DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)

ONE HUNDRED AND THIRD MEETING
WASHINGTON, DC – APRIL 9, 2021
(VIRTUAL)

DC/S/2021-0012
April 9, 2021

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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The COVID-19 pandemic has exerted a massive toll on both the global economy and country healthcare and social protection systems, with disproportionate effects on the poor and vulnerable, while triggering a deep global recession with vast socio-economic impacts. Containment measures necessary to address the health crisis, combined with ensuing reduced economic activity, have culminated in an unprecedented combination of negative shocks in many emerging markets and developing economies (EMDEs), particularly in the Middle East and North Africa (MENA) region. We expect this to result in lasting scars, including through record capital outflows, erosion of human capital and fragmentation of global trade and supply chains.

Most developing countries at all income levels are facing enormous pressure to increase public spending to manage the adverse impacts of the pandemic at a time when many were already facing internal challenges, including debt distress and limited fiscal space. The most severely impacted economies are those that rely heavily on tourism, services, investment, and informality. Per capita incomes in the majority of EMDEs declined sharply in 2020, placing millions back into poverty and widening the inequality gap. Consequently, poverty reduction has suffered its worst setback in decades and many developing countries are thus falling behind in progress towards the twin goals and Sustainable Development Goals (SDGs).

EMDEs are also negatively impacted by external factors including weaker activity in major economies, sharp declines in commodity prices and remittances and tightening global financial conditions. As this crisis has the potential to erase hard fought development gains for many countries, we maintain that it is crucial to continue supporting countries in diversifying their economies towards multiple drivers of growth. Moreover, Middle-Income Countries (MICs) are experiencing a rapid decline in economic growth aggravated by rising debt levels, which severely inhibits their ability to provide inclusive services and adequate social safety nets.

Given the challenges facing small states, including small island developing states, which are rendered more vulnerable by the pandemic, due to their limited economies of scale, we believe that innovative public and private sector solutions are needed to boost their resilience and diversify their supply chains. In addition, Fragile and Conflict Affected Situations (FCS) are disproportionately impacted by the pandemic which is intensifying their existing drivers of fragility and worsening instability. Furthermore, due to the pandemic’s adverse consequences for women and youth, we believe that expanding female labor force participation and addressing rising youth unemployment will necessitate a more tangible action plan from the World Bank Group (WBG) to promote women’s economic empowerment and enable job creation during the recovery phase.
In this context, we welcome and support the Bank’s strategy for Green, Resilient and Inclusive Development (GRID) to address the implications of the COVID-19 pandemic and believe that enhancing resilience, inclusiveness and sustainable development are all necessary components for a continued recovery and revival of economic growth. It will also be important to demonstrate what the WBG will be doing differently to operationalize its GRID strategy to unlock countries’ growth potential. In essence, this crisis underscores the significance of formulating a short-term crisis response to help the most vulnerable groups and the economy weather the negative implications of the crisis, while creating the foundation for long-term development to support countries in building back better. We therefore urge the World Bank Group (WBG) to keep working towards achieving inclusive growth and poverty reduction in countries, while prioritizing job creation. We believe that this could be achieved through exploring all viable opportunities for expansion of infrastructure and energy sources as well as investment in digitalization to bridge existing gaps in public service delivery and financial inclusion. We would also like to reiterate the importance of using a diversified and country-tailored approach and utilize locally available resources while strengthening the domestic energy mix in countries.

An additional extremely negative impact of the pandemic is the increased number of people threatened by food insecurity, with protracted impacts expected to last well beyond 2021. The pandemic has also intensified pre-existing high levels of food insecurity, which is a structural challenge that demands both short and long-term support to address food availability, access and utilization. We, therefore, urge the WBG to provide a programmatic and holistic approach to improving food security that balances emergency relief with long-term development impact. Given that the MENA region is the most water scarce region in the world, with over 60 percent of its population living in and 70 percent of the region’s GDP generated in areas with high or very high surface water stress, this will need to be combined with support to the water sector.

Even prior to the COVID-19 pandemic, the MENA region had a low score on the World Bank’s Human Capital Index (HCI), whereby a child born today would only be 57 percent as productive relative to a benchmark of complete education and full health. Therefore, we cannot discount the additional negative effects of school closures and exacerbated learning poverty, with OECD estimates that nations’ growth may experience a 1.5 percent lower annual GDP for the remainder of the century. To advance on these agendas, we must act swiftly, innovatively, and adopt a multi-sectoral approach supported by actions and financing.

Regarding International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) engagement with the private sector within the context of GRID, we welcome and support an integrated approach to promoting a strong and durable recovery, which means that engagements should be strategic and programmatic, not sporadic, or transactional. They should also be evidence-based, reflecting accurate needs and priorities of countries in achieving an effective and rapid recovery. Accordingly, we expect the development of a strategic roadmap for each region, encompassing clear objectives and engagements in priority sectors. Furthermore, IFC and MIGA recovery packages should complement WBG strategic priorities for each region, to ensure that the recovery is consistent and equitable across all regions. Although the IFC portfolio in the MENA region has witnessed a pronounced exposure decline over the last three years, we welcome IFC’s recent scaled up efforts to address its low level of engagement in MENA and minor utilization of the Fast Track COVID-19 Facility.

With MENA being categorized as a priority region for IFC and in foremost need of private investment, there is a clear demand for heightened management attention, new institutional initiatives, and stronger staff incentives. We would also urge the WBG to devise options to fast-track upstream work under the Cascade approach to leverage private capital mobilization for strategic infrastructure and services projects, which we believe to be grossly below the targets agreed upon in 2018. This would generate jobs and inject private investments into economies of the region, without burdening governments with additional debt.

Additionally, with regards to MENA’s representation in the staff of the WBG, we welcome the progress made under the diversity and inclusion agenda of the WBG human resources strategy. Nevertheless,
representation from the MENA region, particularly from under-represented countries in the region and at the managerial level are still lagging. We, therefore, urge the WBG to devise strategies and initiatives to raise the representation of staff from the MENA region at the managerial level and increase the number of staff from underrepresented countries.

As the global recovery has been incomplete and unequal as the gap between advanced economies and emerging markets is widening, providing access to financing for developing countries will be imperative to accelerate their economic growth and convergence. With external financing needs for IDA and IBRD countries being substantial, we welcome advancing IDA20 and would like to stress the importance of the WBG continuing to serve 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 at a time of heightened financing needs, we would strongly urge the WBG to employ flexibility in formulating innovative solutions and apply the Bank’s entire menu of financial instruments including, Development Policy Loans and Guarantees, to support these countries in navigating through this extremely risky period.

With regards to World Bank Group and IMF support for Debt Relief Under the Common Framework, we feel it could be beneficial to reflect how IDA countries could finance priorities under GRID while addressing their fiscal and debt vulnerabilities. The WBG needs to broaden its support to countries’ productive sectors to increase their contribution to GDP and job creation. Moreover, WBG operations should further demonstrate the linkage between intended results and their contributions in addressing the drivers of debt and enhancing sustainable and inclusive growth. We, therefore, support the extension of the Debt Service Suspension Initiative (DSSI) for six months until the end of 2021 and have concerns that a six-month extension of the DSSI for those countries that have (or have requested) an IMF Upper Credit Tranche-quality arrangement, may prevent some countries from participating, especially those most in need of increasing their fiscal space to respond to the crises. It is also crucial to explore measures to address the challenges impeding countries from fully benefiting from the DSSI.

Many Middle-Income Countries (MICs) are facing severe debt distress, which is hindering both their growth prospects and ability to appropriately respond to the adverse effects of COVID-19. MICs are also spending more on debt servicing than on assisting severely overwhelmed public health systems and providing sufficient social safety nets to their most vulnerable. We, therefore, strongly support the call for including countries outside the parameters of the DSSI on a case-by-case basis as this will help them avoid defaults, boost their resilience, and expedite their recovery from the crisis.

The challenge of rapidly rising debt illustrates the importance of striking the proper balance between achieving development goals and preserving debt sustainability. To achieve this symmetry, countries will need to rebalance the composition of expenditure toward growth-enhancing and high-quality capital investment, while maintaining well-targeted social spending. Subsequently, it would be valuable for the WBG and IMF to provide policy guidance on principles to help determine the optimal mix of public investment and growth friendly fiscal consolidation that is underpinned with a sound medium-term fiscal framework. We, therefore, encourage the WBG to broaden its support for enhancing the efficiency of public expenditure through strengthening public investment management frameworks and improving institutional capacity for debt management.

Capacity building efforts should be country specific and aim to produce viable policy recommendations for client countries. Capacity development will also need to have a stronger emphasis on areas related to crisis prevention, including debt reporting, and managing near-term refinancing risks. Moreover, as national and local governments own an immense wealth of assets, mostly in the form of undervalued real estate and SOEs, we would urge support for improving public wealth management through improving governance and institutional frameworks to help unlock these vast resources for increased spending on infrastructure, inclusive service delivery and boosting resilience.

Regarding Vaccine Access, Financing and Distribution, the emergence of recent COVID-19 variants is expected to prolong and threaten countries’ response to the pandemic, along with the associated negative
spillovers and trade-offs taken by countries by diverting severely constrained resources towards the COVID-19 response. Hence, uncertainty about the pace of recovery is remarkably high, particularly as access to vaccines remains extremely uneven, both across and within countries. To-date, only 17 percent of MICs and 2 percent of LICs account for most of the vaccine deployment. We are extremely concerned by these low figures and urge timely action to help developing countries acquire the vaccines through use of the WBG’s convening power and partnerships. This would certainly contribute to ensuring impartial and equitable access and distribution within and between countries.

Furthermore, the WBG should provide technical assistance towards ensuring fair and competitive pricing in bilateral contracts for vaccine purchases by countries of all income levels, including MICs, which face capacity constraints and have been hit hardest by the pandemic. We encourage the WBG, particularly IFC and MIGA, to develop a pipeline for local manufacturing capacity of the vaccine and other relevant pharmaceuticals in countries with demand, ownership, and potential for private sector interventions. We must learn lessons from this pandemic to reinforce our long-term goal of strengthening health systems.

In closing, the only way to overcome this crisis is for all countries, stakeholders, and the international community to learn from, come together and help one another end this pandemic, while developing the foundations for a more resilient, inclusive, and sustained recovery for all.