Statement by

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It is a pleasure to attend this year’s Annual Meetings in Singapore, a uniquely successful economy. My whole-hearted thanks to the authorities for their hospitality.

The agenda before us today reflects the complexity of development issues as countries strive to attain the Millennium Development Goals (MDGs). I will first comment on the two main items, and then selectively express my views on the Progress Reports. Before I do so, however, I would like to say a few words about the current situation in Lebanon and in Palestine. Saudi Arabia has led the effort to help rebuild Lebanon and to relieve the suffering of the Lebanese people through the provision of substantial humanitarian and reconstruction assistance. Given the enormity of the tragic situation in Lebanon, I encourage other countries, particularly those that have a special relationship with Lebanon, to strengthen their efforts at assistance. I also welcome the intention of the World Bank to establish a Trust Fund for Lebanon to support the emergency recovery efforts. Saudi Arabia has also continued to provide assistance to the Palestinian people to help improve their social and economic well-being under very challenging conditions. I urge the World Bank to maintain its long-standing assistance to the Palestinians.

Saudi Arabia’s assistance to Lebanon and Palestine is but one example of our well-established tradition of providing substantial assistance to developing countries. Indeed, its development assistance significantly exceeds the UN target of 0.7 percent of GNI, and accounts for the largest share of non-DAC donor assistance.

**Strengthening World Bank Group Work in Governance and Anti-corruption**

There are many proposals of critical importance that have been put to us with the aim of strengthening Bank Group work in governance and anti-corruption. Our Committee, in my view, can best deliver strategic guidance to the Bank Board and Management by focusing on three issues: first, to place these efforts in the broader context of the Bank’s developmental mandate; second to review substantive dimensions of the “broad strategy” that we asked for in April; and, third to suggest where further work is needed in order to ensure successful implementation of the strategy.

On the broader Bank mandate, the full title of our Committee confirms its focus on the transfer of real resources to developing countries. The MDGs of 2000 and the Monterrey Consensus of 2002 have placed real resource flows in a widely supported framework that stresses mutual accountability by industrial and developing countries, as well as the international financial institutions (IFIs). Developing countries in particular need to continue implementing reforms aimed at preserving macroeconomic stability, building a more favorable investment climate, improving physical and social infrastructure, and generally working to ensure broad-based market-led growth. For their part, the donor countries have a responsibility to harmonize their aid to improve its effectiveness and reduce costs of doing business, as well as to increase its volume. Industrial countries have an especially important responsibility to provide greater market access to the products of developing countries and to remove distorting subsidies. All
these actions indeed deserve support by enhanced flows of real resources; improving domestic resource mobilization and deployment; stimulating flows of private equity and sustainable debt; securing more, and more effectively used, official aid, including from IFIs; and capturing the considerable if elusive potential from improved market access.

Seen in this broader context, the Bank Group’s governance and anti-corruption work is not an end in itself. Rather it is a means to advance the wider developmental agenda. I retain the view that while improved governance is important for success in development, the central challenge is to be more effective in using aid in an environment of greater accountability and transparency. This implies actions by recipient countries to strengthen national accountability systems - a long-term task where the Bank Group can play a useful and supportive role in assisting those clients who request its help.

How, then, do we assess the broad strategy that has been presented to us? There has indeed been an intensive debate on the subject since April. In my view, no material effect will be achieved in improving government practices at the country level if we fail to ensure ownership by our partner countries. The approach adopted has to be appropriately pragmatic and attentive to the diversity of countries, including diversity in capacity, and respect for local cultures. Working with partner countries who seek the Bank Group’s support should therefore be the highest priority. This necessitates recognition of three principles. The first is staying within the Bank’s non-political mandate and concentrating efforts in areas where its professionalism and expertise is recognized and accepted. Second, the Bank should not associate itself even indirectly with the political conditionality of bilateral donors. Third, it is the official government interlocutors who are the Bank’s focal counterparts and it is most effective to work through them. With their informed consent, consultations with civil society, including potential project beneficiaries, can of course take place, but extreme caution will be needed to preserve an even-handed approach that does not interfere in domestic politics, which are by nature antagonistic. Failure to address these principles would not only cause reputational risk to the Bank’s independence and technical professionalism, but also place its staff in the field at risk of being perceived as agents of outside forces. All of this must take place in the context of not undermining the Bank’s poverty reduction mandate and its efforts to facilitate implementation of the Monterrey Consensus, which implies a continued presence in countries with weak governance.

In April, our Committee had also asked for actionable and disaggregated indicators. But I still see a focus on perception-based assessments and integrated reports, which are difficult to apply objectively and transparently across a wide range of diverse countries.

What next steps are therefore needed to operationalize the strategy successfully?

I believe four steps should be taken: (1) Greater consultation with the countries likely to be impacted by the strategy, in order to determine what are their concrete priorities for assistance in this challenging area, and to obtain their support for help from the Bank in realizing them. To avoid entanglement with local politics, the Bank should be very cautious in supporting supposed “champions” of good governance whether inside or outside government. For the same reason it should also be very cautious in its relationships with media, which should be limited to outreach activities relating to the Bank operations in the country, particularly in relation to governance and anti-corruption. (2) The importance of the role of the Bank’s Board, as representative of the
shareholders, particularly if any financial disengagement or scaling down is proposed by Management. (3) Further work on development of clear and actionable indicators that can be applied equitably. (4) Presentation by Management to the Board in the context of annual strategic planning work, of a fuller estimate of needed staff and other resources and how they, if necessary, will be redeployed.

I believe we all share the view that good governance is both a contributor to and a reflection of successful development. I hope my remarks will assist in generating a consensus whereby the Bank’s Board and Management can carry the process forward in a pragmatic manner in line with the overall institutional mandate and avoid unnecessary polarization.

**Strengthening the World Bank Group’s Engagement with IBRD Partner Countries**

I now turn to the second item on the agenda: strengthening engagement with IBRD partner countries.

Let us first look at the broader picture. Middle-income countries are home to 70 percent of the world’s poor, and helping them attain the MDGs and address poverty generally is an essential part of the Bank’s mission. The weight of these economies in the global economy is also important. But they are also very diverse in terms of levels of development, resources endowments, socioeconomic attainment, need for market access and overall development plans and priorities. Given this diversity, IBRD’s engagement strategy needs to be multi-pronged, comprehensive, and flexible, especially in helping countries near the lower end of the income range.

As far as meeting the needs of middle-income borrowers are concerned, I look forward to hearing the views of their representatives. I will, however, make a few selective comments on the strategy that has been proposed. IBRD is the principal financial engine that drives the World Bank. If its lending stagnates, for whatever reason, then it may reflect lost opportunities to assist partner countries, since financing needs remain large. There are also implications for IBRD’s longer-term financial soundness and related questions about trends in the administrative budget, as well as how the question of net income transfers can be addressed prudently. At what lending levels can the IBRD generate enough income while maintaining a healthy equity-to-loans ratio? What are the strategies to arrest negative transfers and then expand the loan book? At what level can net income transfers be sustained while ensuring the institution’s long-term financial viability? I believe these larger issues need further exploration by the Bank’s Board and Management as part of annual strategic planning exercises.

I note and welcome a number of positive elements in the proposed strategy, including on blending arrangements, local currency lending and sub-national financing, and stand-alone knowledge, treasury, and debt management services. Also welcome is the recognition that simplification of internal Bank procedures remains on the agenda, and that there is recognition that pricing of IBRD loans needs to be made more attractive and transparent. I also appreciate the attention to better capturing the inter-institutional synergies within the Bank Group, which is in line with the views we have expressed in the past. I also find the initial thoughts on catastrophic risk insurance to be intriguing. I look forward to the result of further work on this concept.
That said, I have some reservations about three other issues. On transaction costs, and listening to what I hear from borrowers, there remains a need to reduce the non-financial costs of doing business. Enhanced use of country systems could help achieve this, while concurrently having a role in strengthening institutional capacity in client countries. We hope that shareholders can reach consensus on moving ahead more effectively in this area while addressing legitimate concerns about control systems and fiduciary responsibilities. On stand-alone knowledge services, I do not believe it is very realistic to promote this product line as an income generating activity. The Bank needs to differentiate itself from private consulting firms. It should provide fee-based services following strictly a demand-based approach while continuing to offer technical assistance, both bundled and unbundled. Such services should be provided at cost, bearing in mind that they are the only services non-borrowing developing countries get from the Bank. I might add here that for thirty years Saudi Arabia has availed itself of reimbursable technical cooperation with the Bank. This is so because we recognize the Bank’s comparative advantage in its ability to draw on worldwide operational and advisory experience and deliver objective advice, and do so in a low profile and confidential manner when so requested. Finally, on global public goods such as combating infectious diseases, reducing greenhouse gas emissions, and preserving biodiversity, while I recognize the interest middle-income countries have in such issues, they also by definition involve both developed and low-income countries. I think a broader perspective and perhaps a separate discussion are needed. In the meantime, I hope to see further progress reflected in individual country partnership arrangements.

An Investment Framework for Clean Energy and Development: A Progress Report

When we commented on the predecessor of this energy and development paper in April, we stressed that this was a complex issue and further consultation and analytical work was needed to determine where there was broad consensus for moving ahead. We made four basic points: (1) noting the importance of energy for development, we urged the Bank Group to help poorer countries better address the need for modern energy; (2) suggesting realism going forward given that the main sources of energy for the next few decades would inescapably remain a combination of coal, gas, and oil, we said the Bank should focus on helping countries produce energy in a clean and technically efficient manner; (3) we cautioned the Bank not to focus excessively on alternative energy sources that were not commercially viable; and (4) we warned that the Bank should not get out ahead of international negotiations on the contentious issue of global warming and how to adapt to it. We also called for broader consultations with all parties, including oil producers.

Turning to the paper now presented to us, I appreciate the work that staff has put into carrying the process forward, including the consultations held in Saudi Arabia and elsewhere. I maintain the view, however, that more work is needed before any firm decision is made on the way forward, particularly in relation to the proposed new financial instruments, which could pose reputational risks. Further, better identification is needed of potential synergies and tradeoffs between the three pillars of the framework.

I see Pillar I: Energy for Development and Access to the Poor at the heart of the Bank’s development mandate and assistance to countries in attaining the MDGs. I also view progress in this area as being dependent on mutual accountability – of countries to continue efforts at reforming their energy sectors, and of the international community, including the private sector,
to make well-targeted use of available financial instruments. A complementary challenge is to ensure that new technologies, including those for cleaner burning of fossil fuels, and those using alternative energy sources, be accessible and affordable to developing countries and especially their poorer citizens. I hope our Committee can broadly endorse this approach.

On Pillar II: Transition to a Low Carbon Economy, I still see the need for further work and therefore cannot endorse any of the proposed new instruments. In particular, these instruments need to be seen in the context of existing funds associated with the Bank Group. I find the proposed financial instruments heavily predicated on the carbon market modalities of the Kyoto Protocol and its uncertain future beyond 2012. Establishing such instruments, potentially involving billions of dollars, based on the uncertain future of carbon trading mechanisms could pose serious financial and reputational risks to the Bank. Specifically, there are uncertainties and concerns regarding the Bank’s potential financial exposure, and about the regulatory and accounting environment for carbon credits, as well as the subsidy elements involved.

On Pillar III: Adaptation, I acknowledge this could be a major issue but more concrete proposals need to be advanced to help vulnerable populations adapt to the impact of response measures to climate change, and to climatic variability. Such proposals could include new early warning technology in the case of tsunamis, more resilient agricultural crops, and potential development of catastrophic insurance-linked instruments, which I have already characterized as having promise. I encourage the Bank to do more work in these and related areas.

Progress Report for the Education Fast Track Initiative

I have consistently supported efforts to improve educational outcomes for young people in developing countries, while recognizing that such efforts are challenging and long-term in nature. For an economy to develop at all in any meaningful sense, an educated work force is essential. I was pleased to learn from the report before us that much progress has been made in overhauling educational systems to achieve better outcomes, including towards meeting the MDG goal of universal primary completion by 2015. But challenges remain, including addressing the needs of the hundred million or so out-of-school children. While I recognize the importance of domestic resource mobilization, greater and more predictable external funding is also necessary and I see encouraging signs in this regard. Of course, external sources of support need to better harmonize their separate activities. I also agree on the need for better integration of quality and learning outcomes into the educational process. I hope the Bank can continue to act as a catalyst in all these areas over the years and decades ahead.

Doha Development Agenda and Aid for Trade

On the status of the Doha Round, I naturally share the widespread disappointment at the de facto suspension of negotiations, but I also hope that discussions can soon get back on track, in spite of the complexities and differences involved. Our Committee should send a strong message that conclusion of a successful trade deal is essential and in everyone’s interest. Of course, this implies reciprocity in market access between developing and developed countries. As I mentioned at the outset, there remains enormous potential to be captured by enhanced access to industrial country markets for the products of developing countries. Together with enhanced private flows, this offers a viable alternative to continued aid dependence. I expect the World
Bank to continue its advocacy role in this area. On Aid for Trade, I welcome that the framework now includes regional infrastructure projects to support enhanced trade. I continue to see merit in considering extending the approach of the Integrated Framework (for Trade-related Technical Assistance to least developed countries) to all IDA recipients. In any event, it will be important for this Committee to continue to receive regular reports on the status of trade issues.