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(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)



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Statement by Mr. Pascal Couchepin
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On behalf of Azerbaijan, Kyrgyz Republic, Poland, Switzerland,
Tajikistan, Turkmenistan, Uzbekistan and the Federal Republic of
Yugoslavia

First, I would like to express my gratitude to the Canadian Government for hosting this meeting and for its hospitality.

The September 11 events have affected the entire world economy, but those suffering most will be the poor. The World Bank Group will have a particular role to play in mitigating the worst and helping rekindle economic recovery in the developing world.

The international community will have to act fast to address the humanitarian, social and economic impact of the conflict in Afghanistan. While there is prospect for a new political start in Afghanistan, the country is still far from peace and a return to normal life. A lasting solution can only be found in the context of a regional approach. It is primordial that the Bank's response will take into account the close ethnic and cultural ties between Afghanistan and its neighbouring countries. Economic stability in border states are crucial. In particular the Bank must also place greater emphasis on helping Central Asian countries fight the negative effects of the crisis in the region, in particular in Tajikistan, Uzbekistan and the Kyrgyz Republic. We believe also that the Bank should consider to strengthen its presence in Turkmenistan.

The donor community must recognize that the transition of the Central Asian economies is far from complete. Those countries that have followed the advice of the IMF and the World Bank to liberalize their markets and foreign exchange regimes are now confronted with an unsustainable debt burden. Those that haven't, are increasingly feeling the strain of long standing policy distortions on their current accounts as well as in the real economy. They are afraid of letting go and in need of our financial support to mitigate the negative shocks of a late liberalization policy. Finally, despite of the strong geopolitical interdependence, many countries have taken an isolationist economic course. Both, the multilateral and bilateral donors must help these countries accelerate their market transition and integrate into the global economy.

Integration is not just an issue for Central Asia. After Doha, I am hopeful that both, developing and industrialized countries alike, have recognized the mutual benefits of liberalizing access to markets. Without providing poor countries with better access to trade, we will fail to achieve the ambitious but realistic goals of halving poverty by 2015. In this spirit, Switzerland has recently approved a reform of its General System of Preferences to provide low-income countries with preferential access to the Swiss markets. Moreover, a few years ago we have launched the Agency for International Trade Information and Cooperation (AITIC), a Geneva based body that will help developing countries participate more effectively in future trade negotiations. I am happy to state that in Doha several countries have announced their interest to join this initiative. We would welcome a closer cooperation and harmonization between the Bretton Woods institutions and the World Trade Organisation.

Global Economic Outlook and Response by the World Bank Group

The global economic downturn began long before the terrorist attacks on the United States. Yet, the September 11 events have added a high degree of uncertainty about the depth and length of the slowdown in global output. There is no doubt that developing countries are the most

vulnerable to the current economic slowdown. Decreasing commodity prices, heightened financial instability and reduced access to financial markets are felt by many countries around the world. Others are confronted with higher borrowing costs, lower foreign direct investment, loss of tourism revenues, and a higher cost of trade. Some might even face the possibility of political turmoil.

The new situation requires a vigorous and flexible response by the Bank. Interventions need to be linked to the countries' performance and absorptive capacity. We trust that the Bank will undertake this within its current financial capacity.

The Bank should concentrate on crucial social and economic issues in the most affected countries and keep a strong focus on the poor. I support the Bank's proposal to strengthen its capacity for Economic and Sector Work (ESW) and accelerate the Financial Sector Assessment Program (FSAP).

As much as we support that the Bank's lending be based on country performance, we believe that the time has come to address the question of weak performing poor countries. In this respect we welcome the Bank's decision to set up a task force.

In many countries, the global slowdown manifests itself as a downward swing in the business cycle. This may require counter-cyclical action, but not necessarily wholly new development programs. I agree with additional financial assistance for the countries mentioned. But as the Bank's resources and capacity are already stretched, priorities must be set. The need for additional balance of payments support justifies a temporary increase of the share of policy based lending. The Bank should avoid dealing with balance of payment gaps by accelerating investment projects, since this could undermine the quality and sustainability of such operations.

The particular situation of low-income countries has also affected the discussions of the IDA13 replenishment. I caution the Bank to remain realistic about the replenishment target and avoid mortgaging future reflows and funds of IDA.

UN Conference on Financing for Development

I welcome the opportunity for an exchange at the highest level on the international community's approach towards development financing and the role of aid at the occasion of the Monterrey Conference next spring. It is crucial not to overload the agenda of the Conference with issues that are not of absolute priority.

In the framework of the six points agenda of the Conference, we should in my view address the following issues: (i) identifying the gaps in the current patchwork of international assistance, and how to gradually address them, (ii) improving the division of labor among donors, in particular between the IFIs and the UN agencies, (iii) advancing the harmonization agenda as a precondition for more effective use of limited aid resources, (iv) clarifying under which conditions, at the national and international level, aid works more efficiently and effectively and what this means for the allocation of aid resources, (v) highlighting the responsibility of industrialized countries to provide better access to their markets for developing countries key

exports, and (vi) placing the millennium goals into a context of resource mobilization, by providing a more refined analytical framework for defining global aid levels.

The role of the private sector in enhancing growth and productivity, and thus helping in reducing poverty, is crucial. The recently issued Private Sector Development Strategy (PSD) of the World Bank Group offers insight into how the Bank could more systematically apply the incentive mechanisms of private sector solutions to its own work. But it does not answer to the challenges of pro-poor growth. If we succeed in mobilizing private sector providers and in unbundling subsidies from the commercial elements of private sector operations, we will have come a long way in improving aid effectiveness. However, such efforts should not diminish the poverty reduction mandate of the Bank, but ensure that access by the poor to services will be improved. The main point is that the World Bank Group as well as other multilateral institutions have to give coherent and comprehensive support to private sector development.

We are pleased to note that after the Doha conference, the WTO will be able to better respond to the needs of developing countries. The developed and developing countries will share the responsibility to improve market access. The Conference should also explore the scope for more effective international cooperation in the area of global and regional public goods (GPGs). It should clarify the volume and terms of financing required, and how national programs should dovetail with global ones. I am not convinced that GPG in general need to be financed on a grant basis. An adequate mix needs to be found that takes into account a functional division of labor and global resource constraints. Finally, developing countries will also need to make additional efforts to mobilize domestic resources. This will increase ownership and therefore effectiveness of aid.

The HIPC-Initiative: Great Challenges Ahead

There has been a marked slowdown in the number of country cases dealt with in the second half of fiscal year 2001 due to the more difficult country circumstances. I would like to reiterate that the Bank should not precipitate the preparation of Poverty Reduction Strategy Papers (PRSP) for the sake of achieving quicker debt relief.

My main concern is that the financing of the Initiative remains unresolved and in addition that there is a risk that the HIPC Initiative will leave a legacy for future replenishments of IDA. In the long-run, this could seriously undermine IDA's financial capacity. IDA is the largest source of highly concessional loans. A contraction of its lending capacity would jeopardize the objectives of the HIPC-Initiative itself, since debt sustainability assessments are based on continued high levels of concessional aid.

The Board of Executive Directors approved the modalities for the Bank's contribution to HIPC under the assumption that financing would be secured at least until 2005. However, in order for the Bank to commit to debt relief for new country cases an additional USD 700 million are required from donors over the next 14 months. This situation is worrisome and needs to be addressed in a more concerted effort.

The current political and economic outlook in Central Asia and parts of South Asia will aggravate further the dire debt situation in some of the Central Asian economies. The Bank has a responsibility to monitor the debt situation in these countries and to enter into a dialogue with governments as to how the debt situation can be resolved, especially in those countries that have been most responsive to the policy advice of the IMF and the Bank such as Tajikistan and the Kyrgyz Republic.

Long-term debt sustainability in HIPC's can only be guaranteed by sound debt management and strategy. Strengthening debt management must be a concern of the HIPC governments beyond the HIPC completion point. In this context I welcome the efforts undertaken by the Bank and the Fund to prepare a paper on the debt management in HIPC's and look forward to discuss and define necessary steps to enhance the capacity of the HIPC's in this field.

Poverty Reduction Strategy Papers: Promising Approach

I welcome that PRSP progress is for the first time measured towards the Millennium Development Goals (MDGs). Additional analytical work is needed to transform the MDGs into the PRSPs and other planning instruments as far as Middle Income Countries are concerned.

Progress under the PRSP has generally been positive, but its implementation needs to be further improved. This is of particular concern given that the Bank's new approach to low income countries largely builds on the PRSP process and CDF principles of participation and social inclusion as well as country ownership. Moreover, a sound PRSP process could be a powerful driver for a more pragmatic approach to better harmonize donor procedures and standards at the country level. This is another reason why I call upon the Bank to reflect critically as to what it can do to ensure that the PRSP process will succeed.

PRSPs need to better incorporate cross-cutting issues such as gender equality, sustainable development, decentralization, conflict prevention and rehabilitation, good governance, trade and others. Monitoring and evaluation need to be addressed from the start, and measurable poverty indicators need to be specified. An excessive focus by external agencies on the technocratic aspects of PRSP to the detriment of political determinants may erode, and perhaps ultimately compromise, development effectiveness. There is considerable scope for ensuring – jointly with UNDP - that democratic institutions, including parliaments, are part of the consultative process, which is crucial for marshalling country ownership and social solidarity in the fight against poverty.

There is also a considerable tension due to the power imbalances among the stakeholders of the PRSP process. The donor community tends to dominate the conceptual and analytical framework, and Government accountability tends to be more directed towards donors than its own constituents. Ownership has also been seriously undermined by the need for rapid action to obtain HIPC relief or other financial support from the Fund or the Bank. Therefore, I welcome the more flexible timeframe for countries to proceed from an Interim PRSP to a full PRSP. We, the donor community, need to give partner countries the time they need to develop their own visions and plans, even if this may not meet all our expectations for a comprehensive and well founded development strategy immediately.

The Boards of the IMF and the World Bank agreed that the implementation of the PRSP and the appropriate use of the funds freed up through the HIPC initiative calls for a comprehensive and transparent public expenditure management. The capacity in HIPC and other countries in tracking expenditure spending is still very weak. In the context of the PRSP process it is therefore crucial to address the need to strengthen public expenditure management.

Harmonization of Operational Policies, Procedures and Practices: First Progress Report

Switzerland is committed to the harmonization agenda of the OECD DAC, the international financial institutions and the United Nations agencies. Bilateral donors will also have to contribute for this process to advance. We are conscious that harmonization is a highly sensitive process, requiring governments to cede their accountability mechanisms in favor of internationally agreed standards and procedures. For this very reason it is important that such standards and procedures are developed around internationally recognized best practices and with broad-based participation of the donor community. To actually reduce the burden and costs for client countries, progress in such harmonization and implementation at the country level are urgent.

Education for Dynamic Economies: Accelerating Progress Towards Education for All (EFA)

Education is not only of high intrinsic value, but also plays a powerful role in reducing poverty and inequality. Education lays the basis for sustained economic growth, the building up of democratic societies and knowledge-based, globally competitive economies. Switzerland is committed to contribute to this end, and is very supportive of the progress made since Jomtien and the efforts to achieve the Dakar goals.

The attainment and the future challenges of Education for All go well beyond access to education. We need to take into account learning achievements, as well as the necessary linkages between basic education, skills development and employment, and the need to improve adults education programs. Special attention needs to be given to the elimination of gender inequalities in education, to the youth out of school, the dropouts as well as to other marginalized groups and minorities. It is very important to develop a complementarity between formal and non formal approaches.

The HIV/AIDS Pandemic is a major threat to the attainment of the goals of Education for All, but at the same time education could be a major force to fight the epidemic. The pandemic has to be tackled through international cooperation between the bilateral, multilateral agencies and the countries most affected. I welcome the Bank's work to develop a coherent framework for addressing the issue.