



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)



SIXTY-FIRST MEETING
WASHINGTON, D.C. – APRIL 17, 2000

DC/S/2000-28

April 16, 2000

Statement by Pascal Couchepin
Federal Councillor, Minister of Economy
Switzerland
On behalf Azerbaijan, Kyrgyz republic, Poland,
Switzerland, Tajikistan, Turkmenistan and Uzbekistan

I. Fight Against Poverty

1. Poverty remains pervasive, and hundreds of millions of people continue to live in deprivation and hardship. Despite substantial economic recovery after the “lost decade of the 1980s”, it is doubtful – looking at the current development trend – that the international community will achieve the agreed International Development Goal of halving global poverty by 2015. We are therefore faced with an urgent challenge.

2. The fight against poverty calls for a multi-dimensional approach. Sustained economic growth and stability are essential preconditions for lasting poverty reduction. However, we need to pay more attention to empowerment, which starts with granting basic education to everyone. Other factors are: reducing inequalities - inequality slows poverty reduction -, human security, inclusiveness, and governance. I strongly advocate that we continue to pursue efforts for participatory strategies aiming at more social justice.

3. At this juncture, I consider that the international community must define additional and substantive action to give a new impetus towards achieving the international development targets. This calls for a Renewed Deal between developing and industrialised countries, in particular in the areas of liberalised and fair trade, debt relief, economic co-operation and good governance. I consider that the Comprehensive Development Framework provides a very valuable mechanism in this regard.

4. Industrialised countries should encourage private capital flows for productive investment in developing countries. I also believe that we need to work more actively on our internal political front: we need to convince people that investing in poverty reduction, in human capital development and in partnerships for global public goods is in our enlightened self-interest. In this regard, I consider that the **Geneva Social Summit** and the planned **UN Conference on Financing for Development** will represent opportunities to discuss strategic issues and to formulate new proposals and recommendations for action.

II. Progress Report on Implementation of Poverty Reduction Strategy Papers and the HIPC Initiative

5. I commend the Bank and the Fund for the efforts made and the progress achieved in implementing the enhanced HIPC Initiative and in introducing the Poverty Reduction Strategy Papers (PRSPs). I note with satisfaction that the first PRSP exercises are indeed helping our partner countries to enhance the poverty diagnostics and identify structural reforms required for poverty reduction. However, lessons learned so far do also suggest that certain improvements would be necessary.

6. Although the co-operation between the Bank and the Fund has definitely improved, I consider that their respective expertise and capacity could be used in an even more complementary manner. Indeed, the participatory process that is required to lead to a fully country-owned PRSP is very demanding, and calls for the most effective

assistance from the multilateral financial institutions. A substantive problem concerns the adequate medium to long term financing of PRSPs. The credibility of the whole exercise will obviously depend on its capacity to deliver concrete results; I would like to request that the fiscal implications of PRSPs and the mechanisms to incorporate them fully into the budgetary process of a given country should be looked at more carefully. Finally, we have to admit that the successful elaboration of a good Poverty Reduction Strategy takes time and requires a massive additional effort by the developing countries. I would like to reiterate once more that this process should not unduly delay a country's access to debt relief under the Enhanced HIPC framework. Conditions to trigger the floating completion point should therefore be limited to a small set of key measures that can be satisfactorily monitored.

7. The funding of the HIPC Initiative remains an area of serious concern. When the *Modalities for Implementing HIPC Debt Relief under the Enhanced Framework* were recently discussed, Switzerland only very reluctantly adopted the proposal to use IDA resources as bridging finance for the Initiative. Indeed, this proposal could have negative impacts on the integrity and additionality of IDA resources. Beyond debt relief, a true debt exit strategy for the HIPC countries will continue to require a sustained high level of concessional Official Development Assistance, including substantial IDA net flows. In this context, I would like to underline once more Switzerland's objection with regard to the restructuring of IBRD debts in HIPC countries with IDA resources.

8. I call on all bilateral and multilateral creditors, as well as on all donor countries to contribute actively and substantially to the financing of HIPC. The scope and nature of the Initiative, as well as the expected broad benefits, do indeed call for a fair and equitable burden sharing within the international community. In this regard I would like to see a more active participation of non-OECD creditors and donors. In addition, in the light of the commitments made in Cologne, the G-7 countries have in my view a particular responsibility in mobilising adequate financial resources.

9. For its part, and hoping that others will follow, Switzerland has the pleasure to announce a further contribution to the HIPC Trust Fund, in the amount of fifty million Swiss francs, bringing our total contribution to the HIPC Trust Fund to 90 million Swiss francs. This comes in addition to the 70 million Swiss francs we have already disbursed for commercial debt reduction and to further substantial contributions to various multilateral debt funds that provided interim assistance to HIPC countries. It also adds to the substantial Swiss contributions made at the IMF.

III. Intensifying Action Against HIV/AIDS

10. I agree with the World Bank that AIDS is a **major human and development challenge for the world**, with potentially disastrous effects on poverty reduction efforts. The AIDS pandemic has already a devastating impact on all social and economic sectors. Moreover, HIV infected people are often excluded from society, and millions of children are orphaned: social cohesion is in danger. Once more it is the poorer people who bear the most dramatic consequences of AIDS, being deprived of adequate social

safety nets. For this reason, I appreciate that the World Bank encourages local governments and civil society to consider AIDS as a multi-sectoral development problem and to intensify their action against it.

11. A striking aspect of the AIDS pandemic is the **urgency for preventive action**. At a relatively low cost, the further spread of AIDS can be effectively curbed down. I wish to stress the importance to adapt prevention programs to the local and cultural realities, to the religious values of the people and to the concrete needs of the local communities, with a special focus on young people and women. On a perhaps longer term, the development of an **AIDS vaccine** available and affordable for the poorest is another important goal. In my view, it is primarily the responsibility of the private sector to continue spurring investments in this crucial field.

12. The World Bank's commitment to the fight against AIDS is important. However, in my view, it is up to **UNAIDS** to take the lead of the international action against AIDS and to **co-ordinate** it. The World Bank is right to make us more aware of the development threat that AIDS represents, and it makes an important contribution to raise additional resources for this purpose. I believe that the Bank must also fully integrate the AIDS dimension in its policy dialogue and strategic analysis with developing countries. At the same time, the role and action of the World Bank must remain subsidiary to – and very co-ordinated with - the joint international efforts led by UNAID.

IV. Trade, Development and Poverty Reduction

13. Trade liberalization is a crucial engine to achieve rapid and sustainable growth. Developing countries, in particular the poorest ones, have to be put in a position allowing them to make effective use of the trade opportunities. They still have an unfinished reform agenda to liberalize their own markets and to achieve export diversification. At the same time, their easier access to the markets of OECD countries and to the international financial markets are also essential.

14. Issues on trade and development have to be addressed and coordinated by the specialized and competent international organizations, i.e. WTO, UNCTAD, ITC. However, the Bank and the Fund have also an important – although subsidiary – role to play in complementing the work of these organizations. They must focus on issues where they have a comparative advantage. I believe the Bank could make important contributions. It could promote sequenced trade policy reforms based on individual country conditions. It could contribute to strengthening national capacities such as customs, the financial sector, the fight against corruption to enhance regional integration. And it could support innovative approaches to facilitate the access of the poorest countries to market-based mechanisms for securing export transactions on raw materials.

V. International Financial Architecture

15. The Bank is making substantial and useful contributions in its fields of competence and expertise. But I still wonder if these efforts in standard setting, in diagnosis making, in systems assessing, are concretely bearing fruit in strengthening the national financial systems in developing and emerging economies. Have we already made a difference at the country level? I invite the Bank to give more information in the coming months on the results and progress achieved in this field. I would appreciate to have a more comprehensive progress report at the time of the Annual Meeting.

16. I am pleased to note the effective co-ordination with the IMF on the **Financial Sector Assessment Programs (FSAP)** and the **Reports on Observance of Standards and Codes (ROSC)**. However, the respective roles of the Bank and the Fund in delivering specialised technical assistance and capacity building, based on the outcome of the FSAP exercises, deserve some additional clarification. Even more important: I am still missing a substantive discussion on the expected role of the World Bank in the context of the resolution of future financial crises. This is a strategic discussion for the shareholders. I have strong reservations as regards the excessive involvement of the Bank in providing massive short-term resources when international financial crises occur.

VI. IBRD Financial Capacity

17. Switzerland supports an in-depth and regular review and analysis of the long-term structural sustainability of the Bank's finances. Indeed, although the current financial standing of the Bank remains sound, and recent economic developments have reduced the urgency to act in the short run on its financial and risk-bearing capacity, we must still look at the fundamentals. I believe there are areas of persistent concern (e. g. equity to loan ratio, Bank's return on capital) which deserve strong and decisive action in the medium term. I therefore very much support the Bank's efforts to push further the discussion on possible options for enhancing IBRD's financial capacity.

18. This being said, I would like to caution the Bank that it would be illusory to expect the identification of concrete options to emerge, without an adequate prior debate among the shareholders on the strategic direction of the Bank. In this debate, the new development architecture and the Bank's role in poverty alleviation will have to be carefully considered, and more particularly its role in situations of future international financial crises. I call on the Bank to contribute actively to ensure that this important strategic discussion takes place in the coming months.