Statement by

His Excellency Abdulla Hassan Saif
Minister of Finance and National Economy
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Our agenda for this meeting includes items of critical importance for the development agenda. We commend the analytical work the Bank has undertaken, having taken into account the deliberations of our Executive Directors. We hope this will contribute to a better understanding of the policies that need to be pursued in order to move the agenda forward.

The first topic, on aid effectiveness and financing modalities, is a timely follow-up of our discussion on this important issue in Dubai. The documentation presented to us provides a good synthesis of the work that has been done and some of the issues that we need to address. It underscores that adequate, predictable and more effective aid flows are critical to achieving the Millennium Development Goals.

What the analysis also shows is a stronger new aid framework is emerging manifested in better policy environment in developing countries, stronger macroeconomic policies, more focus on poverty reduction based on elaborate strategies, closer link of aid to good performers and stronger alignment with country policies and programs. Yet the performance on aid delivery has so far been disappointing, and that even with good policies many low-income countries will not have adequate resources to undertake the infrastructure investments and social spending necessary to achieve growth and poverty reduction.

There are varying estimates of the additional aid that could be used productively from upwards of $30 billion. But the magnitude and quality of aid forthcoming has been far short of expectations. Since Monterrey aid levels have risen by $16 billion. The bulk of this, however, is due to the weakening dollar and inflation in donor countries. Much of the flow has been directed to few countries and focused on technical assistance.

An interesting analysis is presented on the issue of absorptive capacity showing the complex and dynamic aspects of this concept and how much more is needed to learn on it. As shown, many countries don’t have absorptive capacity constraints and indeed according to Bank studies many countries are well placed to manage a doubling in aid without reaching serious capacity concerns. Other countries, however, encounter significant obstacles to aid effectiveness and there is a need to formulate clear policies to address their constraints. I share in this respect the view that the need to raise absorptive capacity should not be an excuse for holding up on aid mobilization.

In meeting the pressing need for more aid we underscore the view that the simplest way is for donors to increase their aid budget and set a clear timetable to reach the 0.7 percent of gross national income target and we commend those that have already done so. Other mechanisms for new financing to improve flows should certainly be explored and we appreciate the thorough analysis that has been conducted on various issues and
considerations involved. On the two main mechanisms being considered, we are doubtful of the potential for global taxes and note the conclusion that none of the proposals is free of serious weaknesses. As pointed out in the analysis, these take time to implement and are likely to face political opposition, may have adverse economic effects and it is unlikely that they would generate significant revenue.

The front-loading mechanism through the proposed International Finance Facility is much more promising, especially in providing for meeting the immediate needs and for better predictability of aid flows. This should be pursued and further work carried out on the many technical issues. We share the concern on the long-term impact of aid flows and on the possible negative implications for the Bank if the IFF were to be part of its legal and financial structure. We also need to ensure the involvement of recipient countries in the decision making on allocations, major policies and operating principles.

Coming to the second set of issues on our agenda it is indeed appropriate that growth and private sector development should become priority areas for analytical work and policy action. Mobilization of greater private sector activity in this area is critical for achieving the poverty reduction and other social goals that are the focus of our global efforts. We commend the analytical work which the Bank has been increasingly undertaking in these fields. We urge that continued attention be paid to the lessons of actual country experience on how to deal with the complex issues involved.

The recent findings on country experience confirm the crucial role of institutions and policies in achieving productivity and income growth. They demonstrate that a better investment climate can benefit the poor. More attention is needed on the microeconomic aspects of investment climate reform. In this respect we note that the World Bank Group has been at the forefront of investment climate reform effort. We support the focus on country specific and firm-level work that can be put into practical use and serve as a guide for policymakers. The document gives a good review of the Bank’s work on diagnosing constraints to private sector development, reform experiences, monitoring results, as well as new lending operations. One of the interesting findings of this work is that incremental reforms can have an impact even before comprehensive reform is implemented. Results can be achieved by focusing on specific constraints which hamper business activity.

In looking at the issues posed on future Bank work, we see considerable merit in extending Bank advisory and capacity building services to countries not just in conjunction with lending programs and indeed to non-borrowing countries. Experience has shown that improving the investment climate can contribute to income generation, employment and poverty reduction as well as to attracting capital flows. On results measurement, the Bank is paying greater attention to monitoring progress on investment climate reform. We encourage further efforts in this direction. Monitoring has proved useful for the implementation of the reform agenda, fits into the Bank’s results based framework and into our global monitoring program. There are useful lessons here for countries with limited capacity to implement comprehensive reforms.
It is increasingly evident that private sector development is essential in order to meet the huge demand for **infrastructure services** and the development of infrastructure capacity. This is an area of crucial importance to the achievement of many of the Millennium Development Goals, including the targets on health, water, sanitation, education and gender. It also has a broader overall impact on growth and poverty reduction. In comparison with the huge investment needs there is a large shortfall in infrastructure funding as is highlighted in the document. The financing needs range between 7-9 percent of the GDP of developing countries while actual average investment has historically been half of these levels. This represents a major challenge, including for the respective roles of public and private sectors and the development institutions.

Attention is rightly focused on the balance between public and private sector inputs and the emergence of new public-private partnerships in infrastructure. In the 1990s high hopes were pinned on foreign investment for infrastructure development. Whilst initial levels rose sharply, they fell back later in response to experience on the returns being achieved on the investments, and in particular the predictability of the pricing of utilities’ services. This issue remains with us and has significant political implications for many countries. Whilst it is now clear that the public sector remains the dominant player in the provision of infrastructure services, there is an increasing array of experience of private sector participation which needs to be nurtured and broadened.

The Bank Group can make a tangible contribution to country efforts. It has recently embarked on a much more active role. The Infrastructure Structure Action Plan, which was launched in mid last year, seems to be well on track. We commend the efforts as detailed in the paper tabled for our discussion. The contribution of the Bank to bridging the funding gap has been scaled up to an additional more than $1 billion. This remains modest however in relation to the level of demand and may also be affected by the rate of return the Bank expects on its infrastructure investments.

Several issues have been raised in connection with the Bank’s approach and implementation of its infrastructure plan. The issue of cost recovery of infrastructure services remains a complex and politically sensitive issue. This links also to the issue of how much public sector investment can be sustained while maintaining fiscal balance. We endorse the further efforts by the Bank and Fund to look for ways of safeguarding fiscal balance while introducing some fiscal flexibility for public infrastructure investments. Further work is also needed to meet the demand of sub-sovereign entities and at the same time satisfy adequate risk management for the Bank’s finances. Scaling up of the Bank Group’s contribution to the funding of public sector infrastructure investments should remain high on the agenda. We strongly urge in this respect that additional support for infrastructure should be an important priority for the current IDA-14 replenishment negotiations.

We appreciate the comprehensive Progress Report on the **voice issue** and commend the Board for its extensive deliberations. As recognized at our meeting last April, this remains a major challenge. In considering this issue we hope we will not lose sight of the basic objective set by the Monterrey Consensus to which we have adhered, namely to
enhance participation in the decision making of our Bretton Woods institutions. The task is a complex one as the papers tabled by the Bank have demonstrated. Efforts should move forward on all fronts that offer the prospect of improving the participation of developing countries in the decision making process. This includes issues such as the amount of say client countries have in determining development strategies, programs and projects; whether decentralization leads to a better understanding of country positions and views; the enhancement that might be expected from improving the capacity of countries and their representatives to articulate and promote their positions; and, more importantly, the vexed issue of the structural issues, especially the voting power in the two institutions.

The Progress Report presents a good coverage of the voice issues and cites a number of measures that have been taken so far which we appreciate. It would be useful to have an assessment from time to time of the impact such measures have actually made in enhancing participation in the decision making process, bearing in mind that this is likely to be a medium to long term process. We would also expect there to be realistic evaluations of the potential of new measures that might be taken.

On the issue of developing country voice in IDA decision making process we note the attention given to the payment of full IDA subscriptions as a means of enhancing IDA clients’ role in the decision making process. This is something we have called for and we welcome the response of many countries. Attention should also be given to how much this incremental increase in subscriptions would contribute in terms of voice, given the current structure of the IDA decision-making process. It is useful to recall in this respect that we expected consideration to be given to the broader issues that our Dubai communiqué mentioned on the IDA14 occasion. We note that an attempt has been made to cover this issue and we look for more elaboration on this in the future.

Finally, on the debt sustainability framework for low-income countries, we fully endorse the efforts to put in place a framework that would ensure the financing needs of low-income countries are met on terms that would not impose future unsustainable debt burdens. The deliberations of the Executive Directors and the IDA Deputies have gone a long way in analyzing the operational and policy aspects of a possible framework. The latest documentation and Board discussion on the topic revealed a number of issues that need further work.

We look forward to this work being completed on remaining issues, including on how to avoid mechanical judgment in assessing country debt sustainability, whether and how to take account of domestic debt despite the data difficulties, and how to address negative exogenous factors that might arise down the road. We note the divergent views on how the Bank and the IMF are expected to collaborate on the debt sustainability analysis process, especially on the prospect of the two institutions preparing different reports to their Boards and possibly giving different signals. In considering how debt sustainability would be addressed by the arrangements contemplated for IDA14 we also expect that he implications for all IDA borrowers should be taken into consideration.