Statement by

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State Secretariat for Economic Affairs
Switzerland

On behalf of Azerbaijan, Kazakhstan, the Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan and Uzbekistan
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The social and economic progress in many developing and emerging countries is in danger of faltering. After years of high and sustained growth, the global economic slowdown is threatening to erode decades of development gains. Security threats in the form of political instability, protracted and emerging conflicts, violence and terrorism, natural disasters, and humanitarian crises increase the vulnerability of people around the world and undermine a swift global economic recovery. Addressing these short and long-term development challenges is a shared responsibility requiring collective efforts at national, regional, and international levels.

Addressing Short- and Long-Term Development Challenges

Structural and institutional reforms at the national level are key to restore growth, increase productivity, and create new job opportunities enabling the poor and vulnerable to engage in economic activities. This requires reducing administrative burdens and improving the investment climate, adopting competitive product and labor market regulations, and deepening financial markets. Given the size of the agricultural sector in many developing countries, an enabling environment for the private sector is of paramount importance. Similarly, reducing energy subsidies is critical to free up resources for investments in human capital and essential public goods and services, such as energy, water and sanitation, and transport infrastructure.

Collaborative actions and approaches at the regional level are also critical to stimulate growth. Connecting markets and developing cross-border infrastructure enables countries to participate in the global economy. Removing major domestic constraints to the free movement of goods, capital, and foreign direct investment facilitates the transfer and adoption of technology, raises labor productivity, develops new markets, and facilitates export diversification. Small and land-locked economies in particular can reap significant economies of scale by embracing regional solutions for transboundary issues, including the management of shared natural resources.

Strengthened multilateral partnerships will be needed to address today’s global development and humanitarian challenges. The adoption of the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda, and the COP21 Climate Change Conference prove that governments, international and non-governmental organizations, the private sector, and the civil society are committed to work together in order to find sustainable solutions to the global development challenges.
Yet, as the world economy sputters, feelings of insecurity, existing and perceived inequalities, and fading trust in public institutions tend to reinforce political polarization and isolationism. This trend can be observed to varying degrees in all countries, regardless of their income level. In such cases, short-term considerations often prevail over future-oriented strategies, making it harder for policymakers to commit to—let alone implement—measures that address long-term development challenges. In this context, the World Bank Group, in partnership with other multilateral institutions, can identify local and regional responses that meet the immediate needs of its clients while addressing long-term development challenges.

**Forward Look**

The Forward Look seeks to position the World Bank Group within the strategic framework of the 2030 Agenda for Sustainable Development. It serves as a welcome complement to similar previous efforts, such as the articulation of the Bank Group Strategy and the introduction of the Billions to Trillions framework. In order to meet the ambition of the 2030 Agenda, the Bank needs a clear and strong mandate to preserve its future legitimacy. Securing such a mandate depends on a common understanding of the Bank Group’s role. The Forward Look exercise offers the opportunity to assess whether the Bank’s instruments and resources are in line with the needs and expectations of its members. It facilitates the important institutional discussions currently under way, such as the implementation of the 2015 Shareholding Review and the IDA18 replenishment.

We welcome the strong emphasis on global public goods. The Bank is well positioned to understand the scope and nature of global public goods, catalyze action at the national, regional, and global levels, build institutional frameworks, and mobilize the resources needed to address the related challenges. We agree on the need for the Bank to prioritize the global issues on which it aspires to take the lead. The Bank must be selective in its engagements and focus on development issues that align legitimate client demand with the Bank’s comparative advantages. Where appropriate, the Bank will have to adapt its operational country-based engagement model to provide the sustained and flexible support that is indispensable to overcome global development challenges.

The Bank Group’s comparative advantage lies in its ability to assist clients across all income levels with competent advice in designing and implementing effective policies and investments based on a sound understanding of their needs and capacities. The Bank must continue to support clients in their efforts to establish an environment for productive long-term investments. By combining financing with global knowledge the Bank can play a catalytic role in mobilizing public and private resources and facilitating exchange of best practices to address national and global development challenges.

We see a strong rationale for the Bank Group’s involvement in middle-income countries, which have become an important engine of the global economy over the past two decades. They are critical to the regional and global public good agendas. At the same time, many middle-income countries suffer from high levels of poverty, shortages of public services and infrastructure, and weak public sector management and governance. In some countries, growing inequality threatens to slow down economic development and social cohesion.

Recent development policy operations in Kazakhstan, Peru, and Serbia demonstrate that the Bank’s financial and technical support can have tremendous value when combined with strong commitment to reform. Improving the governance as well as the financial and operational efficiency and effectiveness of subnational entities, state-owned enterprises and public utilities is of particular importance. In this context, the Bank Group will need to ensure that the dividends of growth are reaching the bottom 40 percent. It will also have to demonstrate agility, ensure synergies across its institutions, and draw upon the countries’ own capacities to produce greater development outcomes.
IFC and MIGA have demonstrated that their instruments can be effective and profitable in frontier markets and should continue to nudge the private sector to assume reasonable risks and invest in these markets. They will have to focus on operations that are financially sound and generate positive financial returns over time. The higher risk of investing in frontier markets, especially in fragile contexts, warrants the blending of public and private resources, whereby public resources lower the risk of private investments. However, careful design and implementation will be needed to minimize the risk of creating market distortions, wrong incentives, and unintended negative development outcomes in the long term.

**Forced Displacement and Development**

Given the sheer complexity and scale of the current refugee crisis, there has been some hesitancy and disorientation in the international community on how to meet the shared responsibility of hosting, protecting, and integrating forcibly displaced people and communities. A range of international conferences in 2016 will provide the opportunity to generate a holistic and multi-stakeholder approach at the global level, with clear roles, responsibilities and accountability structures across the humanitarian and development systems, for the benefit of displaced persons and affected host communities. Against this backdrop, we welcome the proposed approach of the World Bank Group toward forced displacement as a first important step towards clarifying its role in this critical area.

We expect the Bank to work in partnership with others, especially the United Nations, to help prevent forced displacement and find durable solutions to enhance the resilience capacity of the forcibly displaced — including internally displaced people — and their host communities. With poor countries carrying the burden of helping the world’s forcibly displaced people, careful consideration has to be given to the political economy dimensions of forced displacement. Host countries often feature structural economic and institutional weaknesses. In such cases, the influx of refugees can produce an additional shock to the social and economic equilibrium of the society, with the poorest segments of the population often bearing the brunt of the pressure. The Bank can support host countries and communities to better absorb this shock.

Adopting a holistic and multi-stakeholder approach should focus on increasing the protection, resilience and self-reliance of displaced people while addressing the needs of host and return communities. Youth and gender-specific vulnerabilities need particular attention. The Bank can assist governments in addressing the inflexibility and fragmentation of labor markets and implementing critical economic and structural reforms, such as increased access to local public services and improved infrastructure. If the Bank is involved in immediate assistance activities, its instruments should be closely aligned with those of UN agencies to facilitate synergies between their mutual relief, rehabilitation, and development activities. A good understanding of the institutional and governance environment can help ease tensions, facilitate policy dialogue, and eventually address the long-term determinants of forced displacement. It will also help to ultimately decrease dependency on humanitarian aid.

At the same time, we expect the Bank to continue to work on the root causes of conflict and fragility, which lead to violence and in many cases displacement. Fragile countries often have weak institutions and unresolved conflicts, from which it can take multiple decades to emerge. In such cases, a focus on boosting growth and fostering inclusive institutions is the most promising approach to address forced displacement in the long run. Such efforts require the presence of dedicated and qualified staff in the field, whereby the related additional staffing cost would be compensated by more targeted and efficient programs.

**Balancing the World Bank Group’s Immediate Needs and Long-Term Goals**

The World Bank Group needs adequate human, technical and financial resources to respond to the various development challenges in developing and emerging countries. In this regard, it is of critical importance to preserve IDA’s capacity to mobilize concessional funding for the development of low-income countries
and for the provision of the global public goods that are most relevant to them. The adequate resourcing of crisis prevention, preparedness and response, including forced displacement, should be a priority of the IDA18 replenishment. The Bank must also find a sustainable, systemic solution to support middle-income countries.

The follow up on the 2015 Shareholding Review, the Forward Look, the IDA reforms, and the potential IBRD and IFC capital increases are intertwined processes and should be considered together. The Shareholding Review should incentivize the continuous mobilization of concessional funds. The Bank’s proposed expansion of non-concessional finance is hardly justifiable if the revised shareholding formula does not generate a strong and credible commitment from present and new donors to meet their responsibilities toward the poorest members of the organization. The complexities that prevent the implementation of the IDA+2 option should not be avoided and must be addressed. The possible adoption of the IDA+1 approach – which may bring short term advantages – should not stop the search for a more sustainable long-term solution. Due to continuing uncertainty, all options currently being discussed must remain on the table.

Leveraging IDA equity – if decided – will have to go hand in hand with a strategic and relevant engagement of its concessional resources. IDA’s allocation system must continue to be results and performance based while applying flexibility to areas where the needs are greatest and the expected development outcomes are highest. The trend toward the multiplication of earmarked funds and allocation mechanisms has to be reversed.

IDA reforms must also promote an integrated World Bank Group approach to private sector development. A convincing Bank Group contribution to development in low-income countries has to expand the traditional IDA approach with IFC analysis, experiences and instruments. Conversely, and independently of any considerations on leveraging, we should clarify how the allocation of IDA resources and the design of IDA programs could better support IFC operations in low-income countries and fragile contexts, maximizing the joint development impact of the World Bank Group. The discussion on the need and relevance of WBG internal transfers to IDA has to be reassessed in this context.

The expansion of IDA’s lending envelope is likely to expand the Bank’s administrative budget, especially if the additional lending is used to address the development challenges in the most difficult environments. To do so, IDA’s revenues will have to match its administrative expenditures, for instance through an increase in fees paid by borrowing countries or the provision of dedicated Bank-executed trust funds. More generally, the Bank needs to overcome the excessive dependence on Bank-executed trust funds in order to ensure strategic continuity and flexibility.