STATEMENT:

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On behalf of the Islamic Development Bank (IsDB) Group, I would like to express our sincere appreciation for the invitation extended to us to participate as an observer at this 98th Meeting of the Development Committee. Today’s meeting takes place in the midst of unprecedented technological changes that are transformational in nature.

**ECONOMIC LANDSCAPE**

Although we are witnessing expansionary signs globally, economic performance of countries are uneven and less synchronized. Signs of weaknesses are evident in some advanced economies as well as in many emerging markets. The weaknesses are fueled by increasingly inward looking policies -and the ensuing heightened trade tensions - tightening financial conditions, higher fuel prices, rising debt and the resultant market pressures on some currencies. This, coupled with monetary policy normalization in the US and the subsequent reversal of capital flows from emerging markets and developing economies, geopolitical conflicts and macroeconomic vulnerability, could further hamper growth prospects.

Although economic growth in IsDB Member-Countries (MCs) dropped slightly in 2017 due to low energy prices, the near-term outlook has improved, mainly due to expectations that the oil prices recovery will be sustained and non-energy commodity prices will firm up due to the uncertainty in global supply chains. It is also expected that macroeconomic imbalances will subside as many countries start reaping the benefits of structural reforms and diversification efforts. Nevertheless, the downside risks at the global level could jeopardize the favorable prospects in IsDB MCs.

The issues of debt sustainability and vulnerability; the need for boosting human capital; the challenges and opportunities of disruptive technologies and the potential of Fintech are of key interest to the development community especially the Islamic Development Bank, whose MCs are among the most vulnerable.

**HUMAN CAPITAL**

Inspired by our mission to empower people for a sustainable future, the IsDB places the promotion of comprehensive human development through education at the heart of its interventions in Member Countries. At the strategic level, “Inclusive social development” is one of 5 strategic pillars of the IsDB 10-
Year Strategic Framework and “Strengthening capacity building in the MCs”, one of the 6 priorities of my Five-Year Plan.

Among the various programs of the IsDB investing in human capital to improve quality of life in MCs are those that help transfer technology and expertise, disseminating knowledge, supporting youth education, and empowering non-governmental organizations (NGOs).

In the health sector, IsDB has invested US$ 2.1 billion and is working closely with the Gates Foundation on the Polio Eradication Program for Pakistan. The IsDB will continue the fight against polio until it is eradicated from our MCs. Our partnership with the World Bank and other donors to establish the Global Concession Financing Facility seeks to improve health outcomes in member countries.

Regarding education, IsDB in partnership with Education Above All Foundation, launched the Out-of-School Children Program targeting to enroll and retain 2.4 million children at the primary levels and providing them with quality education.

Historically, youth education was supported through 3 different Scholarship Programs, with an additional program for our Least Developed Member Countries for Bachelors and Technical Diploma, which was announced in 2017 to provide US$10 million to 750 scholarships over the next 10 years. NGOs are also key players in economic and social development area and IsDB has engaged these non-state actors for better program execution efficiency with the approval of projects.

Ultimately, the ability to harness and leverage on the potential that disruptive technologies could bring to the development landscape would depend on the quality of human capital available. Hence, its benefits transcend traditional boundaries.

**DISRUPTIVE TECHNOLOGIES**

The advances in digitization, artificial intelligence, biotechnology, and other technologies in recent years raise policy challenges especially with respect to the labor market, where the skills mismatch is likely to be more amplified. The fast-changing skill sets needed to navigate the fourth industrial revolution heightens the challenges that government and development institutions, are already facing in creating favorable conditions for employment and job creation.

However, disruptive technologies also offer valuable opportunities to leapfrog, accelerate growth and foster inclusive social development in developing and emerging economies. Although the net impact on employment is not clear, the promise of higher productivity, better connectivity, thus faster and sustainable economic growth presents an exciting challenge.

Policymakers have no choice but to embrace these changes, and to create the enabling conditions to optimize the positive impacts of this new industrial revolution while building the regulatory framework and appropriate social safety nets to limit the negative spill overs.

In this regard, we would like to commend the World Bank’s Build-Boost-Broker approach for creating opportunities and mitigating risks associated with the disruptive technologies.

The power of Science, Technology and Innovation (STI) to transform the economic landscape is well recognized within the IsDB, and as such, we have increased our focus and attention in this area.

The IsDB has established a US$500 million Science, Technology and Innovation Endowment Fund (with IsDB contributing US$200 million) to promote STI initiatives in member countries. Under this STI Fund –
called the Transform Fund - a Roadmap has been developed to integrate STI into all IsDB programs, projects and businesses in the years to come.

The IsDB is also supporting the Member Countries to adopt the appropriate policies and the enabling environment to mainstream STI in all the projects financed by IsDB.

Our strong engagement and investment in promoting STI is driven by our commitment to support our Member Countries in investing in Human Capital, which is the fundamental source for social and economic development. In fact, STI plays critical role in increasing productivity, industrialization, economic growth and creation of decent and high value-added jobs. The innovators and entrepreneurs benefitting from IsDB STI Programs will have better opportunities for creating fast growing and exporting enterprises and developing more capacities to adapt with the rapid changes in the world and to keep up with the 4th Industrial Revolution.

Several countries in the developed and developing world have been successful in spurring their social and economic development through investing in STI and human capital, despite their limited natural resources. Our desire in IsDB is to help our Member Countries move towards knowledge and innovation economy which will result in enhanced welfare and prosperity of our people.

In addition, the IsDB has been working to facilitate innovation exchange through its Reverse Linkage program. This key initiative is a tripartite South-South approach, which consists of transfer of innovative knowledge, solutions and experiences between two MCs with the IsDB acting as the connector and a catalyst.

FINTECH

The IsDB is also paying specific attention to the transformative impact of disruptive technologies on the financial industry. More specifically, digitization is having a considerable impact on the delivery of financial services and financial inclusion.

Multilateral Development Banks need to explore the huge opportunities that blockchain will bring to the development work and educate policy makers in its faster adaptation.

The IsDB is pro-actively engaged in this new dynamic. The Bank has recently organized a Fintech for Islamic Finance competition, where more than 100 new fintech ideas were received, focusing on blockchain, Crowdfunding, Digital Payments among others.

The Islamic Research and Training Institute (IRTI) of the IsDB Group, is working with Ateon & Settle Mint to build blockchain-based financial products that can potentially be used to support development and financial inclusion in IsDB member countries.

Despite all the excitement arising from the potential benefits of these technological advances, the rising debt and extent of vulnerability of emerging markets is still a major concern.

DEBT VULNERABILITY IN EMERGING AND LOW-INCOME COUNTRIES

Towards end 2011, public debt in IsDB MCs was heading to its lowest point in decades. The average gross government debt and foreign debt fell to 27% and 28% of GDP respectively in 2011. Similarly, foreign debt service reached its lowest point at 3.24% of export of goods and services in 2012. The dramatic decrease of debt burden was driven by the debt relief initiatives for Heavily Indebted Poor Countries, many of which were IsDB MCs. Most debt-relief freed-up funds were redirected towards socio-economic
initiatives including poverty reduction, health and education whilst capital and physical infrastructure investments were financed from other sources. Thus, borrowing continued albeit at a slow rate.

The rising trends of debt started in 2015, when the average government gross debt for IsDB MCs jumped from 27.6% of GDP in 2014 to 34.65% of GDP in 2015; and by 2017, foreign debt reached 39.86% of GDP, with the servicing thereon growing to 4.58% of export of goods and services. This dramatic increase of debt burden was triggered by two major factors. First, public-sector spending was financed by cheap abundant global liquidity following the quantity easing and low-interest rate policies in the advanced economies. Second, oil-exporting member countries increase debt issuances following sudden budget shortfalls when oil prices crashed in 2014. These two factors have contributed to rising debt levels in several IsDB member countries since 2015.

However, there is great variability in debt levels and services among IsDB MCs. The situation is worse in low-income countries, with debt levels above 100% of GDP, and debt service levels greater than 10% of exports of goods and services.

The IsDB has taken several steps to reduce the debt vulnerability of its member countries by refocusing its financing on high impact projects that are commercially viable and self-sustaining. The use of asset-backed sukuk to finance commercially viable projects link the ultimate financiers to the ultimate beneficiaries, who will pay for the use of the underlying assets. MCs are also assisted in domesticating the trading of sukuk instruments to develop the domestic capital market and create local investment vehicles for domestic savings. Through the IsDB Group entities (ITFC, ICD and ICIEC), MCs are developing their export potentials. This will assist reduce the debt burden and restructure the debt profile of the countries by introducing more risk sharing financial instruments.

CONCLUDING REMARKS

It is well-known that the development challenges faced by our member countries are enormous. Through some of the initiatives listed above, we intend to respond and help deliver more efficiently and effectively on the development interventions that our constituencies rightfully expect for Multilateral Development Banks. At the IsDB, we are fully committed to taking these challenges in partnership with our MCs and all development actors.