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-SEVENTH MEETING
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Statement by

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Federal Department of Economy
Switzerland
On behalf of Azerbaijan, Kyrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan, Uzbekistan

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We are meeting at a time of great political and economic uncertainty. The past six months did not bring the long-awaited economic upswing. To the contrary, the cautiously optimistic growth projections of last fall have been revised downwards in light of lacklustre global economic development and the war in Iraq. This has been compounded by the loss of confidence in the ability of the international institutions to settle global disputes and ensure international security. It is crucial that we send a strong signal today of our determination to overcome past disagreements, to resolve the Iraq crisis and to set the world economy back on track.

We must restore confidence in the United Nations as the prime platform for the dialogue on global security concerns and provide it with a strong role in the post-war reconstruction of Iraq. A clear UN mandate should set the stage for the international reconstruction efforts, including by the World Bank.

In addition, we must underline our continued support for a strong financial and economic multilateral system. This means reasserting our commitment to the WTO framework, decisively advancing the Doha agenda and reinforcing the IMF's role in the prevention and resolution of financial crises.

The global economic downturn leaves its mark on the developing world. Both middle and low-income countries feel the strain of reversed capital flows, lower aid budgets and increasing debt burdens. Thus, an economic turnaround is paramount to achieve the millennium development goals.

One year after Monterrey

The Monterrey consensus is a milestone for all the countries in our Constituency. Switzerland reiterates its commitment to increase its aid budget and to provide preferential access for developing countries to its markets. Recovery of market and consumer confidence is key to generate the much needed public support for the far-reaching policy reforms that are necessary for a break-through in the Doha round. Therefore, timing is a factor that we should not ignore when setting the future agenda.

I welcome the progress achieved with the development of a framework to monitor progress under the Monterrey consensus. The framework, which the World Bank has developed together with the IMF - in cooperation with the staff of the UN, other multilateral development banks, the WTO and the OECD - is still work in progress. It is based on an agreed division of responsibilities, whereby the UN takes the lead to monitor progress towards the millennium development goals, and the World Bank and the IMF monitor policies and actions needed. The monitoring framework for the Development Committee is grounded in the concept of institutional comparative advantage. As the framework is improved and further developed over time, it should provide us with a sound basis to track our efforts in the spirit of the development partnership agreed in Monterrey.

Growth is an important ingredient for poverty reduction. But it will not suffice by itself to achieve the millennium development goals. More difficult will be to ensure that the poor can participate in the growth process. This requires a multi-sectoral approach by the international development community, which should strike the right balance between private sector and infrastructure development on the one hand, and education, health and public sector governance on the other.

As the Bank points out, a considerable effort must still be made to improve the statistical data and the limited institutional capacity in developing countries, which is a long-term task. This is an area where the Bank has a comparative advantage, and thus should take the lead in close collaboration with other multilateral and bilateral agencies. The framework should be continuously reviewed and adapted as statistical capacity and experience with the application of the framework grow.

While I agree with the policies and actions outlined by the framework for developing and developed countries, more needs to be said about the role of the international organizations, in particular the Bank and the Fund. Here, the goal is better coordination, greater selectivity and a strong focus on results. The Bank should be at the forefront of the harmonization process. For this, it needs to simplify its internal procedures based on the principles of country ownership and local fiduciary accountability. Much work remains to be done that should be better captured and tracked by the monitoring framework.

Concluding on this point, I would like to recall that the poverty reduction strategy papers (PRSP) must remain at the center of the discussion about poverty reduction at the country level. The PRSP process is the platform through which countries agree on their development priorities and the means to achieve them. To make PRSPs a more effective framework for national policy, donor coordination and harmonization, it is necessary to better align PRSPs and related assistance programs with the annual budget cycle of countries. The countries of our Constituency are satisfied with the PRSP process and feel that this has been a useful exercise. Nevertheless, I encourage the Bank to listen carefully to concerns voiced by developing countries about possible shortcomings, and to come back this fall with a critical assessment about where we still can improve.

Responding to the Voice of the Poor

We all subscribed to the consensus of Monterrey, and thus also support the principle to provide the poorest countries with more voice. Most importantly, we need to ensure that the poor countries are heard by the Bank. This requires first and foremost further decentralization and a stronger field presence by the Bank, greater staff diversity and a change of corporate culture, and a generally greater responsiveness to developing countries needs.

Any change in the structure of decision making must be carefully weighed against the benefits and costs such a change implies. Our prime objective should be to make development more effective. Against this background, I could agree that we look at the issues more closely through a well-designed process with a clear mandate. We should not give the impression that there is a major problem with the current system, but come to an early conclusion on the political questions surrounding this issue. With regard to the idea of a trust fund to support independent research and advice in key policy areas, Switzerland would be prepared to contribute to such an initiative.

Let me finally point out that our Constituency has a long-standing tradition of partnership and mutual learning that has benefited both the borrowing and non-borrowing members of our Chair. This partnership has developed well beyond the relationship in the Boards of the Bretton Woods Institutions, and encompasses bilateral assistance as well as commercial and economic ties.

Debt Relief Remains Important

We much welcome the effort of the international community to close the current financing gap in the Trust Fund of the Heavily Indebted Poor Countries Initiative (HIPC). For the success of the initiative it is crucial that the funding requirements are met. I would like to inform you that part of the pledge, which has undergone final approval by the Swiss Government end of 2002, has already been disbursed. Subject to fair burden sharing, the remaining amount will be disbursed at the end of this year.

The HIPC Initiative continues to make progress and we would like to thank Bank and IMF staff for their efforts to support steady implementation. Recently, the pace has somewhat slowed down. Delay in implementation is mainly due to political instability in the beneficiary countries, difficulties in implementing adjustment programs and the need for more time than anticipated for preparing high quality PRSPs. In fact, slower than expected elaboration of PRSPs might be a positive development if it means enhanced ownership and participation in the beneficiary countries. We believe that further relaxation of the track record requirements of the initiative is not warranted. A strong policy track record is essential for assuring a realistic perspective for growth, debt sustainability and poverty reduction in the HIPC countries. At the same time, we have to acknowledge the need for more realistic growth projections in order to avoid undue financing gaps at completion point.

I would like to reiterate that debt relief is only one part of a broader agenda. The real challenge is to maintain debt sustainability beyond HIPC. For one, growth enhancing policies need to figure more prominently in the PRSP process. Secondly, debt management needs to be strengthened. We must guard against excessive new lending and avoid to graduate countries prematurely from concessional borrowing.

In conclusion, this has been an exceptional opportunity to advance the agenda on results management and development effectiveness. Hopefully, we can come to closure on the remaining conceptual questions by fall. I look forward to discuss initial results coming out of the new framework at the occasion of the annual meetings in Dubai, which Switzerland will chair.