



**DEVELOPMENT COMMITTEE**  
(Joint Ministerial Committee  
of the  
Boards of Governors of the Bank and the Fund  
on the  
Transfer of Real Resources to Developing Countries)

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**Statement by**

**Mr. Ibrahim Al-Assaf  
Minister of Finance  
Saudi Arabia**

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It is a matter of growing concern that on current trends, a majority of countries will fall short on most MDGs, with Sub-Saharan Africa notably lagging on all MDGs at the regional level. In key areas such as education and health, where success is essential to underpinning long-term development prospects, the progress deficit is much more worrisome. Challenges also remain in the provision of adequate infrastructure, particularly access to energy in order to fuel growth and advance development in the social sectors.

In such a context, it is important to look beyond the traditional approaches to intermediating development finance while keeping in view that poor countries severely lack access to affordable market funding. Those approaches may be necessary, but in themselves, they are insufficient to turn around what indeed is a challenging situation. So, what should be the priorities in moving ahead? While recognizing that actions must be appropriately tailored to individual country circumstances, I would suggest three key areas of focus.

First, given the dependence of African and other low-income countries generally on development assistance, which can account for as much as two-thirds of their capital inflows, it is necessary for those donors who have not already done so to scale-up their promised aid commitments to the internationally agreed target of 0.7 percent of GNI. At the same time, aid is more effective when it is predictable and better harmonized at the country level.

Second, it remains essential to improve the environment for private business, domestic and foreign, so that entrepreneurial activity can play its full part to assure success in achieving an overall growth strategy. Such a strategy must also include appropriate public policy dimensions that can address growing inequalities between and within countries, notably the need to reach out in a targeted fashion to low-income and marginalized groups to facilitate attainment of MDGs. Inputs to the productive sectors, including agriculture and infrastructure, will be essential. All of this implies an effective partnership between public and private sectors, as well as with the international donor community.

Third, as we have stated repeatedly over the years, there is considerable untapped potential for growth through enhanced trade. Opportunities in this area include withdrawal of subsidies and removal of trade barriers in industrial countries thereby improving market access for developing country exports, including agricultural products. The success of the *Doha Round* is critical in this context. It is now or never, as President Zoellick has so aptly said in his recent speech at the Center for Global Development.

Let me now turn to fragile and conflict-affected states, which lag behind the most in terms of meeting the MDGs and thus pose a major challenge to development, especially in Africa. A third of the extremely poor, whose improved well-being is rightly a top development priority, live in IDA-eligible fragile states. Such states are home to perhaps half a billion people. Further, more than four-fifths of fragile IDA countries have been in conflict situations, which is itself one of the major reasons behind their fragility. Of course, there are broader manifestations of the devastating effects of conflict, as the examples of Palestine, Lebanon, Afghanistan and Iraq unfortunately demonstrate.

What actions can then be suggested to help turn the situation around? Again, part of the solution lies in the hands of donors. Failure to follow through on aid commitments would particularly hurt those that offer promising opportunities for scaling-up development assistance. It is encouraging that financial flows

from the multilateral development banks to fragile states rose by half from 2002 to 2007, reaching \$2.4 billion. However, as these states re-establish themselves on a normal development path, there will be additional demand for resources to repair the damage to infrastructure and to redress the deficits in education and in health accumulated over the years.

That said, two caveats should be recognized. First, in security related matters, it remains important to complement, not replace, the work of the United Nations, and to separate short-term humanitarian assistance from longer-term reconstruction and development activities. Second, it is important for institutions such as the World Bank Group to have in place appropriate internal incentives and efficient institutional arrangements to encourage and facilitate staff to work in such challenging environments. I recognize that promising steps have been taken in this regard in recent years, and I encourage the Bank to build upon them.

Moving on to the second item on our agenda, recent market turmoil indeed raises uncertainties and concerns about its possible impacts on low- and middle-income countries. Even though we may not yet have seen the full manifestation of the unfolding crisis in financial markets, development gains in these countries may already be at considerable risk. The current uncertain international economic situation presents downside risks even to the hitherto resilient developing countries, particularly the risk of a sharper or persistent slowdown in the industrial countries. This situation requires that the international financial institutions, especially the World Bank Group, should help client countries strengthen the resilience of their economies while maintaining focus on the core global goal of poverty reduction. Indeed, the international community as a whole needs to re-focus attention on realizing the required transfer of real resources to developing countries, which is the very reason this Committee exists.

While the IMFC is the appropriate forum to explore the underlying short-term factors, as far as longer-term development implications are concerned, I will make two points relating to energy and food prices. As for energy prices, Saudi Arabia has consistently contributed to addressing the demand-supply imbalances in the common interest of both oil producers and consumers. And we have done more than providing verbal reassurances. We have taken concrete actions on the ground, investing more than 90 billion dollars to expand our production and refining. But it is also well known that there are additional factors at play beyond supply and demand fundamentals. I refer of course to the actions of speculators in the oil market and to geopolitical factors.

On high food prices, our worst fears—that diversion of agricultural activities to produce biofuels would put pressure on food prices and aggravate poverty—are becoming a reality, with little if any meaningful increase in energy supply. Given that high and volatile food prices are predicted to prevail for years to come, and especially since expenditures on food comprise one-half to three-fourths of consumption in poor countries, the need for effective and urgent actions at country, global and multilateral levels is self-evident. At country level, one important action could be to withdraw subsidies for the production of commercially unviable biofuels. At the global level, I agree with President Zoellick's suggestion that we should start by helping those whose needs are immediate. The role of the UN's World Food Program in my view would be critical in this regard. At the multilateral level, I encourage the Bank Group to come up with innovative financing mechanisms in support of agriculture sector to boost food production in developing countries. Such a mechanism in my view should be a partnership between IFC and the private investors. Of course, there will also be a role for interested public sector partners.

I will now turn to the World Bank Group's strategy, including the evolving Strategic Framework for Climate Change and Development (SFCC). On the overall strategy, I appreciate the discussions that have taken place between the President and the Board since Mr. Zoellick introduced the six strategic themes for discussion last year. This interaction has been productive, though it will take some more time to work out the full institutional and operational implications.

That said, I have two observations to make at this stage. First, I think further work is needed to place the strategic priorities in an integrated and more comprehensive framework, one that provides a clear frame of reference while ensuring informed flexibility for adjustment as needed. On the one hand, there is a need to examine carefully the Bank Group's mandate and future role as the world's premier development institution with poverty reduction as its main mission. On the other hand, there is a need to examine the robustness and relevance of the current business model to suit the clients' changing development needs and priorities. Complementary to this is the need to better articulate how the six strategic themes can be pursued by the Group institutions in a coherent and cost effective manner. In this regard, it would be necessary to use IBRD's current comfortable financial position to optimize from both development and financial outcomes. I am encouraged that discussions are ongoing to this effect within the Bank.

My second observation relates to the theme concerning the Arab World. I once again want to convey my appreciation to Mr. Zoellick for his personal efforts to take this initiative forward. I am pleased that consultations are taking place to identify the most critical issues in the region and to set out appropriate objectives. Going forward, the Bank should widen and deepen the dialogue with governments, academics, and the private sector to ensure full ownership and better understanding of the region's development needs. Moreover, it would be equally important to devise assistance strategies that are embedded in a sound grasp of country-specific situations.

As regards the SFCC, I am pleased that, following Board discussion, further work is to be undertaken based on consultations with all parties concerned. The experience with the *Clean Energy for Development Investment Framework* has been instructive. Three principles stand out: first, access to energy is inescapably critical to drive development; second, climate concerns do not alter the primacy of the poverty reduction and other MDGs; and third, the need for cost effective and commercially viable approaches to cleaner energy, including fossil fuels, must be recognized.

Development, growth and poverty reduction should remain at the core of the SFCC. The strategy should aim at helping developing countries contribute to global environment benefits but not at the expense of their own development. It must recognize the continued primacy of the UNFCCC negotiating process, and that the Bank is not, and never will be, a so-called "climate Bank" but would remain the premier agent for sustainable development leading to poverty reduction and growth. In accordance with the principle of common but differentiated responsibilities and respective capabilities, it is now incumbent upon developed countries and multilateral development financing institutions to ensure that developing countries are helped with adequate financing and technology transfer to bridge the financing and technology gaps between least-cost and climate-friendly development. I recognize that the Bank has a role in mobilizing concessional funding towards implementation of SFCC, especially for the benefit of poor countries. However, the Bank must not deviate from its consensus oriented governance. It should avoid taking on trust funds that may compromise this well-established business model.

Before concluding, I would like to state our position on the issue of voice and representation of developing and transition countries (DTCs). This issue has been around for five years and still there is no political consensus on any structural changes. The package just agreed by the IMF Board is minimal and problematic in my view. To make meaningful progress on this issue, we need a solution that is best suited to preserve the Bank's status as a multilateral development cooperative, and one that strengthens the partnership between its developed and developing country shareholders. Without such a solution in sight, it would not be appropriate to raise expectations by making vague promises or pushing a change that is structural in nature but minimal in substance. Having said this, I would strongly support concrete actions on strengthening the representation of African countries on the Board, and of DTC nationals in management positions.