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)

SEVENTIETH MEETING
WASHINGTON, DC – OCTOBER 2, 2004

DC/S/2004-0063

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Statement by

Federal Councillor Joseph Deiss
President of the Swiss Confederation
On behalf of Azerbaijan, Kyrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan and Uzbekistan

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I note with satisfaction that the world economy is on the path to recovery with improved growth prospects in developing and developed countries alike. This is good news, but there is no room for complacency regarding our efforts towards achieving the Millennium Development Goals. At the occasion of this 70th meeting of the Development Committee, I welcome the opportunity to discuss some innovative ideas to accelerate our efforts toward achieving our goals. I thank the World Bank and ministers that have helped advance the international discussion on the financing of the MDGs.

Aid Effectiveness and Financing Modalities

Our constituency is keen to participate in the consultative process on new sources of financing and to contribute lessons learned from our experience. Four principles should guide us in this process.

First, our efforts should first and foremost target the poorest countries that face the greatest challenges to achieving the MDGs. Effectively supporting the poorest members of the international community to accelerate the pace of development is in everyone's interest and will contribute to social and economic development and lead to increased stability.

Second, we believe that a demonstration of enhanced aid effectiveness is important for reaching results on the ground and remains indispensable for building the political consensus and public support required for increasing ODA. Although significant progress has been achieved in terms of harmonization and governance, bilateral and multilateral donors as well as recipients still face a considerable unfinished agenda.

Third, developing countries need to fully own their reform programs and to play a leading role in implementing them in order to effectively use the aid they receive and deliver results in terms of growth and poverty reduction. We need to better understand where and how more aid can be invested most effectively. Many developing countries have been able to enhance absorptive capacity in recent years, and it would be useful for international financial institutions to help identify the factors behind these encouraging success stories. In this context, we welcome the initial work undertaken by the United Nations and the World Bank to monitor and substantiate absorptive capacity and encourage them to pursue their efforts in this area. At the same time, it is important to develop credible alternative approaches to address the needs of poor-performing countries, such as LICUS.

Fourth, we should agree from the outset of the process that there is no need to create new and costly institutions to deliver aid. New vehicles dedicated to additional resource mobilization would have to ensure that they will not add red tape and conditionality, but will be aligned with existing aid channels. Our concern should be on how to make existing organizations more effective in development cooperation.

A number of interesting and innovative proposals to mobilize additional development resources have been tabled in the international discussion. Yet, good intentions face a tough political reality. In particular, the legitimacy of international taxation is open to debate. In our view, among the proposals for global taxes, some forms of environmental taxes would be the most promising due to their potential for mobilizing additional resources and their ability to curb energy consumption and reduce emissions. On the other hand, we seriously doubt that a global consensus on transaction-based taxes can be reached. The basic idea of the International Finance Facility to front-load and make aid flows more predictable is appealing. However, at least in the case of Switzerland, such a mechanism does not seem to be compatible with the budgeting requirements and would not generate additional ODA.

We believe that there is considerable room for better harnessing private donations for global development. Such efforts must be underpinned by a stronger dialogue between governments, the private sector, and civil society on the challenges and opportunities of tackling development and poverty. In Switzerland, such private contributions are above the international average, and their share is one-fourth of Swiss ODA. Therefore, we must ensure that the new instruments under consideration do not crowd out private efforts.

We should also recognize and better highlight the role of direct investments as a major source of financing for development. We must help developing and transition countries improve their investment climate both to better support their local businesses and to better capture private capital to develop their economies. On behalf of our constituency, I would like to commend the Bank for the *2005 World Development Report* on Investment Climate and for the *Doing Business* project. They are very important tools for sharpening the debate on the investment climate and its reform and for helping governments to shape their reform strategies and measure progress.

We would like to stress that Switzerland is ready to join a common effort to deepen the dialogue on mobilizing additional aid and exploring various options, including new financial mechanisms to make aid more predictable, sustainable, and effective.

Growth and Infrastructure

Regarding the growth agenda, we fully subscribe to the first pillar of the strategic framework of the World Bank Group which has been in place since 2001. There is strong empirical evidence of the link between a good investment climate, growth, and economic and social development leading to poverty reduction. At the same time, we must recognize that poverty-reducing growth depends on different factors such as its composition, distribution, and sustainability. We support the WBG's new approach which focuses on small and medium enterprises through a better business-enabling environment. Such enterprises account for the largest share of job creation, improved living standards, and the taxes necessary for investment in public services. We also agree with WBG stand-alone advisory services that support the investment climate reform agenda.

We reiterate our support for implementing the Infrastructure Action Plan. We underline the importance of rural infrastructure as well as of the operation, maintenance, and rehabilitation aspects. We welcome the Bank's complementary approach with regard to the roles of the public and private sectors in providing infrastructure services. We consider that the Bank is uniquely positioned to play a catalytic role in supporting infrastructure development by fostering private sector participation as well as providing technical assistance and advice.

Debt Sustainability

The Enhanced HIPC Initiative continues to play an important role in addressing the excessive debt stock of many of the poorest countries. However, it is regrettable that 11 eligible countries have still not passed the Decision Point. With these countries in mind and envisaging accelerated progress, we supported the extension of the HIPC sunset clause for another two-year period. It is also critical that the donor community comprehensively support the Initiative with complementary instruments, such as technical assistance for debt management. The high costs of debt relief must also be seen in the over-arching context of mobilizing and allocating additional funding for development assistance. In this regard, the Bank must explore how it can increase its own contribution to finance IDA and HIPC debt relief.

The necessity to complement the Initiative with a forward-looking instrument for debt sustainability is corroborated by the fact that the debt ratios of several HIPC countries, which have gone through the Completion Point, are above the projected levels. Such an instrument would also be helpful to other low-income countries – as well as middle-income countries – in managing prudent borrowing programs to avoid the risk of debt distress. This would also be in line with the fundamental principle of equal or equitable treatment of individual countries. Excluding the most debt vulnerable countries from the global lending business and allowing them, *a priori*, to have access only to grants does not constitute a general solution. While the framework currently under consideration is almost ready for implementation, a number of challenging methodological issues must be further refined and political and multilateral governance implications addressed. In particular, strong joint Bank-Fund leadership is required to produce single Debt Sustainability Assessments (DSAs).

Voice

We share the view that the voices of developing and transition countries at the World Bank should be strengthened. Stronger country ownership, further decentralization, and greater staff diversity are just a few ways this can be achieved. We should safeguard the principle of consensus-based decision-making that currently guides most of the Board's discussions. As for the proposals presented, we must carefully weigh the benefits against the costs associated with their implementation.

The World Bank's Role in Harmonization

We are pleased with the Bank's progress in reforming its own policies and procedures with the objective of increasing aid effectiveness, reducing transaction costs, and facilitating harmonization. These changes can also entail risks for the borrowers as well as for the Bank. Therefore, we concur that such changes have to be rolled out with particular care, a high level of transparency, and where appropriate, on a pilot basis. It is especially important that such changes do not undermine the proper functioning of other bodies within the Bank, such as the Inspection Panel.

The strong high-level commitment to improving donor harmonization around borrowing country systems lags behind in terms of implementation. There is a need for the Bank – as well as most other bilateral and multilateral agencies – to expedite the necessary adjustments in terms of rules, procedures, and practices.