Statement by

H.E. Salman bin Khalifa Al Khalifa
Minister of Finance and National Economy

Kingdom of Bahrain

on behalf of Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, United Arab Emirates, and Yemen
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102nd Meeting of the Development Committee

October 16, 2020
Washington, DC

(VIRTUAL)

The COVID-19 pandemic has placed a massive toll on both the global economy and country healthcare systems, disproportionately on the poor and vulnerable, triggering a deep global recession with vast human capital impacts. Containment measures required to address the health crisis, combined with reduced economic activity, have culminated in an unprecedented combination of negative shocks in many emerging market and developing economies (EMDEs), including in the Middle East and North Africa (MENA) region. This is expected to leave long-lasting scars through multiple channels, including record capital outflows, erosion of human capital and fragmentation of global trade and supply linkages.

The impacts are expected to be most severe for EMDEs that rely heavily on trade, tourism, services and foreign investment. Per capita incomes in the majority of EMDEs are expected to shrink in 2020, placing millions back into poverty and widening the inequality gap. EMDEs are also impacted by external factors from weaker activity in major economies, sharp declines in commodity prices and tightening of global financial conditions. As this crisis has the potential to erase hard fought development gains for many countries, Middle-Income Countries (MICs), Fragile and Conflict-affected Situations (FCS) and Small States in particular, are experiencing a rapid decline in economic growth, which severely inhibits their ability to provide inclusive basic services and adequate social protection measures. Subsequently, poverty reduction has suffered its worst setback in decades and many developing countries are falling behind in progress towards the twin goals and SDGs.

Moreover, the pandemic is intensifying existing drivers of fragility and exacerbating instability in FCS settings as well as vulnerabilities facing small island developing states. Furthermore, with widespread gender gaps in human capital development, women are likely to suffer significant consequences of COVID-19, especially in the informal sector, where they constitute a large percentage of the labor force. This crisis underscores the significance of devising a short-term crisis response to help the most vulnerable groups and the economy weather the negative repercussions of the crisis, while creating the foundation for long-term development to support countries in building back better.

Because EMDEs are particularly vulnerable, it is critical to provide support aimed at strengthening their public health systems, reducing the short-term effects of the pandemic on economic activity and employment and, once the health crisis wanes, to implement reforms that reinvigorate robust, inclusive and sustainable growth.

As crises may create windows of opportunity for reforms, the WBG will have an integral role in assisting countries in identifying and implementing reforms that are sensitive to various political economies and
enhance institutional resilience. We acknowledge that the WBG has certainly exerted immense efforts towards implementing an exceptional response to an unprecedented crisis and believe that it is pivotal to maintain this momentum, while scaling up the WBG’s financial and technical support to countries beyond FY21. Building global coalitions that will aid in flattening the pandemic curve, narrow the digital divide and ensure that developing countries are not left behind in terms of the COVID-19 vaccines will be crucial. In this vein, we welcome and support the proposed WBG fast-track financing to countries for the purchase and deployment of COVID-19 vaccines to ensure that all countries, including the poorest and most vulnerable, have equitable access to vaccines. We are cognizant that the WBG has limited financial capacity and will be constrained financially beginning in FY22. As the WBG Approach leverages WBG comparative advantages and focuses on speed, scale and selectivity, we support leaning forward selectively in FY21, but encourage the WBG to conduct a comprehensive assessment of the WBG’s operational and financial capacity to deliver much needed assistance to countries in FY22 and beyond.

With regards to IBRD, we believe that the WBG needs to examine how best to use scarce resources, propose ideas of how it can maximize its current resources through partnerships, boost its mobilization and most importantly, have a contingency plan on how to deliver in the face of a protracted crisis past FY21. In addition, we expect that WBG operations should maximize impact, help accelerate recovery, strengthen resilience and place the derailed Twin Goals and SDGs back on track. We fully subscribe to the assertion that “exceptional crisis-related expenditure needs will leave most EMDEs with limited choices and difficult policy tradeoffs.” As external financing needs for IDA and IBRD countries are substantial, we would like to stress the importance of the WBG to continue serving all clients in addition to its focus on the poorest and the most vulnerable and fragile. Moreover, as many of our constituents are at or near their exposure limits, we would strongly urge the WBG to employ flexibility in formulating innovative solutions and apply the Bank’s entire toolkit in supporting these countries navigate through this extremely difficult period.

The crisis has also adversely and swiftly impacted the private sector, rendering millions unemployed, and pushing many SMEs out of business. The WBG, and particularly IFC and MIGA, must support the private sector in addressing the major impediments to trade, supply chains, and finance, considering that without robust mobilization of private sector investments and trade finance, markets and economies will never fully recover and many will remain jobless, thus jeopardizing and reversing hard-earned development gains. Nonetheless, the COVID response of IFC and MIGA in the MENA region was inadequate and below expectations.

IFC total trade finance in the region amounted to only $370 million of a total $6 billion in all regions, and only one COVID-19 Facility Investment with less than 3% of the IFC COVID-19 Facility own account commitments across all regions. The same applies to MIGA, which has yet to introduce any guarantee in the region through its COVID-19 response facility. We, therefore, urge both agencies to apply a more proactive and aggressive approach in the region, and take extraordinary measures to expand their portfolio, particularly within the context of a One World Bank Group COVID-19 response.

The indeterminate scale of the adverse impacts of COVID-19 requires not only innovative country differentiated approaches but necessitates swift global and harmonized action. We therefore welcome the joint call made by the WBG and IMF to the G20 and official bilateral creditors to extend the time frame of the Debt Service Suspension Initiative (DSSI) up to one year, while committing to broaden its scope as much as possible. Extending the DSSI to the end of 2021 will provide countries the essential fiscal space to respond to the effects of the pandemic. Nevertheless, while the DSSI has provided much needed breathing space for IDA countries, the situation in many of these countries remains tenuous with the risk of debt default looming.

Consequently, IDA countries in high debt distress could potentially benefit from the option of rescheduling loan-terms, while maintaining NPV neutrality to avoid intensifying the peaks in debt service burdens and
compounding the challenge of servicing their existing debt. Furthermore, strengthening coordination and standardization of DSSI processes will further optimize the gains expected from the DSSI. We also request that the WBG and other MDBs consider not charging commitment fees for projects that have been delayed or suspended due to the pandemic.

Additionally, Middle Income Countries (MICs) are also experiencing multiple concurrent shocks and are spending more on debt servicing than on severely overwhelmed public health systems, thereby limiting their ability to implement difficult reforms to mitigate the crisis and attain their development goals. Furthermore, poverty driven by the crisis may result in middle income countries housing 75% of newly poor, concentrated in urban areas and in the informal and manufacturing sectors. We, therefore, strongly welcome the call for including countries outside the parameters of the DSSI on a case-by-case basis as this will help them avoid defaults as well as strengthen their resilience and hasten their recovery from COVID-19.

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Furthermore, we welcome ongoing efforts by the WBG to support countries in improving debt transparency and strengthening their capacity to manage debt towards achieving sustainable and transparent borrowing and investment practices. Defining and implementing the performance and policy actions (PPA) under the Sustainable Development Finance Policy (SDFP) must promote government ownership and consider country absorption capacity. The borrowing ceiling under the PPA should also integrate the impacts of the crisis and debt that may generate economic returns.

The challenge of rapidly rising debt illustrates the importance of striking the appropriate balance between meeting development goals and maintaining debt sustainability. Debt can be positive if optimally utilized and thus is critical for development. To ensure that debt is used to boost growth and productivity, countries will need to rebalance the composition of expenditure toward growth-enhancing and high-quality capital investment, while maintaining well-targeted social spending. We, therefore, encourage the WBG to expand its support for improving the efficiency of public spending through strengthening public investment management frameworks and improving institutional capacity for debt management. As higher growth can improve debt dynamics, debt that finances productive social and infrastructure spending can result in higher productivity that could offset debt servicing costs and help balance risks to debt sustainability.

With regards to IDA voting rights, the review is a multifaceted issue that should balance the financial and cooperative nature of IDA. We, therefore, welcome efforts made by the Executive Board to continue enhancing their collaboration and commitment towards reaching consensus that is aligned with the guiding principles. We look forward to the update on implementation of the working group by Spring 2021.

Finally, regarding the 2020 shareholding review, we believe that no shareholding realignment is warranted in this review for several reasons. The current global economic context is not conducive and the subscription process to the 2018 capital increase is ongoing for IBRD and has just commenced for the IFC. We feel that it would be preferable to revisit the issue in the future as we will gain better clarity on the volume of unsubscribed shares then. In the interim, we should consider this review concluded and focus on the crises at hand and its related priorities.