



**Statement of the IsDB Governor for the Republic of Indonesia
at the 44th Annual Meeting of the IsDB Board of Governors
Marrakech – Morocco, 5 April 2019**

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Minister of Finance of the Republic of Indonesia**

Assalamu'alaikumwarahmatullahiwabarakatuh.

I would like to emphasize my statement on several key points, aimed at furthering IsDB's role to be continuously relevant to its member countries through financial discipline, operational efficiency, and development effectiveness considering the current and future global economic challenges.

The Current Global Economic Challenges and Internal Reform within IsDB

The global growth forecast for 2019 and 2020 had already been revised downward due to the softening of international trade and manufacturing activity, remaining trade tensions, and pressures to the financial market in some large emerging markets. A “no-deal” withdrawal of the United Kingdom from the European Union and a greater-than-envisaged slowdown in China could spark further deterioration in risk sentiment with adverse growth implications, especially given the high levels of public and private debt. Moreover, we should not underestimate the socio-economic impact of climate change, natural disasters, and technological automation.

To confront these challenges, policymakers in developing countries need to rebuild policy buffers and accelerate reforms needed to foster stronger growth. Furthermore, transparency on economic policies in developed countries is still very important, since any policy changes there would affect the global economy. IsDB, as a multilateral development bank, should be able to be an effective development partner for its member countries in tackling those challenges by effectively identifying particular areas they can mostly contribute.

We appreciate the undergoing internal reform in IsDB to improve its operation and stay relevant to the needs of its member countries. This internal reform has set the course for the Bank to respond effectively to the world's changing needs. We can see a real effort to streamline the bureaucracy, improve governance, increase operational efficiency, leverage financial discipline, and improve development effectiveness.

By having effective internal reform, **IsDB is expected to add value to its member countries by combining funding, knowledge, and partnerships.** IsDB should continue its role as a reliable financier and catalyst of finance. As a knowledge provider, it should focus on practical value that fits local conditions and wisdom, identify lessons, and replicate good practices. As a convener of partnerships, IsDB should promote dialogue and collaboration among diverse partners and seek to maximize the impact of the international financial institutions system as a whole.

IsDB has identified key areas such as STI (Science, Technology and Innovation), human capital, infrastructure, and macroeconomic stability that are essential in order to achieve the desired economic growth and increase productivity. Furthermore, these areas have become the reference for IsDB to put itself on the right track to become an effective development partner of its

member countries. **These are correct priorities that must be put into effective implementation.**

Financial Discipline

We are aware that for the last several years, **IsDB has been experiencing financial pressures and may have to face the prospect of its rating downgrade** from its prestigious AAA rating. Thus, IsDB should continue to find ways to secure better value for money.

The Bank must maintain financial discipline in order to remain robust and effective. Institutional resilience begins with a strong capital base, but it also must be maintained through sound investment decisions and careful financial management. Thus, we urge Management to steward the resources of IsDB prudently and to ensure that IsDB's future efforts can be sustained by organic growth in the capital base through retained earnings of its operation.

A strong base capital for IsDB is essentially required given the changes in global financial landscape and to be responsive towards member countries' expectations and needs. IsDB should also be able to enforce member countries to adhere the contribution's agreement that has been agreed together. If the member countries not be able to obey the agreement, **the chance to have a special capital increase should be open to the remaining member countries.** A special capital increase might be one the appropriate solutions towards strengthening the IsDB capital base. Furthermore, It is essential for IsDB to accommodate member countries' intention to increase its share in the IsDB to help the additional capital required by the Bank.

IsDB should refine its lending model to bolster its long-term sustainability and redouble its focus on the needs of its poorest members as well as to refocus on the potential opportunity that comes from its member countries.

As Asia continues to be the global engine of growth and the demand of Islamic financial instrument is increasing in the region, I urge IsDB to treat this as a new opportunity and be the market leader in developing and broadening the scope of Islamic finance in the region, including Indonesia. We believe this will offer a rewarding return for the Bank's investment.

Operational Efficiency

Achieving the SDGs achievement requires a broad-based economic transformation at a scale, which will require significant investments that cannot be handled by any single government or multilateral institution.

However, we are aware that **IsDB's long-term sustainability has been put at risk by operational inefficiency.** We encourage IsDB to continue exploring measures to further improve operational efficiency and effectiveness. Thus, IsDB should always innovate and to significantly improve its operational efficiency, especially with regards to project execution funded by the Bank. The quality of entry and implementation needs to be upgraded as it also causes significant financial cost to IsDB.

We are a big supporter of the financial transformation initiative adopted by IsDB, especially for its commitment to not only become an on-balance sheet funding provider but also a development enabler and markets creator. Thus, IsDB should strengthen its core competitive advantages to create a credible operational capacity and efficiency that can attract developers to follow IsDB's lead.

In line with IsDB program in Islamic finance development, Indonesia still faces progressive performances as shown in the development of Islamic banking industry, Islamic financial markets (especially Sukuk market) and Islamic non bank financial institutions. Even, the coordination becomes stronger with a National Committee on Islamic Finance (KNKS) directly chaired

by the President of Indonesia. Further, our focus of development also captures Islamic economics covering not only Islamic commercial sectors but also Islamic social sectors such as awqaf, zakah, hajj funds including Islamic education and halal industries.

IsDB should always improve its responsiveness to cater to the needs of its member countries. Thus, we support the initiative and commitment of IsDB to be more decentralized geographically and functionally to improve its responsiveness towards member country's needs. We support the streamlining of the complicated bureaucracy as it is a barrier for progress and stifles the organization's ability to perform while contributing to unnecessary costs. However, this initiative should be taken seriously as a part of bureaucracy reform. As in the technical and implementation level, the IsDB regional hub or the country gateway office need further approval from Head Quarter which implies an inefficiency and time consuming process.

To achieve a better operational efficiency, **IsDB group should also review and improve the coordination among the IsDB Group units**, such as ITFC, ICD, ICIEC and IRTI. They should complement each other to produce better operational results.

Going forward, **we support the Bank's plan to invest more in its Information Technology (IT) systems in each of its operation processes to improve efficiency.** We also demand the Bank to refine its human resources practices and to improve performance management system that incentivizes high performers and eases out poor performers. We highlight the importance of the open, transparent, gender-balanced, and merit-based hiring practices needed for IsDB to recruit highly qualified and capable staff.

Development Effectiveness

We welcome the introduction of new financial products and modalities and support periodic review of IsDB's toolkit to ensure that it meets the needs of borrowers. We also welcome the Operations Evaluation Department to review the Bank's operation in order to improve the effectiveness and impact of IsDB Group's development interventions. The Evaluation Department should be able to encourage IsDB Group to transform it into a world class learning organization that continuously improves its operations by drawing lessons from evaluation findings to enhance the development effectiveness of the Group's interventions.

Furthermore, due to the limited financial capacity and an ambitious development agenda, **we urge the Bank to explore ways and means to provide support to the private sector.** IsDB should be able to be an effective catalyst for private sector funds and channel them into projects. The private sector could play a more important role in the development agenda as they mobilize resources for development, creates jobs, helps drive innovation and efficiency in member countries. Private resources will also be needed to fill the huge long-term financing needs for infrastructure. Thus, private sector development should play a bigger portion of IsDB operation in the future in order to have a higher leverage of the fund. Leveraging the private sector fund can improve the Bank's effectiveness to help its member countries through the knowledge and expertise that the Bank has.

We also expect a stronger collaboration with IsDB in accelerating Indonesian Islamic economic development, as one of the biggest moslem population in the world. Particularly, we would like IsDB to be part of our intention to set up a global halal value chain through development of Islamic economics in particular halal industries.

In closing, allow me to re-emphasize our appreciation to the IsDB Group, for its continuous efforts and commitment to supporting development in the Muslim world.

Thank you.

Wassalamualaikum warahmatullahi wabarakatuh.

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IsDB GOVERNOR FOR INDONESIA

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