Statement by

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I warmly welcome Mr. Robert Zoellick to our meeting and wish him every success as President of the World Bank Group.

This meeting is taking place at a critical juncture when the World Bank Group is looking for new strategic directions and its new President has completed just over 100 days in office. In that context, I think, it is a good time to ask some fundamental questions: how best to leverage WBG resources to help the poorest in Africa and elsewhere, how best to sustain IDA as the world’s premier concessional finance institution, how best to reposition IBRD, how best to use IFC and MIGA resources to support private sector-led development, and how best the WBG institutions can support the global public goods (GPGs) agenda within their mandate and capability.

Given the length of the current global growth cycle, market shocks may cause capital flow reversals that can impact the developing countries particularly severely. This argues for the importance of strengthening the fundamentals and pursuing appropriate policies. Many developing countries have been doing that, with the aim of enhancing domestic resource mobilization as well as aid effectiveness. As a development institution, the Bank needs to support client countries in this process in a longer-term perspective but with a balanced consideration of long-term development objectives and medium term growth ambitions. We also need to acknowledge that while policies aimed at an improved business environment can facilitate foreign direct investment, technology transfer and market know-how, a supportive global trade environment is essential too. Here, the industrial countries have the major responsibility towards successful conclusion of the Doha Round. They also have to deliver on aid commitments.

Let us also be reminded that under any realistic scenario for the future, many developing countries will remain heavily dependent on multilateral development assistance, particularly the Bank Group. The Bank’s strategic approach should recognize this reality. Three points in my view need particular consideration.

First, regardless of the differences in development needs and priorities across categories of countries, and among countries within each category, we must not lose sight of the principle that growth with equity is the most effective means of reducing poverty and improving quality of life. Beyond its current two pillar strategy of improving the investment environment and empowering the poor to participate, the Bank Group needs to retain this focus on growth and development.

Second, to have maximum development impact, Bank Group resources must be directed to support activities consistent with its mandate and comparative advantage, and to avoid overlap with other agencies. It is important to avoid the impression of being supply-driven. The critical need here is to properly engage client countries and ensure local ownership.

Third, and perhaps most important, the evolving long-term strategy must present a clear vision of the long term sustainability of Bank Group institutions. Specifically, it is critical to nurture financial strength of IFC so as to help further the role of the private sector in development. It is vital also to demonstrate how IBRD financial strength and earning capacity and IDA’s reflows would be preserved
under different scenarios of lending and related support. Going forward, I call on the Bank’s Board and its new President to give the highest priority to articulating such a vision.

Let me now make some specific observations regarding assistance to low income countries (LICs); middle income countries (MICs); and the issues concerning the Bank’s involvement in Global Public Goods (GPGs).

For the LICs, I agree that a clear strategic priority is to assist slow-growing economies in their efforts to attain the Millennium Development Goals (MDGs). The needs of low-income Africa and of fragile states are particularly challenging, which requires broadening and deepening of current Bank Group efforts. Here, IFC has a significant role to play in strengthening the private sector where the payoffs in growth terms can be large.

For the MICs, while I welcome the progress that has been made in improving the Bank’s internal procedures, it is essential to reduce the non-financial costs of doing business. I note that, by preliminary estimates, such costs could add up to 100 basis points equivalent, three times the recently-approved reduction in loan pricing. The use of country systems can apparently reduce these costs but progress in this area has failed to meet expectations. The Bank also needs to address the task of restoring the IBRD loan portfolio to levels that would ensure its long-term sustainability and financial strength, including more user-friendly instruments and simpler procedures.

For Global Public Goods, care must be exercised that the Bank works within its mandate and comparative advantage, and in full partnership with clients at both country and regional levels. I have serious doubts that Climate Change issues have the requisite profile to become a strategic theme for the Bank Group. This would risk diverting attention and resources from the core mandate of poverty-reduction, for which adequate supplies of modern energy are a pre-requisite. Nor do I believe that IBRD net income should finance GPG-related financing instruments. Further, the Bank should not duplicate the work of other agencies, nor should it pre-empt the ongoing multilateral discussions about post-Kyoto policies that are rightly being held under the framework of the United Nations Framework Convention on Climate Change (UNFCCC).

Finally on the Bank Group’s strategic direction, I have a few comments on the suggestion in President Zoellick’s October 10 speech. When identifying six strategic themes for the Bank Group, he said that one of the most notable challenges of our time was how to support those seeking to advance development and opportunities in the Arab World. I welcome this new focus.

The Arab World consists of countries at different levels of development and with different needs. Many of them are still struggling to meet social and economic needs of their young and fast-growing populations. I agree that well-targeted and well-thought-out interventions, implemented in full cooperation with governments concerned, could indeed make a major difference going forward. These should involve a sustained Bank Group effort to strengthen the real economic sectors to enhance private sector job creation, as well as to support public and private sectors to help build the social and economic infrastructure. The financial sector, and especially housing finance, is another promising area where greater attention is needed. I welcome all efforts to re-invigorate the Bank Group’s regional programs. Frankly, these are long overdue. So far the Arab World has received minimal services from the Bank, and opportunities to capture the positive spillover effects, have perhaps been foregone. The full development potential of the region’s high levels of liquidity has also not been captured.

By supporting the development of this region the Bank Group can also contribute to peace and security, including energy security. However, the Bank needs to avoid getting involved in security issues that are in the purview of the UN. The Bank’s strength lies in its role as an objective and respected
technical partner in development, a role it has played well in Palestine and Lebanon. Such a role no doubt contributes to regional stability.

The Bank Group should also listen carefully to the views of regional partners when addressing development issues having sensitive social and cultural implications, lest its initiatives are perceived as being driven by those outside the Arab World, thus undermining the sense of local ownership that is essential for successful implementation. That said, I again welcome this promising initiative, and look forward to its successful implementation in collaboration with regional partners.

I now turn to the theme of **Scaling-up and the Role of IDA**. I agree with strengthening the country-based development model to help countries promote stronger, shared, private-sector led growth. However, a vigorous effort to target the private sectors needs to be complemented by resources that will assist public sectors, including building their institutional capacities. To meet this objective, aid needs to be more predictable and better aligned with a country’s own strategic planning horizons. Amounts and modalities of support should be carefully tailored to client country circumstances, including absorptive capacity. In this context, I look forward to the Bank building stronger relations with donors, including vertical funds, and non-DAC entities.

As regards the role of IDA, I reiterate that IDA is the best-placed multilateral institution to provide a country-level platform to integrate aid in a coherent framework. This is vital in the context of increasing aid proliferation, fragmentation, and earmarking, which can overwhelm the limited capacity of recipients and increase transaction costs for everyone. As regards IDA’s role in climate change, I believe efforts should be focused on adaptation, since IDA countries are not the major contributors to global warming. IDA should continue its traditional assistance in aiding poverty reduction through provision of social and physical infrastructure. Finally, I have serious reservations on sectoral earmarking of IDA15, whether for climate change or any other sector. This would undermine the very foundation of IDA’s country-based model and the performance-based allocation system. In my view, sectoral priorities should continue to be determined by country teams when formulating country assistance strategies.

I now move to **Clean Energy for Development Investment Framework: Progress Report on the World Bank Action Plan**. This is the fourth paper on this theme to come before the Development Committee. I must say at the outset that I disagree that a progress report is the right instrument to seek the DC’s guidance on issues involving changes in Bank Group strategy that could have major policy and operational implications for the Group or its client countries. I have already cautioned that the Bank should not pre-empt the UNFCC process. This will divert attention away from core development issues and undermine attempts to meet the MDGs. Further, the principle of “common but differentiated responsibilities” should apply when the very large amounts of needed resources are considered.

My opinions on the energy issue are a matter of record. I would suggest four areas where there still might be a possibility of greater convergence of views as we move forward.

First, it is important to boost energy access to those who still lack the benefits of affordable modern energy. Worldwide, as many as 1.6 billion people lack access to energy and depend on unhealthy burning of traditional fuels, which harm the environment. The Bank Group should continue its efforts in this regard.

Second, we all need to recognize the critical importance of modern energy for global economic development and poverty reduction. The case for this is unassailable if development is to occur, as it was for the industrial countries when their economies were modernizing.
Third, given that fossil fuels will continue to account for eighty percent of energy supplies for the coming decades, priority should be given to clean, efficient and cost-effective energy supply from such sources. The Bank’s convening power can assist in facilitating related measures for technology transfer.

Fourth, on helping the poorer countries adapt to climate variability and extreme weather events, I see potential for furthering insurance schemes and concessional assistance to help finance investments to address the underlying risks.

I want to stress two additional points. First, there is a need to accommodate appropriate development of renewable energy sources that are commercially viable, including large-scale hydropower projects. Adverse effects of biofuel production on food prices and on the poor are already evident and require close monitoring. Second, every effort should be made to reduce the excessive regulations and very high taxation of oil and oil products in many consuming countries. Moreover, subsidizing and promoting inefficient alternative energy sources should be avoided.

Regarding Aid-for-Trade: Harnessing Globalization for Economic Development I view it as essential that staff continue to focus on options still open for the Bank Group to remain proactive in promoting growth through trade given the lack of progress under the Doha Round. For the lower-income countries especially “Aid for Trade” can help bridge the large gaps in trade-facilitating infrastructure.

Voice and Participation of Developing and Transition Countries (DTCs) in Decision-Making at the World Bank and the International Monetary Fund – the current Options Paper is the sixth on this topic. Procedurally, I remain of the view that we ought to wait until the process on the Fund side fully evolves, as the outcome of Fund reform, as the paper confirms, is likely to influence the course of action at the Bank. As a practical matter, however, I would like to underline that I continue to see merit in the overall aim of enhancing the participation of developing and transition countries in the decision-making process at the Bank and the Fund, as envisaged by the Monterrey Consensus. This includes addressing the issue of severely-underrepresented nationalities.

Before concluding, I want to make a general point of critical importance. I feel that lately the DC agenda has been packed with too many issues. Given the short discussion time at our disposal, I believe the DC can play its role much more effectively if we focus on fewer, most critical issues. I would therefore urge greater self-discipline on the part of all who contribute to setting the DC agenda.