Statement

of Dr. Muhammad Al-Jasser
President of the Islamic Development Bank

for

111th G-24 Ministerial and Governors Meeting

Building Resilience to Meet Global Challenges

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IsDB

البنك الإسلامي للتنمية

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Building Resilience to Meet Global Challenges

The Islamic Development Bank (IsDB) Group extends its appreciation to the Intergovernmental Group of Twenty-Four (G-24) for the invitation to the G-24 Ministerial Meeting. The theme of the meeting resonates with IsDB's strategic focus in response to its member countries' pressing development challenges.

Over the past four years, IsDB has been navigating the balance between delivering emergency responses to global crises and building long-term solutions for more resilient systems. However, new crises continue to emerge. Persistent geopolitical tensions, along with threats of geoeconomic fragmentation are resulting in increased uncertainties. Economic recovery remains subdued despite lower inflation indications.

Meanwhile, significant progress in climate action and finance remains elusive. In addition, tight fiscal space and debt crisis limit the ability of low-income countries to achieve the sustainable development goals. In light of this, it is apparent that the status quo is not sustainable. Member countries must adapt to and prevail from these challenges while navigating the unavoidable evolving global trade and financial architecture reforms.

Addressing global trade disruptions

The COVID-19 pandemic exposed the vulnerabilities in the existing setup of global supply chains, resulting in trade disruptions with adverse effects on global trade and economic growth. This raised concerns regarding the strength and sustainability of the exiting supply chains in the face of crises, which in turn has reinforced a growing interest for inward inward-looking policies.

The recent global developments call for a more sustainable and resilient global supply chain which will have important implications for economic structures and industries. To remain competitive, countries should rethink their industrial strategies to boost productivity and innovation.

Industrial policies can be effective levers for economic progress and structural transformation by supporting and promoting industries with a high potential for growth and competitiveness. However, it is important to ensure that policies are supporting global trade and do not contribute to the fragmentation of the world economy. Furthermore, reforms that enhance the business environment and improve governance are critical to encourage increased investments, driving stronger economic growth, supporting poverty reduction efforts, and facilitating improved access to infrastructure and basic services.

At the IsDB Group we endeavor to support our member countries' efforts toward economic diversification to mitigate their dependency on commodity markets. We believe in the strength of south-south cooperation for promoting a more resilient, inclusive, and sustainable international trading system.

Enhancing the Global Financial Safety Net

In a global economic landscape characterized by polycrisis, strengthening the global financial safety net has become particularly urgent and critical amid heightened macroeconomic vulnerabilities. Developing economies with large external financing needs are highly exposed to funding shocks stemming from monetary policy shifts in advanced economies, the declining official development assistance, and exchange rate volatility.

At the country level, external vulnerabilities should be addressed by implementing structural reforms that enhance domestic production and diversification, tackle the persistent twin deficits, and financial market deepening.

Moreover, the various layers of the global financial safety net, including the International Monetary Fund (IMF), Regional Financial Arrangements (RFAs), and bilateral safety nets, should complement each other. Hence, close policy coordination is needed to ensure coherent and complementary financial assistance.

In this regard, we welcome the conclusion of the IMF's 16th General Review of Quotas in December 2023, resulting in a 50 percent increase in the Fund's permanent resources. This will reinforce its capacity to respond to the growing need for external buffers in the context of polycrisis.

Strengthening Domestic Resource Mobilization

Developing economies' financing challenges encompass both external and internal dimensions. The polycrisis has negatively impacted domestic resource mobilization, notably due to slower economic growth. At the same time, mitigating the effects of the polycrisis and the lingering impacts of the Covid-19 crisis has resulted in member countries increasing their social spending requirements, further squeezing their already tight fiscal space.

In the period 2020-2029, the world economy is projected to experience its weakest average growth performance in five decades with a significant setback in income generation and poverty reduction.

This will have serious economic implications at the country level, especially among low-income developing countries. To put things in context, data shows that as of 2023, about 50 percent of low-income countries have a lower level of GDP per capita than before the pandemic.

Given this context, fiscal consolidation could be highly challenging. Nonetheless, meaningful fiscal reforms will be crucial to combat tax avoidance and tax evasion, along with strategic efforts to improve the quality and efficiency of public spending. Additionally, countries must be able to take advantage of the digital transformation innovations and harness their potential to build capacity and tap into the significant potential of Digital Services Taxes (DSTs).

Furthermore, the United Nations' Framework Convention on International Tax Cooperation presents a promising framework for a fair and inclusive global tax system, requiring stronger global cooperation.

Advancing Debt resolution

Debt levels in the developing world have surged to historical highs in the context of the COVID-19 pandemic, raising concerns over debt sustainability, especially for low-income economies. Nearly 60 percent (3 out of 5) of low-income countries are at high risk of debt distress (or are already in debt distress), which illustrates the rapid deterioration of the fiscal situation in many developing economies.

In IsDB member countries, debt levels have significantly increased over the past ten years, especially in the sub-Saharan Africa region. For IsDB member countries in this region, the average public debt-to-GDP ratio has more than doubled from 22 percent in 2014 to 47 percent in 2023. Similarly, their foreign debt-service expenses rose from 1.0 percent to 5.5 percent of their GDP. This is higher than their average government expenditure on education which is 3.4 percent of their GDP.

The escalating debt service requirements pose a significant challenge to low-income countries, potentially scarring their long-term socioeconomic impacts. This underscores the importance of advancing sound debt resolutions.

Notwithstanding its relevance, the G20's Common Framework for Debt Treatments has yet to demonstrate faster progress and stimulate greater participation from debtors and lenders. Areas of improvement include the eligibility of some middle-income countries and increased flexibility to take into consideration the sustainable development targets.

International cooperation and coordination can be strengthened to support countries in achieving debt sustainability without prejudice to their efforts in combating poverty and addressing climate change.

Funding Climate Action

The urgency to address climate change is consistently highlighted by national governments and the international community. The COP28 climate summit in Dubai had some successes in terms of agreements on loss and damage arrangements and transitioning away from fossil fuels. However, challenges remain in terms of funding.

Multilateral Development Banks (MDBs) joined together to commit to pursue ambitious climate action and unlock over $180 billion in climate finance. Nonetheless, successfully accomplishing the ambitious climate action goals set requires more funding with significant investments and expenditures required to achieve climate targets by 2030.

The IsDB joined with over 70 nations and several international entities to support a groundbreaking declaration that forges a link between climate action, security, and humanitarian efforts.

In line with this, we announced a pledge of at least US$ 1 billion in climate finance aimed at extending support to our member countries grappling with fragility and conflict over the next three years. This funding is earmarked for high-impact, adaptation-focused initiatives. In terms of climate finance, IsDB has already exceeded its target of 35 percent climate finance share of total financial commitments by 2025, with 37 percent already achieved in 2023.

Concluding Remarks

Historically, episodes of crises and economic downturns have been overcome by strengthening international cooperation and enhancing policy coordination, pooling resources and joint initiatives for achieving common goals. In the present context however, geo-economic fragmentation appears as a threat to the necessary coordination and cooperation between nations.

To build resilient economies and societies, it is important to foster a renewed momentum for partnership around critical global public goods and the achievement of the SDGs.

The IsDB Group remains committed to global partnership initiatives based on collective efforts to enhance development effectiveness as the springboard for achieving sustainable development.

The IsDB Group wishes the G-24 successful deliberations.