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Statement by the Hon. **MOHAMAD AL-ISSISS,**
Governor of the Bank for **JORDAN,**
on Behalf of the Arab Governors

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1. **Regional economic developments**. In our region, the growth outlook remains largely subdued, reflecting adverse global developments. Policy priorities in the Arab Countries include implementing a coherent macroeconomic policy mix and structural reforms to support growth and job creation. They also ensure price stability, enhance competitiveness, reduce income inequality and regional and gender disparities, strengthen resilience, and ensure fiscal sustainability. Lower oil production weighs on the outlook of oil exporters. Indeed, continued commitment to fiscal consolidation should help boost investor confidence and achieve stronger growth and job creation in the longer term. With respect to oil-importing countries, growth is expected to slow down in 2019, reflecting both domestic factors and the slowing global economy. However, this aggregate projection masks wide variations among oil-importing countries. Egypt, for instance, continues to perform strongly, reflecting the increase in business activity associated with the positive domestic and international perceptions of the country’s reform effort.

2. **Low-income countries (LICs).** We welcome the World Bank’s efforts to expand the financial capacity for LICs through the transformation of IDA's financial model since IDA18 and continuing with efforts towards a robust IDA 19 replenishment as well as other innovations. We appreciate IFCs objective to expand its commitment to LICs. We welcome the recent review of the IMF lending toolkit for LICs to better serve the needs of this important segment of the membership, including enhanced access under the PRGT as well as longer maturity programs. Still, continued flexibility is needed to better tailor programs to countries’ specific circumstances while also safeguarding scarce concessional resources. We want to stress that program conditionality should remain parsimonious as well as macro-critical and relevant to program objectives, given that many LICs have limited implementation capacity. To help meet LICs’ large infrastructure financing needs, the review of the Fund’s debt limit policy should also allow countries greater flexibility and preserve debt sustainability. Closing infrastructure gaps and meeting sustainable development goals will also require enhancing domestic revenue mobilization efforts and improving the quality of fiscal adjustment. Consistent with their respective mandates, the IMF and the Bank should assist LICs in these areas through policy advice and increased capacity building.

3. **Countries in fragile and conflict-affected situations.** We welcome the recent efforts to strengthen the IMF and the Bank’s response to the specific challenges faced by countries in fragile and conflict-affected situation. However, we see scope for better tailoring conditionality and program design to take into consideration countries’ limited capacity and specific circumstances. In countries that endure large migrant inflows

from conflicts which are straining their economies and social systems, the Fund and the Bank should play a leading role in the efforts by the international community to scale-up concessional financial assistance to strengthen their economic and social resilience. The IMF should support these efforts through policy advice and capacity building, including by assessing the macroeconomic impact of the refugee crisis and raising awareness about it among donors, and by providing increased financing and enhanced flexibility to countries engaged in Fund-supported programs. We also welcome the development of the World Bank Group's first strategy for Fragility, Conflict and Violence (FCV) to address the root causes of FCV and their impact on vulnerable groups and we support its continued engagement in those situations and invest in the long-term development goals that create the conditions for peace and prosperity. We commend the Bank for introducing the differentiated approach to FCV situations and concur with the strategic areas and the importance of investing in prevention. Given the importance of country ownership in achieving results, we expect the FCV strategy to stress the importance of promoting country-owned and country-led planning and implementation of interventions. Strengthening the Bank's presence on the ground is an essential part of the WBG's ability to maintain coordination with government and development partners to effectively and efficiently respond to changes. In this respect, we urge the WBG to reopen its offices in both Libya and Yemen, as remaining engaged in situations of active conflict and mitigating the impact of FCV on the most vulnerable are strategic focus areas of the FCV strategy. Delivering impactful results will require effective collaboration, coordination and communication between national, regional and international institutions working on peacebuilding and humanitarian issues to avoid duplication and ensure complementarity.

4. **Small States.** We are encouraged by the work undertaken by the Bretton Woods Institution's to strengthen small states' countries' resilience to natural disasters, climate change and economic shocks that are relevant to many small states. We welcome the commitment of the World Bank Group to enhance its efforts for addressing the special development challenges and vulnerabilities of small states, including through the doubling of resources available to small states by 2030 and the solid progress achieved so far. We welcome the Fund's preventive approach of integrating the above risks into the economic framework and policy analysis. We encourage the Fund to strengthen its collaboration with other institutions that have developed effective mitigation and adaptation mechanisms, and to seek ways to support small states to access climate financing.

5. **IMF relations with our countries**. We thank the Fund for its valuable support to economic reforms in the Arab region. However, the challenging political transition in some countries undergoing Fund-supported programs calls for greater flexibility in program design and conditionality. Greater attention to country circumstances should enhance the traction of the Fund's policy advice. We look forward to continued efforts at capacity building in Arab countries, including through ITD, METAC and the CEF, and with regional financial institutions, including the AMF and the AFESD.

6. **Correspondent Banking Relationships**. Several countries in our region are still being affected by the withdrawal of Correspondent Banking Relationships (CBRs). The authorities have taken steps to address the issue, including with the assistance of the IMF, to ensure that their systems and procedures are in line with the AML/CFT standards. However, despite the progress achieved, concerns over pullback by global banks from correspondent banking remain significant in some of our countries. We encourage the IMF to organize regional roundtables in our member countries, with participation of banking supervisors and local, regional, and global banks to share experiences and possible solutions. We underscore the need for the IMF to continue engaging with various stakeholders, monitoring trends, risks, and drivers; facilitating dialogue on solutions; providing tailored capacity development, and engaging on tail risk scenarios. We also support ongoing efforts to enhance the dialogue between regulators in home and host jurisdictions and among market participants.

7. **Financial Inclusion.** Higher access to financial services is essential to foster sustainable and inclusive growth and to unleash private sector activities, especially for women entrepreneurs in the region. We appreciate the macroeconomic, regulatory, and legal advice provided by the Fund to several countries in the region, building blocks necessary to expand financial inclusion for households and SMEs that will unleash economic activity and job creation. However, our region still faces several challenges to boosting financial inclusion, including constrained access to finance, inadequate policies and institutions and suboptimal regulation. Therefore weencourage the Fund WBG to closely coordinate with regional organizations to reduce duplication of activities, and to increase policy advice and technical assistance synergies across our region. The Fund and the Bank can assist countries in the Region to improve enabling regulatory environments for MSME's to flourish, promote efficiency through fair competition and enhanced support to diversification efforts and, most importantly, create conducive conditions for women's access to finance.

8. **Fintech.** There is broad agreement that Fintech can uniquely enhance financial inclusion, strengthen financial institutions and promote inclusive growth. The adoption of fintech has been gradual in the MENA region but the industry is growing. . Institutional support programs, such as incubators, free zones and sandboxes have increased the capacity of fintech startups. However, the growth potential of fintech is hampered by a suboptimal regulatory environment, weak capacity and insufficient funding. Nevertheless, Fintech presents multiple opportunities for the MENA region, especially for SMEs and creating jobs for youth and women entrepreneurs, both of which face insufficient access to finance. We thus call upon the IMF and the WBG to deepen their engagement with our region including sharing best practices organizing regional forums and increasing technical assistance. As the Bali Fintech Agenda outlines an integrated approach, it can assist member countries in formulating country-specific technology platforms and regulatory approaches to fit their specific needs. The WBG and IMF must continue to complement each other's work through close coordination and a clear division of labor between the two institutions. We welcome that the Bank and IMF are deepening their understanding of fintech issues by

integration into Article IV Consultations and FSAPs. We also support that the IMF and WBG will monitor and analyze fintech developments and their implications within their respective mandates. We support the Bank's focus on enabling reforms and capacity building regarding fintech solutions that deepen financial markets and increase their efficiency, enhance access to financial services, and strengthen payments systems and cross-border remittances.

9. **Diversity and Inclusion**. We reiterate our call on the IMF to further push towards meeting the Fund's 2020 diversity benchmarks, and on IMF management to send a strong signal about its commitment to the institution's diversity objectives. We note that the Arab staff representation, particularly at the managerial level has deteriorated recently and are concerned that the recruitment targets of nationals from our region are unlikely to be met. We encourage the IMF to formulate, as part of the forthcoming Human Resource Strategy, a time-bound plan to achieve diversity and inclusion goals with greater focus on achieving the targets set for severely under-represented regions, including countries of our region. We would also like to welcome the WBG reporting on the new set of Diversity and Inclusion indicators. Given that MNA is among the regions with the lowest representation, this will be an opportunity to increase the representation of staff from MNA countries, especially from under represented countries. We would appreciate more efforts to improve the overall representation of Arab countries in the WBG and in addressing the low level of Arab staff in Managerial positions. Also, actionable measures and accountability at all levels in the IMF and WBG is essential as current policies are not yielding the desired results.

10. **IMF resources**. We reaffirm our commitment to a strong, quota-based, and adequately resourced IMF to preserve its role at the center of the Global Financial Safety Net. We support continued rebalancing of quotas in favor of dynamic EMDCs to reflect their growing role in the world economy. This however, should not be at the expense of other EMDCs. We underscore the critical role played by the New Arrangements to Borrow (NAB) and bilateral borrowing agreements in enhancing the Fund's firepower in crisis situations. We look forward to a successful conclusion to the ongoing discussions on renewal and expansion of the NAB.

11. **Country Exposure Limits**. The country exposure limit, while a useful internal measure, is a problem for many of our Low Middle Income Countries (LMICs), whose borrowing facilities are currently affected by high IBRD exposure limits and elevated public debt levels. The World Bank needs to work closely with other development partners and national governments on innovative de-risking solutions, such as first loss guarantees and expanded insurance capacity. More importantly, concerted efforts need to be exerted to tap the huge potential to pool and diversify risks across the development finance system for this group of our countries that are in urgent need of financing. In this context, we attach great importance to the piloting of the Country Platform initiative as a mechanism to overcome the problem of limited resources for MDBs. We need to ensure that we have a viable and sustainable country platform concept. This is possible with more elaboration on the "Collective Action" factor

whereby development partners should have equal buy-in, no matter who leads the pilot or how much financing is contributed.

12. **Job and Economic Transformation (JET)**. We welcome the World Bank's DC paper on Job and Economic Transformation (JET) and look forward to discussing a full JET strategic agenda in spring 2020. We commend the Bank for the consultative approach it has taken to advance the JET agenda and are particularly grateful for the consensus built around the need to raise its ambition and scale up support to transformative sectors. The private sector must play a key role in providing sustainable solutions to creating markets, mobilizing investment and generating jobs. We call on IFC and MIGA to be innovative and to work together with IDA in mobilizing private sector solutions and resources and leveraging sectoral reforms to deliver on JET. We would like to emphasize that a special provision be made to increase finance to SMEs involved in regional and global value chains (RGVCs) and to upgrade and modernize their technology, given the importance to our economies. We support the focus on creating markets and appreciate the efforts to mobilize private investments in most challenging environments. Further, we applaud the recognition that growth alone is not enough for quality, inclusive job creation to reduce poverty, enhance women's economic empowerment and strengthen social cohesion. We thus urge the Bank to ensure that the implementation of the human capital project would help improve countries' interventions in the delivery of basic services of education and health. We also call on the Bretton Woods Institutions to scale up their support to national and regional institutions to strengthen their capacity in improving economic integration and promoting the digital economy. In this context, we remain committed to work with the WBG to introduce the needed policy reforms to promote inclusive and sustainable growth.

13. **IDA voting rights.** We agree with the need for an inclusive and transparent review process of the IDA voting rights system. We believe that the review should mainly lead to reinforcement of IDA's financial sustainability, preservation of the voting rights of the recipient countries and incentivization of IDA's existing and new contributors. We, therefore, agree with the proposed "Guiding principles" and the "Scope" of the review presented to the governors. We agree as well that the IDA Board of Executive Directors lead the review with inputs from IDA Participants and provide regular updates to the Governors. On the timeline to complete the process, given the complexity of the issue, we need to be flexible and allow enough time to build consensus. This is an important lesson from the last IBRD shareholding review in addition to the need to move in small, manageable steps. Finally, we are pleased that the IDA voting rights review is not being linked either to the IDA19 replenishment or to the next IBRD shareholding review. We believe that this will be helpful in ensuring success of the review and securing broad IDA financial and political commitments.

14. **HCP.** We view the Human Capital Project (HCP) to be an entry point in addressing the challenges facing fragile and conflict affected states (FCS) as well as regions like the Middle East and North Africa (MNA) that are yet to see good results despite high

spending. Furthermore, we need a practical and differentiated approach that is flexible, innovative, and transformative. Given some of the biggest challenges are often related to governance, lack of capacity, and efficiency of spending, it's critical that the WBG and its partners do business differently, to ensure that governments and actors' behavior and incentives align with the goals of the HCP. To close the human capital gap in our region, we also need the WBG teams to provide customized multi-sectoral technical assistance and an innovative mix of financial instruments to our countries. Providing an effective response will necessitate building complementary partnerships while leveraging and scaling them up, especially in the measurement and research agendas. Operationalizing the HCP and linking it to the JET agenda is more relevant than ever for our constituency and countries dealing with fragility and conflict, particularly focusing on women and youth of the region who are witnessing one of the lowest levels of employment across all regions. We also believe that technology has potential to be one of the most transformative drivers of human capital progress in our region, so we encourage a transfer of knowledge on innovative technology which is cost-efficient, easily accessible and can provide quick-wins.

15. **Energy.** Energy is a critical engine for the development of practically every economic sector and every aspect of human life. It is therefore imperative to make energy a top development priority. This will require support for the entire energy supply chain starting with upstream development of energy sources. In view of the large and growing energy demand in the Region, the Bank and the Fund should ensure that all viable and affordable sources of energy are an integral part of the solution. Moreover, both the Bank and the Funds need to guide countries according to country specific context and be more agile while developing relevant policy actions and clarify available tradeoffs between maximizing benefits and addressing risks. The Bank and the Fund should ensure that support is demand driven and responds to the specific needs and priorities of countries in the Region.

16. **Global Value Chains**. The rise of trade and global value chains (GVCs) has helped to accelerate economic growth and reduce poverty, contributing to an unprecedented economic advancement for developing countries. While participation in GVCs is generally determined by factor endowments, geography, and institutions; national policies still indeed play a prominent role. This is where our economies could reap the benefits of participation, including the strong income elasticity of GVC participation found by the WBG flagship WDR 2020 on Trade and GVCs. Meanwhile, getting to those benefits requires developing supply chains and distribution networks domestically to create expanded domestic value chains that interlink with GVCs. We look forward to seeing how the Bank will operationalize the findings of the report in a way that would help our countries develop the skills, build the institutions, and enlarge trade for enhanced participation in GVCs and derive maximum economic advantage from them.

17. **Yemen**. The WB's continued engagement in Yemen represents a paradigm shift in how the WB operates in countries facing conflict. It sends a signal on the importance

of remaining engaged in situations of active conflict to preserve institutions and maintain service delivery to mitigate the impact of conflicts on people and economic activities. Going forward, it is crucial that the WBG continues to strengthen its engagement in Yemen, while leveraging partnerships with other development partners to strengthen the humanitarian-development-security nexus. Continuing to balance the short-term needs with long-term development goals and ensuring close coordination with the government will be key in weathering the effects of conflict while investing in the future. We also stress the importance of scaling up allocations for countries in conflict like Yemen under IDA19.

18. **The Palestinian economy**. Palestine remains an area of great concern. It is under stress from persistent external pressures, the country's outlook has become more uncertain, and there is a growing risk that humanitarian conditions will worsen further. Real GDP growth is expected to be barely positive in 2019, largely due to declining donor support and continuously difficult political and security conditions which is expected to reduce per capita income. Despite Palestine's efforts at maintaining fiscal prudence, the Israeli decision to reduce transfers of VAT and import duties collected on behalf of Palestine will render Palestine's fiscal situation particularly fragile. While a lasting improvement in the Palestinian economy requires a political solution, a comprehensive and coordinated response by the donor community would help bridge the large financing gaps, assist in investing in infrastructure and people, and stimulate private sector development. We thus urge the World Bank to immediately explore the possibility of a supplemental emergency budget support for the Palestinian Authority. Finally, we urge IFC and MIGA to pursue more business opportunities in Palestine.

19. **Somalia and Sudan—debt relief**. We urge the Fund and the World Bank to expedite Somalia and Sudan's debt relief processes under the HIPC Initiative to help them address the stifling debt burden and access development finance to support stronger inclusive growth and poverty alleviation. In this context, it is important to note that Somalia and Sudan were excluded from the original costing estimates of the HIPC and MDRI initiatives based on the understanding that the international community will provide the additional resources necessary for debt relief once these countries are ready. We thus call on the WB and IMF to reassess the positively evolving situations in both countries. Somalia has now commenced the implementation of the requirements to reach the decision point under the HIPC initiative following the recent IMF Executive Board's determination that the new Staff Monitored Program meets the upper credit tranche conditionality. We, therefore, call upon the Fund and the WBG to lead the process of mobilizing the required resources to clear Somalia's arrears to IFIs. Likewise, recent political developments in Sudan present an opportunity for the country to begin the preparatory process towards the HIPC's decision point. We therefore urge the Bank and IMF to work with the transitional government in Sudan to support that process.