Islamic Development Bank
Banque Islamique de Développement

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البنك الإسلامي للتنمية

Statement by

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The Islamic Development Bank (IsDB) expresses its continued strong support to the goals of the G-24, as reflected in the issues for discussion during the Ministers and Governors Meeting on 17 October 2019. The IsDB has a keen interest in the G-24 Meeting mainly due to its membership comprising Emerging Market and Developing Economies (EMDEs), which are important to the global development landscape and yet the most vulnerable to the risks of emerging global economic shocks. Currently, the global economy faces uncertainties due to trade tensions arising from US-China tariff impositions, geopolitical issues in the Middle East, rising global debt and climate change. As a result, global economic growth is projected to remain weak with EMDEs as one of the main drivers of global growth. In view of rising alternative international development financing, it is imperative to enhance close coordination and efficiency of the multilateral development financial system.

Changing Global Development Landscape

As EMDEs are leveraging on their demographic and natural resource endowments, a multi-polar world is becoming increasingly evident. This has resulted in mixed perceptions. Developing countries, especially the least developed countries, consider the strong performing EMDEs as a sign of hope and opportunity for stimulating their economic growth through effective partnerships. Advanced economies are starting to recognize the prominence of these EMDEs as a vibrant economic bloc with real influence on the global economic and political system.

Strong economic performance needs to be combined with effective cooperation platforms to enable strategic and optimal benefits of multilateral development arrangements. As such, the G-24 needs to reflect the changing global dynamics if it is to effectively address issues of common interest. In this context, EMDEs through the G-24 can advance their collective interest in the global system with specific key priorities, including:

- Reforming the global financial and economic architecture to reflect the growing importance of EMDEs; and
- Strengthening the principles and standards of international law, along with the recognition that multilateralism is key to tackling global challenges.

The convergent international development agenda is achieving the Sustainable Development Goals (SDGs). Several developing countries are facing constraints in achieving the SDGs. The potential impacts of trade tensions and other risks to the global economy are likely to further dampen economic conditions in many developing countries, thereby making it more difficult for them to achieve the SDGs. The G-24 as the anchor of EMDEs needs to develop effective strategies to improve trade and provide opportunities for developing countries to reap additional benefits from international trade.

Invigorating Global Trading System

Despite trade being a crucial engine of economic growth, many developing countries fail to realize the benefits thereof due to lack of competitiveness, low value-adding content of their exports, while importing goods and services with high value-adding.

A global partnership for achieving the SDGs in developing countries is emerging through advocacy for an open, rules-based, predictable, non-discriminatory trading and financial system. There has been increasing integration of national economies with the rest of the world. This has culminated in a global economy, which hinges on free markets, investments, trade and information flows, as well as a global system of production, distribution and consumption. Consequently, economies that lack capacity for value-adding production are unable to cope with the pace of global economic developments, leading to a vicious circle of underdevelopment and poverty.

The G-24 needs to analyze the potential challenges and opportunities arising from the 4^{th} industrial revolution and incorporate these into the thinking on strategic cooperation. Historically, large-scale manufacturers in advanced economies had to increasingly contend with powerful unionized workers. Today, the dynamics have changed somewhat where production can be automated or shifted to low-wage countries. This has contributed to rising income inequalities and the extinction of industries in some countries. To address this phenomenon, some countries have resorted to protectionist, nationalist and populist polices. As a counter-measure, there is an urgent need for a rules-based system that addresses some of the challenges currently faced to create win-win situations for all. This system should recognize the development needs of low-income countries, and EMDEs should be fully engaged in formulating the rules.

Improving Global Financial Safety Nets

The global financial system should be made to work for all. One way to achieve this objective is to implement the reforms to the global financial architecture and governance of the system of International Financial Institutions (IFIs) as recommended by the Eminent Persons Group (tasked by the G20 Finance Ministers and Central Bank Governors in April 2017). In broad terms, their recommendations call for (i) increased collaboration across the development system to achieve greater development impact; (ii) implementing reforms for global financial resilience to secure the benefits of interconnected financial markets; and (iii) making the *system work as a system*.

The IsDB Group's US$141.5 billion cumulative development financing is premised on risk-sharing instruments that are equity- and asset-backed to create infrastructure assets that can crowd-in private sector participation. The Islamic financing mechanisms of IsDB Group provide tailor-made capital and liquidity frameworks for its member countries. It should be noted that Islamic finance provides inclusion options for unbanked populations, prohibits speculation and that it has the fundamental underlying principle of risk sharing. This Islamic finance model can also contribute to building financial resilience.

Acknowledging that the challenge is beyond any single institution in a fast-changing world, the IsDB President's Five-Year Program (P5P) has emphasized leveraging and partnerships in development financing. In this regard, the IsDB Group welcomes the idea of creating country platforms to mobilize all development partners, maximizing their contribution and convergence for the development of the country.

Emerging Development Challenges

To achieve the SDGs in developing countries, US$3.3 - US$4.5 trillion is needed annually to finance the development interventions (OECD Development Report 2016). Currently, only US$1.4 trillion is invested annually in the development programs of developing countries, leaving a financing gap of US$3.1 trillion. With rising and alarming weather-related events triggered by climate change, the world is increasingly under pressure to double its efforts to achieve inclusive development. The world population is expected to reach 8.5 billion by 2030 with around 26% living in IsDB member countries. Further, youth (aged 15 – 30 years) will constitute 50% of IsDB member countries' population by 2030. To address these challenges in its member countries, the IsDB has developed a New Business Model centered around global value chains to help member countries capitalize on their vast underutilized resources to generate both decent jobs and additional financial resources for achieving the SDGs. The IsDB business model calls for greater participation of the private sector in development. In addition, the IsDB also broadens its mandate to include leveraging resources and risk mitigation that will crowd-in other financing partners including civil societies, NGOs, and philanthropists as developers.

Concluding Remarks

In today's fast-changing world, multilateral development institutions need to be proactive and dynamic to address critical development challenges. To be more specific, financing is insufficient to tackle the mounting challenges facing developing countries. It is therefore critical to provide knowledge solutions and partnerships along with appropriate macroeconomic policies anchored in fiscal efficiency and effective utilization of resources to enhance the value-adding capabilities of factors of production.

There is a need for countries to focus on those sectors where they have or can build comparative advantages and link the local value chain with global value chain and this will ensure the creation of jobs and added value. The EMDEs need to create 10 – 12 million jobs every year and 100 million jobs by 2030. If economies fail to grow to the level that could absorb the new entrants to labour market, they will face an undesirable situation.

In this context, the focus for multilateral development institutions to reinvigorate the multilateral trading system would be to:

- Facilitate value-adding productive investments into developing countries to expand production and consumption, thereby creating more markets and opportunities for trade. With more people engaged in economic activities, the demand for both raw materials and finished goods will increase, and new sources of demand will emerge to expand global trade. This provides the basis for reform in multilateral arrangements for global trade.
- Create special global investment instruments to support the type of investments required to expand economic activities and open new frontiers for global trade.
- Leverage innovative technologies to streamline protectionist policies and other barriers to international trade.

In terms of multilateral support to boost financing for development to meet the SDGs, the following could be considered:

- Increasing technical support to guide prudent macroeconomic policies, improving investment climate and giving greater focus to Public Private Partnerships for economic and social infrastructure investments.
- Engaging with developing countries to encourage using domestic budgetary instruments in a more targeted and efficient manner.

Reforming the global financial system has been under discussion for a while without significant progress. In formulating new rules to ensure financial safety nets, Islamic finance, which revolves around the productive relationship between financial assets and real sector activities, needs to be given greater prominence as it has the potential to stimulate inclusive and sustainable economic growth and contribute significantly to poverty reduction.

On behalf of the IsDB Group, I wish the 102nd Meeting of the G-24 Ministers and Governors fruitful deliberations.

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