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AT

THE G-24 MINISTERIAL AND GOVERNORS MEETING

"Securing A Better Recovery Amidst Uncertainty from COVID-19"

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(FOR DISTRIBUTION)

The Islamic Development Bank (IsDB) appreciates the ongoing efforts of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G-24) through this important coordination platform to discuss issues facing developing countries.

As we continue to navigate the social and economic crisis caused by the COVID-19 pandemic, we need to brace ourselves for the deepening effects on existing development challenges, especially for low- and middle-income countries.

It is crucial to ensure that development financing to critical social and economic development sectors is sustained despite the problematic financing conditions arising from the pandemic. Therefore, supporting these countries in the short term to improve vaccine access to speed up recovery should be prioritized.

Speeding up vaccine rollout in low-income countries

As the global economy is projected to rebound from a severe contraction of 3.2 percent in 2020 to achieve a six-percent growth in 2021, there are concerns about the significant disparities across countries, regions, and income groups on the recovery trajectory.

For instance, low-income economies are forecast to grow below 4 percent, with Sub-Saharan Africa expecting less than 3.5 percent, the weakest among regions.

Additionally, it is estimated that about two-thirds of emerging market and developing economies may still lag their pre-pandemic per capita income projections. The strong rebound of the global economy is due to the combination of rapid vaccine rollout and enhanced policy support, mainly in advanced economies and some large emerging markets.

Many low- and middle-income developing countries lack the fundamentals to implement such policies and programs.

From this scenario, it appears that recovery efforts are further widening the disparity between high-income and low-income countries. This could exacerbate the longstanding global imbalances that have long been a cause for concern in the worldwide development agenda.

Even more disturbing is that the current economic crisis is leading to the reversal of recent gains in poverty reduction, pushing poverty rates back to 2017 levels, with more than a hundred million people estimated to fall into extreme poverty in 2020.

Within countries, inequality is also expected to worsen as the pandemic is more likely to have a disproportionately negative effect on the incomes of vulnerable groups, including women, migrant and lower-skilled workers, and those with limited assets.

Tackling the rising trend in poverty and inequality is crucial for social cohesion and stability. This requires strong, even, and inclusive recovery. To this end, a broader and faster vaccine rollout is a critical step.

Although many advanced and emerging markets have achieved significant milestones in mass immunization, several low-income economies are yet to reach a one percent vaccination rate.

This vaccination gap needs to be plugged to enable low-income developing countries to contain the pandemic and resume social and economic activities.

Low-income countries are at a disadvantage vis-à-vis vaccine access due to their inability to compete for purchase and their limited logistics capacity to handle and distribute the vaccines to their citizens.

Hence, we need to pool our resources and step up efforts to ensure the accessibility of vaccines, especially where the constraints are most formidable.

In this regard, we commend and support the international community's efforts through the COVAX initiative to promote equitable access to COVID-19 vaccines globally. However, these efforts need to be sustained and scaled up.

Likewise, the IMF's target to mobilize US$ 50 billion to end the COVID-19 pandemic is praiseworthy and needs to be supported. Indeed, financing is the cornerstone to strengthen resilience and boost recovery in developing countries.

Addressing the challenge of sustainable financing for greater resilience and faster recovery

The COVID-19 pandemic had hit the global economy at a time when concerns about debt vulnerabilities, especially in low-income countries, had risen as debt build-up reached unprecedented levels worldwide.

About half of low-income countries faced or risked being in debt distress even before the COVID-19 outbreak. Unfortunately, the situation has further deteriorated, notwithstanding coordinated efforts under the G20 to provide debt relief to the poorest economies.

Consequently, fiscal deficits have widened, and the ratio of sovereign debt service to tax revenue has increased for several emerging market and developing economies (EMDEs) despite the low-interest environment.

This led to narrowing fiscal space, as debt service obligations burden the government's finance at the expense of higher capital spending and social safety nets.

With the G20 Debt Service Suspension Initiative (DSSI) set to end in December 2021, some eligible countries could face tighter fiscal constraints with the risk of restraining a subdued recovery.

On a positive note, though not adequate, implementing the Common Framework for Debt Treatments beyond the DSSI, an essential step towards private creditors' participation in debt restructuring exercise, has shown moderate progress.

Moreover, the prospects of tightening monetary policy in advanced economies in the face of rising inflation pressures could compound the financing challenge in EMDEs through large capital outflows and currency depreciation.

However, further coordinated efforts by bilateral official creditors, development institutions, and private creditors could help mitigate the effects on low-income, vulnerable economies.

The IMF's new allocation of Special Drawing Rights (SDRs) equivalent to US$ 650 billion, the largest in history, is most welcome. If accepted, the request for high-income countries to transfer a substantial share of their allocated SDRs to low-income countries will significantly improve resilience and make a recovery more even.

In line with the initiatives of other international financial institutions, the IsDB Group rolled out a US$2.3 billion swift response to COVID-19 under the Strategic Preparedness and Response Program (SPRP) to help member countries prevent, contain, mitigate, and recover from the impact of the pandemic. This has subsequently been enhanced to US$ 4.56 billion.

We also launched the COVID Guarantee Facility, an innovative US$2 billion vehicle designed to help the private sector combat the pandemic and facilitate cross-border foreign and local investments to support vital industries.

Furthermore, we issued Sustainability Sukuk and mobilized S$1.5 billion from the global capital markets for COVID-19 interventions in member countries.

Moreover, we initiated the Strengthening the Economic Resilience of Vulnerable Enterprises (SERVE) program to support micro-, small- and medium-scale enterprises (MSMEs) and ensure business continuity and job preservation amid difficult business conditions arising from lockdowns.

The COVID-19 pandemic has undoubtedly exacerbated the challenges facing sustainable development. Yet, it provides a unique opportunity to rebuild the foundations of a more resilient and inclusive global economy based on the recognition of interdependencies and the necessity of cooperation to preserve global public goods.

The IsDB Group is committed to sustaining and enhancing its support to member countries.

We recognize the significance of strengthening and deepening global and south-south cooperation to address our member countries' everyday challenges.