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WBG Governor's Statement No. 4

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Statement by the Hon. **OBAID HUMAID AL TAYER**,
Alternate Governor of the Bank for **THE UNITED ARAB EMIRATES**,
ON BEHALF OF THE ARAB GOVERNORS

Statement by the Hon. Obaid bin Humaid Al Tayer,
Alternate Governor of the Bank for the United Arab Emirates,
on Behalf of the Arab Governors

- 1. Regional Economic Development:** Arab countries have been severely impacted by the COVID-19 pandemic. Oil exporters have been affected by the oil shock, while oil importers have been hit by the decline in tourism, trade, and remittances. The policy responses have been swift, forceful, and focused on containing the spread of the virus while mitigating the economic and social impact of the crisis. Social safety nets were strengthened, and the monetary and fiscal stances softened to support economic activity. The objective was to prioritize health spending; ensure that cash and in-kind transfers reach the vulnerable groups, especially in the informal sector; make available ample liquidity to banks, particularly those providing support SMEs and strategic sectors, and help businesses survive, stay afloat and enable recovery; stem the rise in unemployment; and prevent a long-term economic stagnation and scarring. However, it was not possible to avoid a contraction of growth and a deterioration of fiscal positions. Ensuring debt sustainability will, therefore, be a key challenge for some countries in the region. We recognize the need to resume fiscal adjustment once the crisis abates, while continuing to support the recovery.
- 2. Debt Service Suspension Initiative (DSSI):** COVID-19 has triggered the deepest global recession since World War II at a time when the average debt-to-GDP ratio has continued to soar, and fiscal space has narrowed. In this context, we welcome the G20 Debt Service Suspension Initiative (DSSI) and its aim to allow IDA countries to concentrate their resources on weathering the impact of COVID-19. We also welcome the effort by the WBG and IMF in supporting the implementation of the DSSI. Countries are committed to use freed-up resources to increase social, health, and economic spending in response to the crisis. However, we caution against using the DSSI as a conditionality in front loading IDA resources or in deploying WBG support to countries as accessing and scaling up concessional financing is crucial in shielding the economy and in supporting sustainable recovery in these countries. It is also vital to support the eligible debt vulnerable countries in servicing their debt in order to enable them to create the needed fiscal space to address the COVID-19 financial and economic needs. We therefore urge the WBG and IMF to provide technical support to build the debt management and reporting capacities of national institutions to address rising debt vulnerabilities; and combat illicit financial flows. We find valuable their close cooperation and coordination in assisting client countries in debt analysis, including the continual monitoring of debt developments during the COVID-19 crisis and any needed particular attention to helping support investment and recovery and building back better.
- 3. Fragility, Conflict and Violence (FCV):** The economic and social impacts of COVID-19 is amplified in fragile and conflict-affected situations (FCS) due to their limited financial buffers, large infrastructure gaps and weak institutional capacity. COVID-19 triggered a sharp drop in household incomes in Arab countries that are suffering from fragility and conflict as well as shrank their real GDP and decreased flow of remittances. The

pandemic also exposed the weaknesses in global and local food and medical supply chains, which pushed more vulnerable people in these countries into further distress and poverty. We, therefore, welcome the WBG's swift response in supporting the overwhelmed healthcare systems in FCS. In responding and recovering from COVID-19 in FCS, we urge the WBG to provide public, private, and public-private partnerships solutions to foster economic growth; strengthen the resilience of national institutions; improve social protection systems; invest in human capital; support the private sector; create jobs including through facilitating entrepreneurship and enhance social cohesion. This will not only help FCS to cushion the impact of this crisis but will also contribute to building back better and enhancing growth and resilience to future crises, including by addressing the informal sector. Special attention should also be given to vulnerable groups including women, youth, people with disabilities and forcibly displaced people. Women in FCS are mostly employed in the informal sector. The pandemic caused a prolonged decrease in women's incomes and labor force participation, especially with the increased burden of caregiving and social isolation that could make women more vulnerable to gender-based violence. FCS are also severely affected by the severe decline in remittances. This means that poorer households dependent on these financial flows are losing income, and migrant workers returning home are contributing to higher unemployment. An important global challenge, and one that affects several countries in our region, is the large number of refugees and displaced persons, of which a large portion are children. The IMF and the WBG should continue their efforts to scale-up concessional financing to strengthen host countries economic and social resilience. The IMF should support these efforts by considering a new financing vehicle aimed at subsidized lending to these countries, while continuing to assess the macroeconomic impact of the refugee crisis and raise awareness among donors.

4. **The IMF's response in the MENA region:** We commend the IMF for providing rapid financial assistance to many countries in our region. We also appreciate the decision to increase the IMF's access limits to its emergency lending facilities. Ongoing IMF-supported programs have been adapted to accommodate COVID-19-related spending and helped catalyze other financing. We also welcome the debt service relief provided to eligible countries in our region, under the Catastrophe Containment and Relief Trust (CCRT). Similarly, Practical solutions will be needed to support countries who do not qualify for IMF support under normal lending policies, including countries with debt sustainability concerns and in arrears. It is also important that emergency financing is additional to financing under ongoing or near future programs access limits. The IMF should continue to support our recovery efforts through policy advice as well as financial, technical assistance and the COVID-19 policy (impact) data base through sharing best practices, as countries carefully plan their reopening and calibrate their policies to facilitate the recovery. The IMF should remain closely engaged with countries in our region as they shift their policies toward restoring macroeconomic stability and resuming gradual medium-term fiscal consolidation with plans to rebuild buffers and ensure fiscal sustainability.
5. **IMF resources, CCRT, PRGT and Quota resources:** Quotas are the permanent resource of the IMF that are critical to ensure that the IMF is adequately resourced and at the center of the global financial safety net. With that in mind, completing the 16th

general quota review (GQR) before end-2023, as planned, remains important to sustain the adequacy of IMF resources. We welcome the decisions on the doubling of the New Arrangements to Borrow (NAB) and a new round of Bilateral Borrowing Agreements (BBAs), which are critical to maintain confidence that the IMF can fulfill its mandate by helping its members overcome the crisis. The anticipated increase in the quota shares of emerging market and developing economies (EMDCs) should not come through reductions in the quota shares of other EMDCs. In the wake of the current crisis, LIDCs will not be able to close their fiscal and external financing gaps and concurrently meet their urgent healthcare needs and poverty alleviation and development goals unless the international community provides generous financing through grants and concessional loans, as well as debt relief. The grant-based debt relief to the 29 poorest LIDCs under the CCRT should be extended to two years through a fundraising campaign. Additional donor support should be sought to mobilize new PRGT loan and subsidy resources that would facilitate raising the PRGT normal annual and cumulative access limits. A general SDR has been discussed, especially since some advanced economies have already committed to using their SDR allocations to augment the PRGT resources. Given that LIDCs will find it increasingly difficult to obtain concessional loans for their development projects, especially in critical infrastructure, and poverty alleviation, additional official development assistance (ODA) disbursements will also be needed.

6. **Private Sector – the Cascade Approach and Support to SMEs:** Deploying the Cascade Approach is critical in the context of the COVID-19 pandemic that has placed a massive burden on public finances. All countries are fiscally challenged, particularly many in our region that were already lacking the fiscal space before the pandemic and that now face an acute shortage of liquidity and are seeking debt relief. Therefore, we need a dynamic and systematic thrust from the private sector to reinforce the insufficient public support to enterprise development. Nowhere is this more urgent than in support to SMEs, the major source and central place for the jobs and poverty eradication agendas. While we appreciate the WBG support to improve SME access to finance, however, there remains a large unmet demand and scope for recovery, innovation and scale up efforts. WBG institutions should therefore better complement the efforts of our governments to help SMEs sustain themselves and also leverage on arising opportunities in the COVID-19 environment, and to go beyond financing and into broader SME development, including the supportive policy and friendly regulatory environment, fostering entrepreneurship and the pooled provision of business services that SMEs cannot afford to establish in-house. We therefore see the need for reinvigorating efforts to turn around the currently fledgling results of the Cascade Approach into a more robust implementation effort across the WBG to more effectively mobilizing resources, including by giving renaissance to exiting tools in new ways and by exploring newer and more innovative ways. The IMF and WBG should invite the private sector to participate in the debt service initiative, through designing terms of reference, toolkit, and eligibility criteria.
7. **Correspondent Banking Relationships (CBRs):** The IMF should also continue its work on CBRs. Several countries in our region are still being affected by the withdrawal of CBRs. The IMF should continue engaging with various stakeholders; facilitating the dialogue on solutions between regulators in home and host jurisdictions and among market participants; and providing tailored capacity development.

- 8. Jobs and Economic Transformation (JET):** The COVID-19 pandemic has severe negative effects on the labor market and the livelihood of millions of people and threatens to significantly erode the development gains made over the past decade in trade integration and participation in global and regional value chains. The severe economic repercussions wrought by the pandemic in the World and in our region underscores the criticality and urgency of the Jobs and Economic Transformation (JET) agenda. We believe that JET is a key pillar to reach the twin goals of ending extreme poverty and boosting shared prosperity. Structural transformation is needed in most cases to re-dynamize the job creation potential, including by laying out the appropriate physical and human infrastructure. Against this background, we emphasize that the focus should remain on preserving existing capacities as well as on adjustment of education and vocational training systems, including a focus on the entrepreneurship agenda. Private sector solutions will be needed for post-COVID recovery given that fiscal space and debt capacity will be severely constrained. Private sector-led economic transformation is critical for sustainable job creation. Many enterprises will need support to reinitiate operations, to gradually restore and reinvigorate productivity growth as well as to expand finance access. In this regard, while recognizing IFC's contribution to JET in the pre-COVID period through many operations in the MENA region, we envisage a more ambitious role for IFC as an entity and WBG as one group, by leveraging the range of instruments including debt, equity, and guarantees to support to the private sector in our region and not to focus only on short term reform measures and macro-fiscal issues at the expense of addressing structural issues will be critical for a faster, resilient and more sustained recovery. We are cognizant that the digital economy has a tremendous positive impact on job creation and economic transformation including productivity growth. Therefore, we are asking the WBG to support our countries in their endeavor to develop adequate digital infrastructure, regulations, technical expertise and governance frameworks, given its importance for development in our region. We are also mindful that JET requires the intervention of many Organizations and MDBs to develop workable regional delivery models. In this regard, we encourage the WBG to build partnerships for more efficient use of scarce resources.
- 9. Fintech:** Fintech has critical domestic and global implications for the provision of financial services and could potentially boost inclusion, competition and efficiency. Nevertheless, policies will need to be flexible and innovative and reforms must strike the appropriate balance between enabling financial innovation and addressing the challenges of financial stability and consumer protection. Countries will need to devise a customized and differentiated approach tailored to national circumstances and based on diverse country capacities and priorities. Rapidly evolving fintech developments underscore the significance of deepening dialogue among member countries for knowledge exchange to ensure that all can reap the benefits of fintech, particularly marginalized and vulnerable groups. The Bank should therefore contribute to facilitating interchange, connectivity and enabling entrepreneurship, while engaging with the traditional banking sector. We must invest in improving financial literacy and promoting responsible financial access by boosting skills, while building awareness among consumers and investors. We support that Bank's focus on enabling reforms and capacity building regarding fintech solutions that deepen financial markets, enhance access to financial services, and strengthen cross-border payments and remittances. Creating a conducive environment will require promoting the development of foundational infrastructure, including broadband internet, facilitating digitalization across

government, contestable markets that enable competition and prevent monopolistic markets and more efficient payment systems. Legal and regulatory frameworks need to be assessed to identify gaps and constraints and capacity must be strengthened. The adoption of fintech in the MENA region has been gradual, however, the industry has begun growing rapidly. Institutional support programs, such as incubators, free zones and sandboxes have also increased the capacity of fintech startups. Additionally, we would like to reemphasize the essential role of Fintech in anti-money laundering and combating financing for terrorism (AML/CFT). A collective effort between international institutions such as the IMF and WB and international stakeholders, through improved i) data collection process; ii) governance structures; iii) capacity building, is required moving forward.

10. Digitalization of Education and Health: MENA has a shortage of digital human capital, marked by skills and information gaps, and the only way to move forward is to revolutionize digital skills by: building them across the educational pipeline through varying methodologies of delivery (from preschool through tertiary and lifelong education); exploring the role of the private sector; and identifying digital opportunities for disadvantaged and vulnerable groups (women, youth, elderly, displaced or refugee populations). COVID-19 has accelerated the opportunities for digital solutions in education and facilitated change to digital learning agendas. As such, the momentum for the enhancement of digital infrastructure needs to be accelerated both through infrastructure investments, as well as by the continuation of service expansion and delivery in digital models. Competitive infrastructure and corresponding solutions will be key to maximize short term impact. In the longer term, education systems must truly evolve through renewing the teaching toolbox; redefining the role of teachers, parents and communities; use of partnerships and peer-learning; and finding innovative delivery methods to populations that have traditionally faced access challenges. Additionally, the skills agenda needs to focus on strengthening STEM subjects in the education curriculum, teaching advanced cognitive and socioemotional skills, preparing citizens for careers rather than specific jobs, since fewer than half of today's children can expect to work in an occupation that exists today. We cannot deny the direct link between the digitalization of education and the jobs and economic transformation agendas.

Digitalization in the healthcare industry has the potential to affect every aspect of care, delivery and operations yet the industry has been surprisingly slow to join the global digital revolution. New tools and technology hold great promise to transform the delivery of health services by: improving efficiency and bettering patient care, in improving diagnosis, delivery, access (especially in rural or remote locations and FCV countries or among displaced or refugee communities); advancing personalized care; improving pharmaceutical research and development; streamlining services, operational effectiveness and cost.

11. Diversity and inclusion: We call for concrete actions to achieve the IMF and WBG diversity and inclusion objectives with greater focus on the Under-Represented Regions (URR). It is indeed regrettable to note that many of the URR 2020 diversity benchmarks for MENA were not met and progress is inadequate, particularly for Arab staff. up Thus, we reiterate our concerns on the lack of meaningful progress toward achieving regional diversity targets and call for robust measures and enhanced accountability. To this end,

we look forward to the 2025 Diversity Benchmarks that should support new ambitious measures and policies that will address the issues underpinning the poor results. In this context, we look forward to more hiring and promotions from the URR, especially from Arab countries.

- 12. Lebanon:** Early August, Lebanon and its capital Beirut were heavily impacted by a massive explosion that rocked Beirut's Port, the main point of entry/exit of goods for the country, destroying much of it and severely damaging residential and commercial areas within five kilometers, which constitutes a very important center of economic activity for the whole country. The disaster left more than 200 people dead, thousands injured, and hundreds of thousands homeless. This came to a country already impacted by multiple crises, including a refugee crisis, an economic and financial crisis resulting, additionally in steep inflation and economic contraction, among others, and the impact of the COVID-19 pandemic and which has been struggling to reduce poverty and to generate inclusive growth and create jobs. According to a very recent Beirut Rapid Damage and Needs Assessment conducted by the World Bank Group in cooperation with the European Union and the United Nations, these impacts are beyond the double-digit contractions in real GDP growth stemming from the pre-existing crises. Per the Assessment, losses in economic activity due to destruction to physical capital and possible trade disruptions would lead to up to 0.4 and 0.6 and an additional (upper limit) of 0.4 and 1.3 percentage point (pp) declines in the growth rate of real GDP in 2020 and 2021, respectively. Additionally, the report maintains that increased poverty incidence is expected, given that the pre-disaster estimates of general and extreme poverty rates were 45 and 22 percent respectively. Preliminary estimates from the Assessment reveal that the Beirut explosion caused between US\$3.8 and US\$4.6 billion in damage to physical stock, while losses including changes in economic flows as a result of the decline in the output of the economic sectors are estimated to be in the range of US\$2.9 and US\$3.5 billion. Priority recovery and reconstruction needs for CY2020 and CY2021: US\$ 1.8-2.2 billion, with transport sector needs being the highest followed by culture and housing. The Assessment maintains that policy and institutional reforms are critical to "build back a better Lebanon" including macroeconomic and governance reforms as the implementation of a credible reform agenda will be key to accessing international development assistance.
- 13. Libya:** Libya currently faces multiple interlinked challenges, many of them being legacy issues stemming from a closed economy and weak institutions, all being exacerbated by fragility and conflict. Consequently, Libya requires a consistent and comprehensive strategy for its state and peace building process, with a focus on developing human capital and institutions and strengthening governance and service delivery. Engagement needs to be ramped up and delivered through a robust multisector roadmap linking immediate needs to building the foundation for addressing long-term needs. However, severe resource constraints stemming from the twin shocks of rapidly falling oil prices and the negative social and economic impacts of COVID, make project prioritization and sequencing crucial. The Bank engagement in Libya optimizes its resources towards making a tangible difference with the highest impact for the Libyan people. Measuring the adverse effects of the conflict on infrastructure and service delivery must be used to inform the both the planning process and execution phase. Subsequently, the envisaged reconstruction and peace building assessment (RPBA) can help identify gaps in strategic sectors and assist in project prioritization and sequencing. The authorities are

looking to the Bank not only as a mobilizer and convener of partners and financing, but also for its expertise in project preparation, monitoring and evaluation, financial management, and most importantly transparency. Libya needs the Bank and its partners to work in cohesion now more than ever, as it is equipped with the capacity, expertise and purpose to play an instrumental role in Libya's reconstruction and recovery process.

- 14. Palestine:** The condition of the Palestinian people has become more dire with the pandemic. In March 2020, the Palestinian authority declared a state of emergency, banned large gatherings, closed educational institutions, and restricted movement. Living conditions have also worsened with a quarter of the labor force unemployed and 24 percent of Palestinians living below the \$5.5 PPP a day prior to COVID-19. An already difficult situation has deteriorated exponentially. The lack of policy tools, fiscal space or access to external borrowing leaves the economy severely vulnerable to downside risks. Given this context a strong response by the donor community would help bridge the large financing gaps and support critically needed expenditure to provide basic services and address the adverse socio-economic consequences of the pandemic. The current annexation plans have also added considerable uncertainty and potential negative implications to Palestine's economic outlook.
- 15. Somalia and Sudan:** We thank the IMF and the World Bank for their support for Somalia that made it possible for the country to reach the Heavily Indebted Poor Countries (HIPC) initiative's Decision Point. We also reiterate our call on the IMF and the World Bank to facilitate the debt relief process for Sudan, under the HIPC initiative. We encourage the World Bank to pursue the process of putting in place the pre-arrears clearance grants. In this context, the recently agreed IMF Staff Monitored Program will help establish a track-record of reform implementation and sound macroeconomic policies to lay the foundation for debt relief. We urge the IMF and the Bank to work closely with the Sudanese authorities to support Sudan through the debt relief process.
- 16. Yemen:** The conflict in Yemen is devastating to development gains and disproportionately impacts the most vulnerable people. It led to increased poverty; reversed human development and weakened the delivery of basic services. In addition to the existing challenges facing Yemen, the country is now facing multiple crises as a result of the health and economic repercussions of COVID-19 combined with the drop in oil prices and remittances. The WBG's support to the immediate response to the impact of COVID-19 is vital and should continue to be combined with a long-term vision to build back better. It is crucial to enhance the resilience of national institutions and invest in human capital, infrastructure and service delivery. We would also like to urge the WBG to explore ways to deliver programs through local institutions and support the Central Bank of Yemen given its important role in stabilizing the economy and paying the salaries of public servants nationwide. In addition, we would like to encourage the WBG to pilot the transfer and exchange of funds through the Central Bank. Given the concerns regarding food security and the importance of supporting the private sector, it would be crucial for the IFC to scale up and expedite its support to the trade facility and support to the private sector in the country. Given the erosion of fiscal space, we welcome the DSSI debt moratorium initiative and IMF Rapid Financing Instrument. We also call upon the WBG to ensure that there is no interruption or suspension of IDA programs in the

country due to delays in servicing debt and urge the WBG to explore ways to support Yemen servicing its debt to IDA.

17. Small States: The coronavirus pandemic has created havoc to the economies of small states. The tourism sector, a backbone of most small states economies, has completely shut down due to the ban on international travel and is unlikely to recover this year. The few productive sectors of small states heavily reliant on export revenues from the developed world are suffering from the disruption of the global supply chain and measures taken to stop the spread of the virus. Public finances are stretched to the limit and the costs to the economy have placed an additional burden on the level of indebtedness of these countries. The threat posed by the COVID-19 pandemic to these countries is therefore existential. Last year's commitment to double the volume of resources available to small states by 2030 will be insufficient to enable small states to meet the challenges they are confronted with. We do appreciate the effort on finding different solutions in supporting IBRD-only small states through IBRD and trust funds and, also propositions on expanding temporarily (FY21-FY22) the eligibility to Private Sector Window to Small States Blends that we hope will get a positive response. We, therefore, urge the WBG to explore other options to recalibrate the aid architecture to better support Small States, given their unique vulnerabilities.