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on the
Transfer of Real Resources to Developing Countries)



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Statement by

**Joseph Deiss
Federal Councillor**

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

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The year 2005 is crucial for development. Five years after the Millennium Declaration, we are about to assess our progress to date and to react as needed. In 2005, most major international organizations will undergo a change at their helm. This sets the evaluation of our progress in a particular institutional perspective.

At the outset, I would like to express my gratitude to Mr. Wolfensohn for his contribution to the fight against poverty over the past 10 years. He has demonstrated vision and perseverance and has sharpened the profile of the World Bank Group as the major international player in the fight against poverty. His charismatic leadership has inspired institutions as well as a wide-range of actors, both public and private and on every continent. The Bank has become the prime ally of poor countries in dealing with the causes of poverty and the challenges of globalization. It has become a model for the world with its views on cooperation and partnership between the rich and the poor. It has also reached out and engaged in dialogue with civil society, including national parliaments, NGOs, the private sector, and the people involved in its operations. On behalf of our Constituency, I would like to thank Mr. Wolfensohn for these important achievements. I am extremely pleased to congratulate him on his recent appointment as Special Envoy for Gaza Disengagement. This is a further recognition of his outstanding record as an advocate for global development and peace that also positively reflects on the World Bank.

In the context of the forthcoming transition, it is vital to assure continuity in the agenda pursued by the Bank and endorsed by its shareholders and to build on today's achievements as well as lessons learned. The Bank's strategic priorities, financial outlook and multi-year framework, as well as recent innovations in how the Bank conducts business are essential reference points for the future.

Let me now turn to the main items on the agenda.

The Global Monitoring Report

The GMR has matured. It now provides a very comprehensive diagnosis of our progress, policies, and actions, and it conveys some very important messages. Most importantly, it reflects that the way we think about development and the way we work together have changed over the past five years. Indeed, we have built a new partnerships with countries at different stages of development.

The GMR clearly shows that, when supported by the appropriate policies, by good governance, and by adequate financing, development interventions can work. This is a very positive message for rallying further public support for more aid in the developed

countries. We should learn from successful experiences and draw lessons for our future work, particularly in regions with significant shortfalls, such as Sub Saharan Africa.

To absorb higher aid volumes, the capacity, quality, and accountability of public institutions must be strengthened and peace and security established. Human development must be further promoted by investing in education and healthcare; economic growth and poverty reduction must be substantially accelerated, and trade barriers must be removed and trade capacities strengthened.

I fully support the proposed five point agenda and strongly believe that recipient country ownership, as well as alignment and harmonisation of donors, are central to increasing aid effectiveness. The fight against poverty encompasses a wide range of actions, and progress must be achieved on several fronts. However, the way forward is not an easy one for developing and developed countries alike. In particular, the doubling of aid remains a challenge for many donor countries.

On some fronts, such as the health sector, and in some regions, we are still far from being on track for meeting the MDGs. The worrisome rise in the prevalence of HIV/AIDS in most regions calls for urgent and coordinated action, particularly in countries that have received little support in this area up to now.

I welcome the regional focus on Africa in the present edition of the GMR. This is in line with a new momentum in the international community for stronger support to Africa's efforts in accelerating its progress towards the MDGs. In this regard, we have noted that the Bank is strengthening its strategic framework for using the currently available and potential resources for Africa most effectively. We look forward to a discussion at the Annual Meetings on this framework, which includes the recently initiated Action Plan for Africa and IFC's Strategic Initiative for Africa.

However, I suggest that future editions of the GMR focus on other regions, such as Central Asia and the Caucasus, as this would help to increase attention on their specific needs and challenges. This change in focus would also better reflect the differences, gaps, and particular difficulties of individual countries and groups of countries – countries as distinct as China and India, the emerging middle income countries, and the least developed countries. In this sense, we regret the virtual absence of discussion on middle income countries, despite the fact that they are home to most of the poor. Similarly, so-called 'fragile states' pose a particular challenge which needs greater clarification and the formulation of special approaches. Nevertheless, it is important that the GMR maintain a global perspective by providing sound assessments and realistic prospects for the future for the entire spectrum of countries.

In addition, the discussion on the role of international migration in poverty reduction has been neglected. I note with satisfaction that the Bank has recently started scaling up its research in this area and look forward to further discussions of this important topic based on the upcoming Global Economic Prospects 2006.

Going forward and in view of the time lag in measuring changes, we should consider whether the GMR should be published every two years. Moreover, I encourage the Bank to include more specific and disaggregated information on the performance and progress of individual countries over time. This would allow for inter-country and inter-temporal comparability and accountability, as well as for establishing an action plan for different groups of countries.

Financing for Development

The GMR points to the need for more financing. Even though global aid levels are on the rise, they are not yet sufficient to meet the MDGs. Moreover, a significant portion of aid is not directly related to MDG-relevant spending. Another issue of concern is that some of the increase in the level of aid is caused by changes in accounting. It is important to continue harmonization efforts, including improving accounting standards, to enhance the mutual accountability not only among donors, but also between donors and recipient countries. I also believe that the review mechanisms should be sharpened for better comparability of aid channels.

For the developed countries, the challenge is how to further increase aid. This will require enhanced efforts in convincing public opinion and parliaments of the importance and effectiveness of aid. In addition, developed countries would need to find different ways of financing aid. The fastest, simplest, and most straightforward way of achieving this would be to increase the share of ODA in government budgets. This is a formidable challenge, and we count on the President's continued advocacy role in mobilizing and allocating more resources for development.

That said, I welcome the progress made in the discussion on innovative financing instruments. We have to be aware, though, that it will take considerable time to put these instruments into practice. The World Bank and the IMF have provided a sound analysis of these issues for the most promising new financing mechanisms, namely a tax on aviation fuel, the IFF pilot scheme for Immunization (IFFIm), and the potential for leveraging aid through a blending of financing instruments. Nevertheless, important questions about key issues and risks remain and will only be fully comprehended after implementation has begun and experiences acquired.

Switzerland is particularly interested in the selective application of the IFF in areas that show good potential for "higher investments today, lower costs tomorrow." Switzerland will carefully follow the preparation of the IFFIm pilot. It may also be beneficial to analyze the feasibility of such a mechanism in the context of other programs, such as disease prevention and control or water and sanitation. With respect to blending arrangements, Tajikistan and Switzerland have already gained valuable experience with the Pamir Power Project, which was jointly implemented by IDA and the Agha Khan Foundation. Finally, should a broad-based international momentum for an aviation tax to finance the MDGs emerge, Switzerland would be prepared to carefully consider participating.

New Debt Initiatives

Debt relief is an integral part of the MDG agenda. However, debt relief should not be viewed as one of the main vehicles for providing financing to poor countries, as it does not systematically reward the poorest or the best performing countries. Furthermore, the impact of debt relief on poverty reduction is usually less effective than other aid instruments.

The increasing level of multilateral debt in many countries is worrisome, but before embarking on new debt initiatives, the international community must ensure that HIPC is fully financed as HIPC has been successful in reducing debt to economically viable levels in most cases. Second, we must promote a broad adoption of the new Debt Sustainability Analysis (DSA) framework and gain experience in implementing it. I am confident that the HIPC Initiative and the DSA framework will allow us to deal effectively with debt sustainability concerns in the future, while simultaneously contributing to an improved debt management capacity in debtor countries. There may still be some cases where exceptional measures are required to deal with vulnerability to external shocks. However, I believe that creating a new debt relief framework for this purpose is not warranted.

Development and the International Trade Negotiations

I would like to commend the Bank for contributing to the Doha negotiations by scaling up its analytical work on trade. It is of utmost importance that the trade sector is a major part of the discussion on development and poverty reduction. Similarly, it is crucial that we enhance the focus on the links and coherence between domestic policies and development. Therefore, the main message of the GMR comes at a crucial point in the Doha negotiations. The benefits of agriculture for developing countries will be very limited without tariff and domestic support reductions. At the same time, the impact of agricultural trade liberalization could have adverse consequences on many net food importing countries, especially among the LDCs, which could face higher import prices as well as erosion of their preferences. Hence, there is an urgent need to assist such countries in establishing adjustment mechanisms and pursuing complementary domestic reforms. Finally, I would like to stress that agriculture is only one part of the global negotiations. Reductions in tariffs on industrial goods and services will also provide benefits to developed as well as developing countries. To this end, it is critical that developing countries actively engage in discussions on these topics and foster the diversification of their economies and export capacities.

Voice and the Decision-Making Process

The major changes in the leadership of international institutions this year provide an opportunity to review their selection processes and adapt them to today's changing realities. The Bretton Woods institutions and other multilateral institutions should meet the same standards of transparency and governance that they require from their partners and clients. We do not question the prerogative of certain members or regions to

nominate candidates. Still, there is room to open up and systematize the decision-making process to enable all members to participate fully.

Conclusion

The GMR's five point agenda is a strong basis for accelerating progress towards meeting the MDGs. It reminds us that this agenda is a joint endeavor – a mutual responsibility of developed and developing countries as well as multilateral organizations and international financial institutions.

To reach the MDGs, an increase in aid financing is needed. Thus, it is imperative that the international community continue its work toward developing new financing mechanisms. To maintain the Monterrey momentum, we now need practical examples to demonstrate what works and what does not. At the same time, we cannot neglect the discussion at the level of regular ODA, as this is likely to be the fastest and most straightforward way of increasing aid.

The five point agenda also reminds us that trade complements and reinforces aid in furthering development. And so, we must ensure that the Doha round delivers on its development promise. We will also have to assist developing countries by scaling up our joint work on strengthening trade capacities so that they can fully benefit from positive results of the Doha round.

Implementation of this considerable and important program will require that the Bank remain at the forefront of the development and sustainability agenda. For this purpose, continuity in its strategic orientation – with particular focus on implementation and results – over the forthcoming transition period and beyond is crucial.

Indeed, the year 2005 is the year of development. Let us live up to our promises.