



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-THIRD MEETING
WASHINGTON, D.C. – APRIL 30, 2001

DC/S/2001-0024

April 29, 2001

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On behalf of Azerbaijan, Kyrgyz Republic, Poland,
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A. Middle Income Countries

The majority of the World's poor live in the Middle Income Countries (MIC). The World Bank is the leading organization in the fight against poverty and thus clearly has a strong role to play in supporting the social and economic development of this group of countries. I therefore welcome the renewed emphasis given by the World Bank Group to MIC.

Lending to middle income countries is also a prerequisite for the Bank's intervention in low-income countries. It allows the Bank to balance its portfolio risks and generate net income that will be available for the poorest countries. Development issues often go beyond national borders and require consideration of regional linkages between low-income economies and their middle-income neighbors. The Bank will be better positioned to understand these linkages and incorporate them into its work if it has a strong presence in the MIC. Finally, there are many lessons to be learned by lower income countries from the MICs. The Bank's involvement in MICs allows it to catalyze this transfer of knowledge and expertise.

The financial and capital markets of most emerging economies remain underdeveloped and vulnerable to crisis. The Bank's traditional financial sector work as well as the FSAP program contribute to the strengthening of the financial systems in developing countries and provide the basis for the Bank's participation in crisis related emergency lending. This is a further reason why I support a strong engagement by the Bank in MIC.

Thus, the question is not *why* the Bank should remain engaged, but *how*. The Task Force on Middle Income Countries offers several valuable recommendations on how the Bank can scale up its presence in the emerging economies. I agree with the general thrust of the proposals, although it will be necessary to further discuss their practical implementation.

In light of the diversity of the Bank Group's MIC clients, it is important to develop a menu of lending and non-lending instruments that go beyond the distinction of investment and programmatic lending. The Bank needs to become more responsive to clients' needs. While there may be scope to increase programmatic lending, the Bank should help countries decide on the right mix of investment projects, adjustment lending, technical assistance and capacity building based on their requirements and developmental needs. I am thinking in particular of the needs of transition countries, like the ones I represent, which require an intensive support by the World Bank.

The Bank's supportive role cannot exhaust itself in the provision of finance. Instead, it must bring to bear its know-how and expertise in the quest of countries to strengthen their institutional, technological and regulatory capacities. The Bank's advice and policy dialogue should foster economic growth and social equity and help countries secure a strong position in the world economy.

I welcome the efforts by the Bank to increase local currency lending and encourage it to explore options to make this product more widely available. I can also see the potential merits of a Deferred Drawdown Option. However, I am somewhat concerned that we have not yet explored all the benefits and risks involved with the introduction of this new approach, in particular how to delineate it from emergency type lending. We need to avoid that this instrument will face the same image problems as the Contingent Credit Line (CCL) of the IMF, which did not meet with much demand.

Access to the resources of the Bank should in principle be rationed through other means than price. For one, it is difficult to reconcile price differentiation with the principle of solidarity in which the Bank's work is founded. Moreover, there is an intrinsic value for the Bank to remain engaged in middle-income countries. Having said that, World Bank loans should not substitute for commercial long-term lending, when such lending is available at reasonable terms.

B. Leveraging Trade for Development - World Bank Role

Trade and investment, taken together, are the most important engine for economic growth, both in the developing and the developed world. It is all the more alarming that low-income countries lost much of their already small share in world trade and foreign investment. This is why a stronger engagement by the World Bank Group is urgent, particularly in the countries with least knowledge and institutional capacity.

In many cases, access of the least developed countries to OECD markets is difficult as industrialized countries protect farmers and agro-processing industries. We welcome initiatives to open markets to the poorest countries like the one launched by the European Union. On its side, Switzerland has already liberalized this access considerably and is soon going to implement a new initiative for free access of all products from least developed countries to the Swiss market.

The World Bank should strengthen its analytical work and technical support on such issues: increasing opportunities of market access and participation in the rules-based WTO and regional trade and investment associations. It should help countries to choose their optimal path to become part of the winners of globalization. This means also that the Bank should focus more on the possible transitional costs of trade liberalization on poor groups.

This also means that the World Bank should continue with more vigor its involvement in finding market-based mechanisms to reduce the volatility of commodity exports. This is one of the trade aspects where the positive impact on poor farmers and on small businesses would be the most direct, given the high dependency in many poor countries on the export and processing of one or several commodities. If private financial agents are able to provide adequate solutions on their own, all the better. Yet I am not convinced that this is the case for agricultural commodities in poor countries.

Much of the Bank's involvement in trade and investment concerns its country dialogue. The practical and institutional hurdles to trade are the most difficult ones to overcome. This concerns not only customs procedures—a notorious source of inefficiency and corruption—but also the internal trade processes and infrastructure, from physical improvements to quality standards, certification, investment regulation and business services. These institutional and investment aspects have to become part of poverty reduction and country strategies on an equal footing with trade and investment policies. We are happy that the World Bank has renewed its partnership with specialized agencies in this field, e.g. the International Trade Center and UNCTAD. We will monitor carefully the efficiency of this vector of international cooperation over the next twelve months and give it our own financial support.

In this context, I would like to mention a successful initiative started by Switzerland to establish an advisory facility in Geneva for delegations mainly from low-income countries. The goal is to help them maximize the benefits from their participation in international trade negotiations and from the implementation of the resulting trade agreements.

C. Global Public Goods

I note with satisfaction that the Bank is proceeding consistently with the guidance provided by Ministers on Global Public Goods. While the Bank has a role to play in providing global public goods, it needs to be selective and consider its comparative advantage and institutional priorities. The five areas of activity chosen by the Bank are adequate, but the pressure remains to take on-board additional issues. The fight against money laundering, for example, is certainly worthy of the support of the international community. However, we have to be careful that the Bank does not suddenly find itself in the lead of a new global effort to combat money laundering, since this is not part of its core mandate.

Partnerships will be an important tool for enhancing the Bank's impact at the level of global public goods. I welcome that the Bank has recognized the limitations for further partnerships and the need for a cautious bottom-up approach, starting with the identification of individual countries' priorities and needs. The involvement of the regional departments must ensure that partnerships are fully incorporated into the strategic planning of the Bank and fully accounted for under its administrative budget. Only like this the Bank can achieve the consolidation of its operational activities envisaged under the new Strategic Framework.

D. HIV/AIDS

I welcome the efforts undertaken by the World Bank to heighten the attention of the global community to the developmental threats of HIV/AIDS. The growing awareness of Governments about the extent of the problem are encouraging. International efforts to

combat AIDS will only succeed with commitment and leadership at the highest political level.

The strong link between the incidence of AIDS and poverty highlights the need to systematically include HIV/AIDS in the Bank's work, in particular in the PRSP and CAS. Moreover, it is crucial that the Bank coordinate with the other international agencies active in this field, especially with UNAIDS.

Preventive and curative action requires considerably larger funding amounts than are currently provided by the international community and the Governments of affected countries. The proposal to establish an international Health Trust Fund with several windows, including one for HIV/AIDS, should hopefully bring us a step further. Additional funding should above all help countries reinforce their primary health care systems so that they will be able to meet the challenges resulting from communicable diseases, including HIV/AIDS, TB and malaria. Beneficiaries should participate in the supervision of such a Trust Fund to ensure that its resources are used effectively.

Finally, as for other Global Public Goods, we need to find ways to better engage the private sector. The pharmaceutical industry, for example, should come up with solutions that would allow access for people in developing countries to key drugs at an affordable and realistic price.

E. Harmonization of Operational Policies and Procedures

The harmonization of procedures and operational policies is indispensable if we are serious about improving the effectiveness and efficiency of aid. The current practice of multiple procedures and reporting requirements is untenable for developing countries' administrations, which already suffer from weak institutional capacity. I can therefore fully subscribe to the proposals made by the Bank. In particular, I agree with the urgency to harmonize procurement procedures, accounting and financial management practices and environmental standards.

Although I welcome the Bank's leadership role and its efforts to coordinate with the other multilateral development banks, I am surprised not to find any mention of the United Nations, in particular the UNDP. Without the UN agencies, any harmonization effort will remain partial and therefore futile.