Statement by

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On behalf of our constituency, I would like to take this opportunity to extend a warm welcome to Mr. Paul Wolfowitz as President of the World Bank. His leadership will be crucial for the Bank to play its critical part in the international community’s efforts to meet the Millennium Development Goals. I am confident that Paul Wolfowitz will remain fully committed to the strategic directions and the wide reform agenda adopted recently by the Bank with the support and guidance of its shareholders. His first visits to Africa, the Balkans and South Asia as well as his determined start as Chairman of the Board, have clearly confirmed his strong commitment to the Bank’s mission. On behalf of our Constituency, I would especially like to welcome the short visit by President Wolfowitz to Belgrade. We also welcome the two new members of senior management appointed by President Wolfowitz: Mr. Vincenzo La Via, Chief Financial Officer of the World Bank Group, and Mr. Lars H. Thunell, Executive Vice President of the International Finance Corporation.

MDG+5 Summit of the UN

We are pleased with the outcome of the UN World Summit, which has reinforced the key principles of democracy and human rights and set the stage for implementation of mutual commitments by the developing and developed countries alike. The agenda ahead is ambitious but balanced, emphasizing peace, security and development. The Summit has underlined the important role of the World Bank in achieving the MDG. The Bank needs to revisit and consolidate its specific mandates based on the principles of comparative advantage and value-added.

Debt Relief Proposal

I welcome the initiative of the G8 countries for further multilateral debt relief. This initiative is of particular importance to many of the poorest countries, as it should relieve their economies from heavy debt burdens and free resources for human development and sustainable economic growth. However, the success of debt relief in making a real contribution towards poverty alleviation and meeting the MDGs will critically depend on finding appropriate solutions to several key implementation challenges and securing funding for the initiative. In this regard, I very much commend the Bank and IMF staffs in bringing the various legal, financial and operational issues to the fore as this allows us to make well-informed decisions.

Our constituency, with donor and borrowing countries, emphasizes the importance of safeguarding IDA, ADF and IMF’s long-term financial integrity and preserving IDA’s and ADF’s nature as a loan-making facilities as anchored in their respective charters. For IDA and ADF, this calls for clear rules to monitor additionality of debt relief resources for the IDA 14 period and beyond. We are strongly committed to work with all other shareholders and Bank and
Fund staff to arrive at a debt relief scheme that is sound, comprehensive, and based on a broad consensus. These important remaining issues have to be resolved in accordance with the rules and principles of the institutions concerned and within their respective governance frameworks.

It is absolutely vital to ensure the effectiveness of debt relief, as the donor community and recipient countries are accountable to their citizens and tax payers. Therefore, we have to make sure that resources freed up by debt relief are used to support countries in implementing their PRSs and in meeting the MDGs. We also insist on the importance of performance, which builds upon country ownership, good governance and sound public financial management. We must further ensure that rapid accumulation of unsustainable debt does not reoccur without foreclosing the possibility of participating countries accessing international capital markets in the future. The Debt Sustainability Framework provides a good basis in this regard. Last but not least, we highlight the importance of fully financing HIPC, including for the additional countries that will likely be declared eligible based on their end-2004 debt data.

Aid Financing and Aid Effectiveness

We acknowledge progress in the area of aid financing; we remain convinced that increasing ODA through ordinary budgetary means is the simplest and most effective way. This being said, we welcome efforts to explore other aid financing mechanisms and remain open to examine initial experiences by those countries that have chosen to go ahead.

Harmonization and alignment are key for enhancing aid effectiveness. The High Level Paris declaration on alignment and harmonization is a valuable achievement in this regard and its implementation requires our full attention. Effectiveness also means better coordination and division of tasks among donors and an appropriate aid architecture based on comparative advantages. This is particularly relevant in the context of increased availability of funds. We hence support the commitment to reinforced collaboration between OECD/DAC and the Bretton Woods institutions, regional development banks and the UN agencies, in particular, and invite these partners to present a proposal for discussion in the coming months.

We are convinced that aid can only be effective if recipient countries are fully involved in allocation, use and monitoring of resources. Two reviews conducted for this Development Committee Meeting confirm this importance of ownership. Firstly, the review of the Poverty Reduction Strategy (PRS) approach shows the importance of aligning aid programs with a country’s PRS. More generally, the review confirms our view of the key role the PRS approach is playing in domestic and development aid processes. Secondly, the review of World Bank conditionality shows that conditionality is most effective if it closely reflects borrower commitment to a reform program. The good practice principles emerging from the review provide guidance on how to further strengthen ownership in the use of conditionality. We welcome these principles and encourage the Bank to ensure their implementation in Development Policy Lending across the Bank.
Action Plan for Africa

We agree with the Bank that Africa is at a turning point in terms of better leadership, economic and social performance and improvement in policies and institutions. The improvements in growth and human development observed in several African countries need to be sustained and spread to the many countries still lagging behind. Against this background and in light of the manifold and urgent development challenges Africa is facing, the special focus on Africa of this Development Committee meeting is timely and important. At the same time, this should not deter us from maintaining and enhancing development efforts in other regions.

The Bank's Action Plan for Africa is well-structured and builds on lessons learned as well as on analytical and practical efforts by the key actors, such as the Commission for Africa and NEPAD, which is proof of African leadership. We support the focus on results, growth and building partnerships. The Plan will be first and foremost implemented at the country level. The donor community including the Bank needs to better analyze country-specific conditions, including the binding constraints and socio-cultural aspects deeply entrenched in the functioning of local social, economic and political systems. This will also require more predictable and deeper aid commitments.

The likely scaling up of aid to Africa represents a unique chance to make big strides towards the MDGs. At the same time, possible negative macro- and micro-economic effects, such as Dutch disease and human and institutional capacity constraints, have to be duly taken into account. Likewise, countries must step up their efforts in domestic resource mobilization to reduce aid dependency.

We take note of the idea of a catalytic fund. Such a fund may provide certain advantages over existing funding channels, yet also adds to the risks in terms of proliferation of funding vehicles, distortions vis-à-vis existing mechanisms, and thus possibly undermines the principle of performance-based aid allocation.

Finally, the Africa Action Plan is a good model for comprehensive approach that is tailored to regional specificities. Hence, it should be replicated in other regions such as Central Asia, including Afghanistan.

Trade Agenda

We underscore the importance of bringing the Doha Round to an ambitious success and signal the urgency to reach a political commitment at the Hong Kong Ministerial in the collective interest of strengthening the multilateral trading system. A failure would be an enormous setback, especially for developing countries, and we firmly believe that trade is key to ensure long-term growth. We emphasize the significance, not only of agriculture, but also of non-agricultural and services market access for developing countries. A positive outcome requires action from the developed and the developing countries, including emerging economies. As benefits accruing from trade liberalization differ according to developing countries, we support the special and differential treatment for the poorest countries, while we do not think that a “zero round” would be in the interest of any developing country. Strengthened efforts in trade-related
cooperation are particularly important for those countries that face the challenge of catching up in becoming competitive in penetrating new markets. However, the Aid for Trade concept should by no means be understood as a substitute for progress on the Doha Agenda, which remains an absolute priority.

We thank the Bank for its valuable analytical and practical contributions, including its efforts to help mainstream trade into PRSs and fostering more complete follow-up by governments and donors. We endorse in principle an enhanced IF which builds on the lessons learned so far and responds to further needs, first and foremost of least developed countries. We request that the Bank further elaborate on the details of an enhanced IF, together with the IF Steering Committee.

We take note of the idea of creating yet another specific multilateral fund or window, e.g. to address regional or cross-country aid for trade needs. We believe, though, that possible gaps should first be filled by existing schemes. The governance processes and rules regarding the IF need to be duly respected.

Trade liberalization will create adjustment costs for most if not all countries. Sufficiently long transition periods, especially for those countries which export only a very limited number of commodities, will allow different categories of countries to undertake the necessary reforms so that unexpected adjustment shocks should be avoided. We encourage the Bank to strengthen its work as part of its regular duties in helping countries early on in identifying and designing policies aimed at addressing key impacts. Possible financial assistance in selected cases should be provided by the IMF and World Bank under existing mechanisms. Hence, we concur with the Bank that a dedicated adjustment fund under the auspices of the WTO is neither desirable nor necessary.

In further fostering trade, economic growth and social development improved access to infrastructure stands out as an important element. We welcome the update on the challenges and enormous needs, which many developing countries continue to face in the area of infrastructure. Access to power, for example, is often quoted as the number one constraint in rural development where most of the population in the developing world lives. Directing infrastructure development towards sustainable and environmentally clean technologies should be considered where ever possible.

**Climate Change**

Recent dramatic events of hurricanes and flooding are just one additional piece of eye-opening evidence that major changes in our climate are taking place with devastating effects for the affected people as well as the local and global economy. We should not lose sight of the fact that the poorest countries and poorest people pay a disproportionate price in such disasters. The Millennium Ecosystem Assessment, to which a large number of private and public experts, including the World Bank, have contributed, is a solid piece of analysis which addresses the broad spectrum of environmental challenges. The awareness about the specific link between environmental protection and poverty has to be increased with priority areas of intervention and actions undertaken accordingly. Concerted action is required, not only at the global scale, but also at the regional, national and local level, by public and private actors.
There are a number of actions the World Bank Group and other multilateral organizations can take to address climate change within their own operations and policies; sector strategies and country assistance strategies should systematically reflect climate considerations, and greenhouse gas analysis should be applied in specific operations like infrastructure and rural development. The continued leadership of the World Bank in developing and introducing greenhouse gas accounting is very important, as is its role in promoting initiatives and practices pursued by leaders in the private sector in this area (i.e. Equator Principles). We look forward to a more substantive discussion of this topic at our next meeting.