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On the
Transfer of Real Resources to Developing Countries)



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Switzerland
On behalf of Azerbaijan, Kyrgyz Republic, Poland,
Switzerland, Tajikistan, Turkmenistan and Uzbekistan

A new corporate strategy

Despite some successes, poverty persists, and it has become uncertain whether we will reach our goal of halving absolute poverty by 2015. This is why I remain convinced that the World Bank needs to play an even more important role in today's interdependent world. The Bank needs to adapt continuously to new challenges. It has to define more clearly how it will lead and coordinate the fight against poverty and how it should support the countries that wish to undertake social and structural reforms benefiting the poor. The internal organization will need still more changes. For example, decentralization has made progress but should become more systematic, particularly in Africa and Eastern Europe and Central Asia. The Bank still goes in too many directions; more focus is a must.

The time has come to prepare a new corporate strategy. Concrete elements for a strategy are coming together. The emerging country models to reduce poverty (Poverty Reduction Strategy Papers, PRSP) and to better coordinate external assistance (Comprehensive Development framework, CDF) are providing sound building blocks for such an exercise. Better criteria have been defined to use the Bank's "convening power" and to engage in international partnerships. A growing number of sector strategies have been elaborated relating sector goals to poverty reduction and providing a sense of the Bank's future efforts. A policy on global public goods is emerging, and different program approaches and instruments for low- and middle-income countries are being discussed. Finally, using the findings of the new World Development Report, operational goals and methods for poverty reduction can be elaborated.

If we are serious about such a long-term strategy, we also have to be prepared to support it with resources that correspond to the complexity of the task. We need to determine the right administrative budget. I will be quite flexible on future budget proposals as long as they are based on a convincing corporate strategy.

My remarks are made with the intention of strengthening the multilateral framework for development cooperation. Increasing the budget of the World Bank should not come at the expense of other multilateral institutions. Really, the efforts must be complementary. In particular, I also welcome the efforts undertaken recently to strengthen UNDP and other UN agencies. A deepened partnership with the UN system will be an important asset in our fight against poverty.

The Fight against Poverty

I am encouraged by the new poverty focus of the Bank. The preparation of "homegrown" poverty strategies (PRSP) is a major step towards making international cooperation more relevant and successful. I fully agree that this instrument should become central for the Bank's work in low income countries.

The PRSP can also play an important role in middle income countries by focusing the Bank's efforts on the poorest groups of society. In this case, however, making the PRSP the sole

planning instrument is questionable since often countries have defined already their development strategy. Similarly, some low-income countries may not have the capacity or commitment to develop adequate PRSPs. In such cases, it would be appropriate to provide capacity building assistance. We need to ensure that the PRSP remains a trademark for sound development practice and standards.

Challenges remain great. To develop a meaningful PRSP can require years. Often, the process is as important as the result, since it will foster ownership and thus improve the chances that the adopted policies and measures will be effective. The donor community, including the Bank, needs to become aware of these challenges and decide what role it wants to play. In particular, it needs to identify how it can support the process without jeopardizing ownership. Capacity building, technical assistance, data collection and studies have to address more systematically the institutional weaknesses and gaps associated with the PRSP process. At the same time, donors should gain confidence in borrowers' capacity to work out poverty strategies on their own. In this respect, I wonder about the rationale that PRSP documents are presented by the staff of the Bank and the Fund, rather than by a country representative.

Recent experience with the enhanced HIPC initiative confirmed an important tension between the PRSP and the HIPC process: The time required to prepare a PRSP is usually quite longer than the completion of the HIPC cycle. I therefore welcome the proposal to look at the Interim PRSP primarily as a road map for a full-fledged participatory PRSP. Extending the interim period will also help to link debt relief to sound poverty reduction. But the risk is high that the PRSP will be seen by many debtor countries exclusively as a means to obtain debt relief. This is why I recommend that at the "completion point" of HIPC, a debtor country should be accountable for a limited package of intermediary institutional changes and policy results. Debt relief should much less depend on government decisions to be implemented in the future.

Enhanced Debt Relief (HIPC)

I continue to be a strong supporter of comprehensive debt relief that will help countries to reach a sustainable level of debt. I note with satisfaction that substantial progress has been made in implementing the enhanced framework. However, in the next months it will get more difficult to strike the right balance between speed of delivery and quality of the process, since countries are involved that have not been able to follow consistent policies over time. In spite of the urgency of debt relief, it is crucial that they adhere to sound economic policies, implement measures to fight poverty and improve governance.

The cost of HIPC debt relief has not increased significantly since our last meeting. However, I fear that the recent deterioration of the terms of trade in many countries will eventually jeopardize the debt exit strategy under HIPC. In any case, it is crucial that we fully secure as early as possible the financing of the enhanced initiative. I therefore call upon the Bank to monitor the situation closely, and to report back on this matter next spring.

Commitments to fund the HIPC initiative have improved over the past six months. Still, I remain concerned. From 2005 on the HIPC Trust Fund will no longer be able to cover the cost of relief

for debt with the Bank. Resorting to IDA potentially means transferring resources from new support to debt relief. This undermines the credibility of the international initiative all together. We also must find considerable amounts for some regional institutions, in particular the African Development Bank, to cover their part of the initiative.

The delay of parliamentary approval in certain donor countries not only put the initiative on an uncertain financial footing. It also means that the real value of forthcoming contributions will be significantly lower than at the time of their pledge. I therefore appeal to all countries that have yet to make a contribution to do so in a fair burden sharing according to their economic capacity. This appeal also includes Non-Paris-Club creditors.

I would like to point out that some poor countries currently not considered under the HIPC initiative have an unsustainable level of debt. A solution should be found for these countries, for example Kyrgyz Republic and Tajikistan.

Governance and Corruption

The experience in transition countries and the sometimes-limited impact of structural programs has shown how important good governance is. Widespread systemic corruption is a major impediment to economic growth and hurts the poor the most. I welcome the Bank's progress in formulating a new strategy for public sector reform, which recognizes that public institutions are at the heart of a strong and accountable market economy. I also welcome the support by the Bank to governments that wish to fight corruption.

Having said this, I would like to add a word of caution. As the Bank is entering the highly complex and sensitive area of governance, it will be important to have the proper expertise to arrive at sound judgements and sensible policy advice. Similarly, the Bank's measuring of country performance and good governance has to be carried out with full transparency of the borrowing countries and the Bank's Board of Directors. Further research should be carried out to make the indicators more objective and reliable.

Finally, we will need to find a new approach to deal with countries affected by conflicts. Clear criteria should be elaborated to allocate IDA resources and choose the right instruments in those special circumstances.

Supporting Country Development: Low and Middle Income Countries

I welcome that the Bank takes the structural differences between borrowing members as a point of departure, when reviewing country policies.

The agenda proposed for the low-income countries is appropriate, and I particularly support the emphasis on greater consultation and coordination between all development partners. However, I am not yet fully convinced about the advantages of the proposed new budget support called Poverty Reduction Strategy Credit (PRSC). While I understand the rationale for establishing a

closer link between the Bank's lending and country strategies for poverty reduction, I question whether this objective can be achieved through annual program lending. I therefore suggest that we continue the discussion on the design and modalities of the PRSC. In particular, the Bank should clarify how the PRSC relates to the parallel facility of the IMF (Poverty Reduction and Growth Facility, PRGF) and to other of its own instruments. Will there be cross conditionality between the PRSC and the PRGF? More generally, we should avoid excessive conditionality. Only a small number of benchmarks under the PRSP should trigger the PRSC. Finally, the PRSC should not come at the cost of investment lending. The Bank needs to remain in the business of doing projects, since projects contribute to institutional development and higher productive capacity. Yet, of course, they have to be part of coherent sector strategies. Thus, the Bank needs to clarify how the PRSC can be accommodated within its current lending options.

It is urgent to reassess the role of the Bank in the middle-income countries. A more differentiated approach is in order since this is a very heterogeneous group. Even a look at our own Constituency makes this patent. The role of the Bank in Poland has to be very different from its role in Azerbaijan, Turkmenistan and Uzbekistan. It is a positive step that the Task Force will look into the Bank Group strategies. I call upon the members of the Task Force to consult carefully with borrowing countries and other development countries on the proposed modalities. I still need to be convinced that a differentiation of loan pricing – as such desirable – can be reconciled with the Bank's cooperative nature. Similarly, the proposal of a new program loan (Development Support Loan) is interesting, but deserves more substantive discussion on policy conditions and the fiduciary process.

Comprehensive Development Framework (CDF)

The CDF provides a useful platform to make more systematic efforts, and more importantly, to encourage recipient governments to engage in more comprehensive planning and broad consultations to define their development strategies.

I would like to reiterate my support to the CDF process. I note with satisfaction that the main elements of the CDF are not only implemented in the pilot countries but are present in most of the Bank's recent country work. Before extending the CDF to more countries however, I would like to ask the Bank to evaluate carefully the experience so far, and to highlight the role that each partner can play in the process. For this purpose further work is required in strengthening monitoring and evaluation.

I encourage the Bank to further clarify how the CDF relates to the CAS and how it complements the PRSP. At the local level, there is room to further improve both CDF and PRSP, for example by supporting governments in shaping the consultations. The business sector and civil society should be more systematically consulted. The CDF should build on existing consultation mechanisms, if they exist, and embrace rather than dismiss them. So far, capacity building efforts have not paid sufficient attention to this aspect.

There is considerable scope to further improve the impact of development assistance by ensuring that donors harmonize their activities.

It is not sufficient to coordinate at the local level. The World Bank should launch also an international dialogue based on its experience with the CDF. The next Spring Meeting could be an opportunity to present concrete proposals.

Poverty Reduction and Global Public Goods

Global public goods are not new to the Bank, but the fast changes in the economic and political environment require a rethinking of the Bank's approach. I therefore welcome the opportunity to discuss this issue today.

I can see an important role for the Bank to play in the area of global public goods. To ensure that the Bank's involvement is commensurate with its mandate, I think we need to work on and clarify a number of issues. First of all, we need to make sure that the Bank's activities are part of a global consensus comprising all relevant actors, including the IMF, UN agencies, regional development banks, bilateral donors and the private sector. The Bank should use its convening power to foster such collaboration.

The Bank should better define in which fields it is appropriate to intervene. For this it needs to have a clear understanding of its comparative advantage as well as that of other actors. It may also decide to deliberately develop its capacity. However, the Bank should be very selective and take into account costs and benefits. It also has to find ways to leverage private resources and expertise.

Finally, we need to evaluate the options for financing global public goods. A method has to be found to identify the best instruments and institutions for their delivery. This would help also to define inside the Bank what should be financed through regional or sectoral budgets, trust funds or special initiatives. I look forward to an early presentation of modalities which are more operational. The UN Conference on Financing for Development will also have to address this matter.

The Bank's Role in International Financial Architecture

I welcome the active role of the Bank in support of a stronger international financial architecture. The Bank has contributed significantly in this particular field of expertise. Moreover it has established an exemplary cooperation with the IMF and standard setting bodies in the context of financial assessments and the reports of countries' observance of standards and codes (ROSC).

Now we have to ensure that the rich diagnostic work will be followed up by concrete action. The Bank should spare no efforts to make sure that country authorities participate actively in the assessments. I have noted that recent CAS better reflect on the needs and means to improve national financial systems through capacity building and technical assistance. I welcome this development.

Finally, I would like to request the Bank to ensure that the experience and capacities of IFC are fully used when the prevention or resolution of financial crises is dealt with.

IBRD's Financial Capacity

I appreciate the regular information by the Bank's Management on the IBRD's financial capacity. This represents a crucial information on the financial strength of our Bank. I am pleased to note that the Bank's risk-bearing capacity remains adequate this year, as reflected by an improved ratio on equity capital to loans, and taking into account the additions to the General Reserve out of the FY2000 net income.

Yet, caution is in order. The recent recovery of the equity-to-loans ratio was achieved mainly through a lower-than-projected loan level. This reflects more on the current difficulties faced by many borrowing countries than on the prospect of a sustainable reduction in financing requirements for development and transition. On the other hand, the share of high-risk countries in the Bank's portfolio has dramatically increased over the past year, to reach a record high of 69% in FY2000. This will be a key prudential challenge for the Bank in the years to come. I encourage the Bank to provide the Development Committee with an early warning if and when needed. These considerations will have to be made in the context of the future Bank strategy, which should better identify the Bank's lending prospects.