DEVELOPMENT COMMITTEE
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on the
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The pandemic is far from being over. The recovery is uneven, and there is absolutely no room for complacency. Moreover, business closures and supply chain disruptions have been compounded by the inflation concerns. We are particularly worried by the plight of FCV countries as well as of the countries heavily dependent on tourism, remittances and food imports.

Looking backward, we must acknowledge that the World Bank's performance during this crisis has been in many aspects exemplary. The Bank acted swiftly and resolutely, mobilized and redeployed immense financing, designed and rolled out new analytical products. Our commendations must be extended to staff and Management of the World Bank.

We are very pleased to see that during this difficult time Management, including President Malpass, were willing to engage in frontier areas and countries. We are looking forward to the Bank continuing relying on this approach in its decision-making process and as more countries are finding themselves in situations of political and social fragility we encourage the Bank to step up even further in prioritizing people's needs and finding ways of addressing the developmental challenges in a consistently non-politicized manner. In this vein, we urge the Bank to further expand its global presence in order to initiate a dialogue with, and to offer assistance to the countries still largely excluded from the global aid architecture for some political reasons.

As some countries cautiously return to normalcy, and are able to deal with new waves of disease in a more targeted way with less recourse to drastic disruptions and lockdowns, while others are still struggling with the severe income losses, we must focus our attention on both goals, that is crisis response and longer-term planning.

1. <u>WBG Financing for Green, Resilient and Inclusive Development – Towards a Post Pandemic Approach</u>

This item on our agenda is a direct continuation of what we discussed six months ago, so our views on the proposed paper remain consistent with what we underscored when the original GRID approach document had been drafted by the Bank. It was seen as an intermediate product and suggested some refinement and adjustment in order to align it with the common goals and priorities of all members, but first and foremost, with those of the client countries.

Many borrowers are still facing rising COVID-19 caseload, hospitalization and mortality rates. Under these circumstances the Bank should not discontinue its emergency assistance programs, and climate finance should remain subordinated to the immediate response and recovery needs.

The WBG had always been distinguished by its unique ability to accommodate divergent priorities of its members and to find balanced solutions. The Bank has the capacity to integrate the climate agenda championed by many advanced economies, within the broader development framework of its borrowers. Still, we need to be very careful in order to keep this delicate balance. The green policies put forward by the Bank can be efficiently implemented only when fully internalized by the borrowing countries, and cannot supplant its overarching development mandate which served it well for many decades.

The new paper makes a clear case for such a balanced approach. It demonstrates that the decarbonization agenda is a costly exercise. According to its estimates, just a few, although very large, countries may need literally trillions of dollars to accomplish this challenging task, which is well beyond the scope of feasible assistance the global community may furnish. To expect that the client countries will dramatically reroute its developing finance from the traditional areas like infrastructure, energy, education, healthcare, and social assistance, toward the decarbonization and greening, is in most cases plainly unrealistic. We cannot agree more with the observation of the paper that "[a]ggressive decarbonization … requires technological and commercial breakthroughs". Pending these breakthroughs which nobody can confidently predict, the traditional energy policy, that is prioritizing development of grid-connected baseload generation more often than not fossil fuel-based, has no viable and cost-effective alternative in the great majority of developing countries.

That is why the greening of the Bank finance should be pursued in a gradual and attenuated way, with as little disruptions and unilateral disengagements as possible. For instance, while pursuing renewable solutions in some countries, the Bank with its cutting-edge expertise might do a lot in helping countries to upgrade their coal- and fuel oil-based generation along the most sophisticated standards and requirements, and to expand its assistance in the natural gas-based energy.

We are encouraged by the references to the JET agenda in the paper, as we see it as the most adequate expression of the development needs of the least advanced economies, including those in Africa. The inclusivity component of the GRID approach deserves much more attention because the economic repercussions of COVID-19 are going to push poverty levels further up.

Beyond energy, infrastructure is another key element of development finance, and for many reasons. Inadequate infrastructure is routinely referred to as the key stumbling block to all aspects of development, including trade, agriculture, processing industries, and urbanization. By their nature many infrastructure investments entail numerous externalities and are least likely to be undertaken by the private sector alone. We suggest that the Bank revisit and reinvigorate its infrastructure investment approaches as fully consistent with the GRID vision.

In this context, we fully concur with the emphasis the paper puts on two closely interrelated issues, that is domestic resource mobilization and private capital mobilization.

As for the domestic resources for the public sector, modernization of state finance and tax systems is the key. Mere expansion of the number of taxes and raising tax rates is often less efficient than broadening the tax base and making the full use of modern digital technologies in enforcing compliance. We have learned this lesson and invested to upgrade our tax and fiscal management systems in order to use all state-of-the-art solutions modern technologies can offer, and to make compliance easy, client oriented, transparent, and affordable. We stand ready to share our experience with others, including through the Bank's intermediation. Our experience shows that digitalization is most efficient when it encompasses the entire spectrum of government administration, so state services are delivered timely and in a client friendly way.

Turning to private capital mobilization, we note that the indirect role of the Bank is very likely to be even more promising than its direct contribution via guarantees and co-financing. Institutional reforms, when properly designed and implemented, attract incomparably more private capital than all donors can provide. That is the experience of many successful reformers, and the Bank's mission is to channel this knowledge to those who need it.

2. Prevention, Preparedness, and Response: The WBG's Role in Future Crises

First, the most comprehensive preparedness to future crises of whatever nature is undoubtedly the higher level of development produced by strong economic growth. The more affluent a country is, the more resources it can marshal at short notice and deploy toward emergency needs. Thus the countries with advanced technologies were able to mobilize their pharmaceutical sector to develop new vaccines and to launch massive production of those vaccines in unprecedentedly record time. With their developed energy and transport infrastructure, and with multi-billion private sector investment in the IT sector, these countries were able to withstand lockdowns without catastrophic disruption of livelihood for millions that were forced to stay home.

Therefore, it can be argued that the traditional role of the Bank as a supporter of development is its greatest contribution to resilience and preparedness. Again, helping countries to upgrade their connectivity and food systems, to make their energy networks sufficiently reliable, to ensure universal access to transport infrastructure and to modern digital services, seems to be the best preparedness assistance the bank can offer.

Second, our response to future crises hinges on two sets of unknowns.

There are unknowns of "when" and "where", typical to familiar crises, be it floods, earthquakes, bank crashes, civil disturbances and so on. We have knowledge and experience about what is likely to happen should these unfortunate events occur, and what are the most tested ways to address these challenges. To some extent these events are preventable, by prudent policies and careful investment. The Bank for years has played a vital role in assisting countries in both areas.

The COVID-19 crisis, however, included a totally different unknown of "what", that is about the nature of the virus, the way it transmits and attacks, about the means to deal with it, and about the composition of risk groups. These types of unknowns cannot be realistically expected to be taken care of by any amount of preparedness and prevention.

What can be possibly done is to design a more cooperative approach to dealing with these unforeseeable unknowns, and the Bank with its convening capacity can explore these new venues.

These new approaches can be possibly considered in areas like vaccine development. It should be recalled however that the vaccination deliveries to many developing countries remain immensely behind their basic requirements, so the Bank cannot afford to be too selective. In fact, the story of vaccine eligibility criteria several times amended by the Bank, calls for a new way to organize global efforts in this area, including various financial and regulatory aspects, so the global coordination will be more orderly should the need for a new vaccine or similar medical product arise. As far as our contribution is concerned, we do our best to facilitate access to vaccines developed by our pharmaceutical sector, over 70 countries are already taking advantage of these vaccines to stop the spread of COVID-19.

Third, the role of insurance-type instruments as a means to deal with large-scale crises should not be exaggerated. By their very nature, insurance merely redistributes risk, and is efficient only when risk events are random and small relative to the combined risk-bearing appetite. They cannot substitute direct assistance in the cases of system-wide events, so the borrowers should be cautious when applying their financing envelopes toward this line of Bank products.

Finally, on the two background papers covering IBRD and IFC Shareholding Review, as well as IDA Voting Rights reform, we would like to confirm that we are in agreement with the consensus reached by the Executive Board. Thus, we have to complete the Review at this stage, and prepare for the next one in 2025. The Board was successful in reaching a broad-based consensus on the IDA Voting Rights reform, and we should support the approach reflected in the described document. We believe that the new voting rights system has a potential to incentivize donor contributions, long-term financial sustainability of IDA, and availability of resources for IDA clients.