapse of agricultural production in the immediate crisis areas, and disruptions in the distribution of seeds and fertilizers are foreseen to have deep and lasting impacts on food security. In regions like the Sahel, which are hotbeds of poverty and fragility, the confluence of multiple global shocks heightens the risks of famine and instability in several social dimensions.

In this challenging context, we emphasize the urgent need for more decisive global action to address the looming food crisis in many developing countries. Structural responses through supporting more resilient agriculture are essential in the medium term. However, in the near-term, immediate responses are vital to ensure the free flow of goods across borders and provide financial support to low-income countries with strained fiscal space.

We also reiterate our call for consolidated efforts to close the vaccination gap between high-income and low-income countries. The redistribution of COVID-19 vaccine stockpiles meets the dual imperative of economic efficiency and social equity. Enhanced support should be provided to initiatives aiming to boost vaccine supply in developing countries through investment and technology transfers. More equitable access to vaccines remains a crucial prerequisite for more robust and inclusive recovery.

Preserving macroeconomic and financial stability

The Eastern Europe Crisis triggers a geopolitical shock that further dampens the global economic outlook. The recovery prospects from the current COVID-19 crisis are challenged by supply disruptions, inflation surges, high debt levels, and persistent uncertainty. In addition, the hike in energy and food prices is likely to generate a Balance of Payments crisis, further fueling domestic inflation and threatening macroeconomic stability in many emerging markets and developing economies.

In addition, faster-than-expected monetary tightening to control inflation in advanced economies, combined with financial turbulences against the backdrop of high risks and uncertainties, will compound the challenges of sustainable development financing. Furthermore, the debt situation in developing countries has continued to deteriorate, with governments in 38 out of 70 low-income countries already in debt distress or at high risk, and only seven of these low-income countries' governments present a low risk of debt distress.

Given the lack of fiscal space and limited monetary policy options in the face of high inflation and heightened risks of capital reversal, low-income countries will run into major difficulties in ensuring the initiation and/or continuity of social development programs for their vulnerable populations. Against this backdrop, more creativity and agility in our financing programs are critical for helping our member countries navigate multiple shocks.

The recent innovations in the International Monetary Fund's (IMF) emergency lending facilities, including the Resilience and Sustainability

Trust (RST), are highly commendable. Moreover, lessons learned from implementing the Group of Twenty (G20) Debt Service Suspension Initiative (DSSI) should also be harnessed for greater success in rolling out the Common Framework for Debt Treatments. This is vital vis-à-vis private creditors' participation and enhancing transparency at all levels of implementation.

We also share the view that developing countries need further technical assistance and capacity building to enhance their regulatory framework and surveillance mechanism for fostering financial stability. New digital financial innovations, such as digital currencies have created opportunities for expanding cross-border transactions and improving financial inclusion. However, they pose significant challenges to the role of central banks in conducting monetary policy and ensuring financial regulation. Therefore, stronger international cooperation and coordination for regulating the fast-growing digital currency systems will be critical in managing the risks associated with this financial innovation.

Fostering a just transition to a green economy

The focus on navigating current global crises should not eclipse the global environmental agenda. Climate change is strongly connected with food security, migration, and energy – three areas with far-reaching linkages to the socioeconomic welfare of people worldwide.

The transition to a green economy to tackle the threat of climate change is creating new economic opportunities and promoting long-term sustainable growth. Yet, at the same time, it is creating stranded assets, displacing jobs, and threatening the livelihoods of people, communities, and nations. Therefore, a just transition would ensure that the substantial benefits of a green economy transition are shared widely while also supporting those who stand to lose economically.

In developing countries, the critical trade-off between rapid economic growth based on competitive advantages and a more sustainable growth path, which may entail sharp disruptions in people's economy and livelihood in specific sectors, should not be overlooked.

Developing countries need more careful and targeted support in implementing their strategies that promote sustainable and climate-resilient development as stipulated in the SDGs, the Paris Agreement, and the national development priorities. To this end, the crucial role of climate finance deserves further emphasis.

Looking ahead to the forthcoming COP27 to be hosted in Africa, it is expected that governments in advanced economies will endeavor to follow through on the commitment to provide US$ 100 billion annually to support developing countries in their climate change mitigation and adaptation.

The Islamic Development Bank Group shares the common objective of multilateral development banks to scale up financing for climate action.

We have announced our climate finance targets of 35 percent by 2025 and are working cohesively and diligently to achieve these targets. Furthermore, under its Sustainable Finance Framework, the IsDB is working to boost its commitment toward sustainability and green financing by issuing Sukuk (Islamic equivalent of bonds) to finance sustainable investments. The Bank successfully issued a one-billion-euro Green Sukuk in 2019 and a US$ 2.5-billion Sustainability (for green and social projects) Sukuk in 2021, the largest of their kind.

Pursuing long-term sustainable development objectives while responding to immediate global crises and challenges requires increased cooperation and coordination among development institutions, which are aligned to the shifting priorities of our member states.

The IsDB Group is committed to actively participating in global partnership initiatives and playing a leading role in South-South cooperation, especially because responding to member countries' priorities is one of our guiding principles.

Building on the achievements of our Strategic Preparedness and Response Program (SPRP), which rolled out over the past two years, we have undertaken an update of the IsDB Group's long-term strategy to be in sync with member countries' fundamental priorities.

The Bank's revised strategy focuses on boosting a sustainable economic recovery while building resilience and fighting poverty.