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WBG Governor's Statement No. 3

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Statement by the Hon. **YOUSSEF EL KHALIL**,
Governor of the Bank for **LEBANON, ON BEHALF OF THE ARAB GOVERNORS**

Statement by the Hon. Youssef El Khalil,
Governor of the Bank for Lebanon,
on Behalf of the Arab Governors

Although Arab countries' swift and comprehensive policy responses to the COVID-19 pandemic have helped contain the virus and its social and economic impact, most of our region is still grappling with the fallout of the crisis: reversal of hard-earned poverty reduction gains, exacerbated inequality, stressed health systems, increased need for social safety nets, and negative impact on human capital, among others. Against this backdrop, we highlight below some of the major challenges facing us and our expectations of support from the WBG and the IMF.

Access to Vaccines: We are concerned at the low--15% as of September 2021- vaccination rate and the considerable financing and supply-side challenges facing low-income and FCV countries in the region. We welcome initiatives such as the IMF's COVID-19 Vaccine Window under the Rapid Credit Facility and Rapid Financing Instrument, the Bank's expanded financing envelope of \$20 billion and IFC's Global Health MPA financing. However, we expect the WBG, IMF, WTO and WHO to play a leadership role in tracking, coordinating and advancing delivery of COVID-19 health tools and vaccines to our region, financing of vaccines manufacturing in developing countries, addressing vaccines absorptive capacity, country readiness issues and advocacy for donations of excess doses.

Human Capital: We note with concern the projection that, in the MENA region, on average, a child born today would expect to achieve only a low level of his/her full productivity before the impacts of the pandemic are accounted for and emphasize the need for enhanced WBG support to health, education and social protection sectors.

Fiscal Frameworks: The importance of domestic resource mobilization (DRM) and efficiency and effectiveness of public expenditures to create the fiscal space for the much-needed investments in growth and the SDGs is self-evident. We call on the WBG and the IMF to strengthen their technical assistance, policy advice and knowledge transfer in the DRM space, and to support the development of domestic capital markets. We also encourage IMF and the WBG to evaluate the impact of the proposed minimum tax on multinational companies (MNCs) on our countries and provide them technical assistance and advice to adapt to it.

Debt Related Issues: We welcome the IMF and the WBG's comprehensive approach to addressing debt sustainability and debt transparency issues, supporting the G20 Debt Service Suspension Initiative (DSSI) and the Common Framework (CF) for debt resolution, as well as

IDA's Sustainable Development Financing Policy (SDFP). We also commend the IMF debt service relief operations through the Catastrophe Containment and Relief Trust. The IMF should continue to have a leading role in improving the international debt architecture, strengthening the international framework for sovereign debt resolution, and ensuring fair burden-sharing between public and private creditors. In this regard, the IMF and the WBG can play an important role by assisting eligible member countries to develop and implement effective strategies to engage with private creditors. We underscore the need for effective transition from the DSSI to CF for eligible LICs.

Differentiated Approach to Support Various Country Typologies:

The IMF Resilience and Sustainability Trust (RST): The proposed RST could help a significant segment of the Fund's membership in addressing macro-critical issues related to economic resilience and sustainability and address challenges such as climate change, health, and refugee flows. It should benefit both LICs and MICs and complement the IMF's core lending with additional resources that facilitate a longer-term structural transformation. We urge that eligibility under the RST be as inclusive as possible and look forward to the full rapid implementation of the proposal. We also call for stronger coordination with MDBs to ensure complementary additionality to existing MDB lending. We welcome the general SDR allocation equivalent to \$650 billion and the ongoing work to finalize options for channeling SDRs in support of LICs and MICs in need, including through the RST.

Low-Income Countries (LICs): We look forward to the conclusion of the IDA20 Replenishment and broadly agree with its Special Themes and Cross-Cutting Issues. Besides COVID 19 and endemic poverty issues, IDA countries are facing multifaceted crises, such as natural disasters, supply chain disruptions and food insecurity. Given IDA's limited resources, it is necessary to prioritize grant financing for the most vulnerable countries. Uncertainty around the pandemic, access to vaccines, and the pace of the recovery implies that financing needs by LICs will remain elevated in the foreseeable future. As future financial assistance is expected to entail multi-year lending arrangements, we call on the IMF to use flexible program designs based on LIC specificities and avoid harsh conditionality that compels LICs to prematurely adopt fiscal consolidation measures.

FCV Countries: We welcome the progress made in implementing the WBG's updated FCV Strategy and IDA FCV Financing Toolkit, as well as the scaling up of WBG's physical footprint in FCV countries. We also welcome the planned IMF fragile and conflict-affected states strategy that aims to strengthen the IMF's role in helping FCV countries restore macroeconomic stability and ultimately overcome their fragility. We encourage the WBG and the IMF to ensure sustained effort to embed systematic integration of FCV drivers and sources of resilience in country and strategy products, and to ensure that the WBG and the IMF engagement are FCV sensitive where relevant. We would like to urge the WBG to strengthen FCV state and local institutions as

a means of conflict prevention, and the IMF to support FCV fiscal, monetary, and banking institutions with a focus on building their resilience and strengthening domestic resource mobilization and PFM. It is also important to push the JET agenda and sharpen the focus on quality and resilience of public service delivery with a particular focus on women, forcibly displaced people, and other vulnerable groups. FCVs also need the WBG support to build infrastructure and IT capabilities, strengthen governance and attract private sector investment.

Countries Hosting Large Refugee Populations for Prolonged periods: These countries continue to shoulder the high-cost burden and the added strain on their social, health, education and infrastructure systems. There is scope for both the IMF and the WBG to provide increased financing to such countries with enhanced flexibility and innovative solutions to overcome the constraints imposed by the World Bank country exposure limits. Furthermore, the IMF and the WBG are expected to use their convening power to spur financial support of donors for the hosting countries.

Small and Island Developing States (SIDS): The pandemic has exacerbated the vulnerabilities of these countries, which are already prone to natural disasters, making the WBG and IMF support even more critical at this time. This support could include capacity development through long-term resident experts and support in accessing climate financing where needed. Furthermore, we see a need for the WBG and IMF to provide tailored policy advice to support national efforts toward economic diversification, debt sustainability and inclusive economic growth.

Middle Income Countries (MICs): MICs' ability to recover post-pandemic has been seriously impaired by new challenges and vulnerabilities, including those of a structural nature. These should not be allowed to result in lasting setbacks to the noteworthy progress achieved before the pandemic. We ask the IBRD to re-examine its approach to MICs challenges in a strategic context and, beyond country exposure limits, through creative solutions, including PPPs, blended finance, guarantees, and FDI. We look forward to enhanced IMF support to MICs, including through the RST.

Partnerships: The WBG and the IMF, in close collaboration with relevant multilateral, regional, and national development partners have a critical role in improving and strengthening the business environment. The private sector must be at the heart of our region's economic recovery and have a principal role in resetting supply chains, creating jobs, modernizing infrastructure, and driving up growth. In addition to the right climate for business and investment, the private sector in the region needs the right tools to assume its expected role, including adequate financing, investment guarantees, innovative investment platforms and capacity building. The WBG is expected to support this private sector driven economic recovery with all its tools and instruments; expediting reforms that address market failures and other obstructions to business, applying the upstream approach to generate a pipeline of private finance projects, providing long term and short-term finance, as well as helping countries of the

region create and advance entrepreneurship and start-up ecosystem. Public Private Partnership will be crucial for our countries' economic recovery, infrastructure and services improvement and long-term growth, all without raising public debt or undermining an already limited fiscal space.

This crisis is a reminder of the importance of regional cooperation and integration. In this context, we would like to encourage closer cooperation between the WBG and regional development banks to create and harness synergies between our economies, identify joint programs, promote regional trade and investment, and finance cross-border development projects. Moreover, and in the short term, we ask IFC and MIGA to scale up their pandemic response in our region through investments in healthcare, vaccine manufacturing and other relevant sectors.

Beyond these general guidelines, we would like to flag a few specific issues that need immediate and close attention.

Women: We urge the WBG to continue addressing the gender gaps in access to social services and opportunities, as well as continued efforts to prevent gender-based violence. In this regard, the outcomes of the MENA Gender Innovation Lab could be instrumental in supporting our countries in designing evidence-based policies and projects. The gender gap varies across the region, and while it is closing in education and health, it still exists elsewhere such as the economy. MENA is the region with the highest youth unemployment rate worldwide. This situation is particularly severe for young women. In this vein, we call on the WBG to reinforce its financial and advisory support to promoting Arab women's empowerment via their labor force participation, financial inclusion, asset control and ownership, as well as entrepreneurship.

Food Insecurity: The number of food insecure people in the region has increased due to recent crises, conflict, demographic pressure, and climate change, which makes SDG2 increasingly out of reach. There is an urgent need to mobilize support to build resilient food systems. Given the complexity of the challenges and interlinkages of the drivers of food insecurity, we urge the WBG to adopt a discrete and actionable Food and Nutrition Security Strategy with particular focus on agriculture and fisheries, taking an integrated view of food security, the One Health Approach, infrastructure investment, water management and the JET agenda.

Climate Change: The WBG and the IMF should advance the climate agenda within the bounds of the Paris Agreement while balancing climate mitigation and adaptation. Our region's rising water insecurity challenges require increased attention by the WBG to help mitigate and address the relevant impacts. We encourage the WBG and IMF to follow a pragmatic approach to advance the climate agenda based on differentiated country needs, priorities, and capabilities, and within a broader development perspective, so that countries can benefit from a wider range of viable and sustainable solutions to address poverty, spur growth and build sustainable, inclusive and resilient economies. We look forward to seeing how the new WBG

Country Climate and Development Reports (CCDRs) and IMF's climate strategy can identify other pathways and solutions adapted to the needs of our region. In its engagement with the climate agenda where it is macro-critical, the IMF must cooperate with other relevant international organizations, such as the UN and the WBG, and leverage their expertise and comparative advantage in this area.

On energy access, the availability of adequate, reliable, and affordable energy is a fundamental priority for all. We appreciate the WBG's support for renewable energy development where it presents the least-cost option. We would however urge the WBG to also recognize the importance of fossil fuels which will continue to be necessary in the foreseeable future to bridge the large and growing energy gap, especially baseload energy needs. We also ask that the WBG take forward the Circular Carbon Economy (CCE) approach, which has been endorsed by the G20 Leaders to promote economic growth, while enhancing environmental stewardship through managing emissions in all sectors including, but not limited to, energy. We would also appreciate seeing a candid assessment of other viable solutions, such as emissions trading schemes that can help countries meet their nationally determined contributions (NDCs).

Digitalization: In the fast-evolving technology landscape, addressing the digital divide across and within countries, as well as leveraging digitalization to promote strong and inclusive growth are a need, not a choice. The WBG and IMF should continue to play an active role in this area, underpinned by their specific mandates, including through policy advice and technical assistance in coordination with other IFIs. We thus welcome the WBG's digital development agenda and ask that it be an integral part of MENA's regional agenda.

We also call upon IFC and MIGA to catalyze investments in Digital Infrastructure in the MENA region, consistent with each country's state of digital development and needs, using advisory services and upstream work. Closing the digital gaps in the region would also require tapping into all financing sources, public and private. We also encourage IFC to create specialized financing platforms to support impact investing, MNC investments, PPPs, and other types of finance. The IMF's support in this space should also include expanded work on the implications of Central Bank Digital Currencies (CBDCs) and privately issued digital money on the domestic and international financial systems, as well as systematic assessment of the risks to financial stability and integrity from the digital money.

Special Assistance to vulnerable Arab Countries: The Palestinian people in Gaza have had to endure persistent and destructive conflict in the midst of the devastating COVID19 pandemic. The hostilities have led to numerous lives lost, extensive damage to social and physical infrastructure, as well as to real and financial sectors, compounding Palestine's already difficult health and economic conditions. We are thankful for the WBG's support to the Multi-Donor Trust Fund for West Bank and Gaza and welcome the scaling up of the Bank's own financing support. In the context of reduced external financing amidst severely constrained fiscal space, lack of

available monetary policy tools, lack of access to vaccines, a strong response by the donor community would help bridge the large financing gaps and support critically needed public expenditure to provide basic services and address the adverse socio-economic consequences of the pandemic and the conflict.

We also express our appreciation to the IMF and WBG for supporting Sudan's progress to the HIPC decision point and clearance of arrears to the IFIs, which has paved the way for Sudan's re-integration with the international financial system. We welcome the IMF program with Sudan and look forward to its successful implementation and positive impacts on Sudan's macroeconomic stability, private sector-led growth, and poverty reduction.

Diversity and Inclusion: Ensuring diversity and inclusion is an integral part of core WBG and IMF values. We call for a comprehensive strategy aimed at achieving the diversity benchmarks for under-represented regions (URR) in both institutions. This strategy should aim to reduce biases in the recruitment and internal career progression of MENA staff, as well as an accountability mechanism across all levels of institutional management. Such a strategy would help correct the persistent underrepresentation of staff from Arab countries. Though there were some improvements in IMF's initiative to recruit more Arab staff in 2020, recruitment, career progression, and promotions of Arab staff are still lagging by far and considerable additional effort—under the Managing Director's supervision— will be critical to achieving the 2025 MENA diversity benchmarks. Needless to say, that diversity in WBG and IMF staff and at management levels is not just important for their credibility and image as global institutions but it also enables them to leverage a broader range of skills and perspectives to analysis and policy discussions and facilitates communication and cultural understanding when engaging with policymakers and other counterparts.