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)

NINETY-SIXTH MEETING
WASHINGTON, D.C. – OCTOBER 14, 2017

DC/S/2017-0047
October 14 2017

Statement by
H. E. Johann N. Schneider-Ammann
Minister and Head of the Federal Department for Economic Affairs, Education and Research
Switzerland

On behalf of Azerbaijan, Kazakhstan, the Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan and Uzbekistan
25 years of our Constituency

Our Constituency is celebrating its 25th anniversary this year. For members of this Constituency, the last quarter of a century has been one of huge challenges and fundamental transformation, in particular for the new nations in the Caucasus and Central Asia. It suffices to travel to the countries to see the impressive progress they have made over this time in fighting poverty, improving livelihoods and giving people economic perspectives. Throughout this process, the World Bank has been an important trusted partner, supporting reforms with advice and financing. As one of the few mixed constituencies in the World Bank, we have been able to benefit from the perspectives of both developed and developing countries. This has given it legitimacy and credibility and allowed to build compromises at the Board level and find pragmatic solutions that reflect views across the development spectrum. We have thus become a constructive voice within the organization committed to foster its effectiveness, efficiency, and transparency. As members of the Bank and as a Constituency, we can look back on many achievements and an excellent cooperation over the last 25 years, knowing that many challenges still lay ahead. The fact that we have a strong partner in the World Bank gives us reassurance that we will be able to tackle them.

A Bank of Strategic Importance

The world needs a reliable and effective multilateral development system that supports countries in addressing their most pressing and complex development challenges. They are frequently of global nature. Multilateral solutions are needed to address global problems, and the World Bank Group is the international institution with a truly global character.

Globalization has altered the patterns of political, economic and social interaction, generating tremendous benefits and sometimes significant costs for parts of our societies. Unfortunately, these uneven gains have given rise to populist and authoritarian movements that advocate one-dimensional solutions based on nationalism and protectionism. In this interconnected world, however, policy issues increasingly depend on factors outside of national control. Thus, multilateral development institutions play a vital role in developing and coordinating appropriate policy responses that ensure the benefits of globalization are more evenly shared.

Over the past year, the World Bank Group has channeled over USD 66 billion into development projects to accelerate sustainable and inclusive growth, to invest in people and build human capital, and in fostering resilience to global shocks and threats. It has further strengthened its focus on the poorest and fragile countries, and at the same time made a clear step towards stronger mobilization of private investments for
development. Importantly, the Bank is showing an ability to adapt to the development landscape. It has proven its agility and innovative capacity in crisis situations with its rapid response to emergencies in Africa and the Middle East, the establishment of the Global Crisis Response Platform, and the creation of new crisis-related instruments like the Pandemic Emergency Financing Facility. In so doing, the Bank is clearly demonstrating its leading role in guiding the multilateral development system toward achievement of the 2030 Agenda for Sustainable Development.

**Well-focused, Agile, Innovative and Efficient**

We commend the Bank for the strong start to IDA18. Preparations for the delivery of frontline services, the set-up of the IDA18 Private Sector Window and for the launch of IDA’s first bond issuance have advanced well over recent months. The rapid build-up of a pipeline of IDA18 commitments is impressive. Nevertheless, the challenges around delivering the IDA18 commitments must not be underestimated. Committing and disbursing funds ahead of the Midterm Review must not take precedence over the need for high quality programming in partner countries. This is particularly true for fragile contexts, where meaningful work is extremely complex and time-consuming, and the risk of being ineffective or even doing harm is high.

In addition to the stronger focus on the poorest countries, the Bank must not ignore the importance of its support to middle income countries (MICs). MICs are home to more than two-thirds of the world’s poor and displaced people. Most of them face many unresolved development challenges and are exposed to a large variety of stress factors, which may put earlier development achievements at risk. Resolving the development challenges of MICs and making them more resilient is key to achieving global goals of peace and stability, poverty reduction, and combating climate change. MICs furthermore have a large regional economic importance for lower-income countries, as export markets and sources of remittances. This said, the Bank’s support to MICs and UMICs needs to be well targeted, and tailored to the specific needs of these countries, where the Bank can add value. We welcome the efforts of the World Bank and IFC to diversify their offerings by expanding advisory services and analytics, treasury risk management products and services.

We are pleased about the Bank’s recent efforts to better understand and integrate new digital technologies. They will change the way things are produced, distributed and consumed, so that it affects production, employment, and capital flows in a fundamental way. While it is still difficult to see what kind of impact these technologies will have on our economic system - and on developing countries in particular - it seems clear that countries will need flexibility and skill in labor markets, breadth and depth of capital markets, and efficient markets and institutions to adapt to these new challenges. The Bank can play an important role in preparing the world for absorbing and using these new technologies for the benefit of development.

As we go ahead, it is crucial that the Bank continues developing its innovation capacities, improves its efficiency and strengthens its agility. It is in the unique position of being able to combine research, knowledge and financing with a strong representation in the field. To be able to contribute actively as a global development actor it needs to streamline its internal procedures, work in the most effective way, and provide incentives leading to innovation and new instruments and innovative solutions to the upcoming challenges.

**A Strong World Bank Group**

In an increasingly interdependent world we need a strong and financially sound World Bank Group. We agree that the work on the Lima Roadmap needs to continue with the aim to present a package of measures for Governors’ decision at the 2018 Spring Meetings.
More work needs to be done to determine the intended future size of the World Bank Group. We continue to lack the necessary analytical information in terms of demand, absorption capacity (also in terms of debt sustainability), and the Bank’s share in international development financing that underpins its sizable financial ambitions. Further work is needed to put this ambition on a sound analytical footing, which goes beyond the supply side and includes the projections of demand.

Starting from there, we can then work on the next steps:

- Building common understanding of the future importance we want to assign to the public and private sector arms of the World Bank Group. More work is needed to reflect on how the Cascade approach changes the weight and importance of IBRD and IFC.

- Achieving a clear understanding about the remaining financial capacities of IBRD and IFC without putting their triple-A ratings in danger. The triple-A rating is at the core of the business model of the Group and cannot be put at risk.

- Examining the ‘package of measures’ for both IBRD and IFC, which should also include the discussion on a potential discontinuation of transfers from both institutions to IDA. Solidarity goes both ways, particularly at a time when IDA has achieved a record replenishment capacity and IFC will need a more strengthened capital base than ever in order to expand its services to IDA and FCV countries as planned.

We acknowledge that a more balanced distribution of shareholding is important to ensure the Bank’s future credibility and legitimacy and we welcome the progress made on this issue. We support a transparent and rules-based approach to adjust the shareholding in a gradual way in manageable steps in line with the Dynamic Formula. While aligning the system more closely with the calculated shares yielded by the Dynamic Formula, the issue of underrepresented countries may have to be dealt with through special allocations, allowing us to address the most extreme cases of underrepresentation in a targeted fashion. It is clear that the issue of shareholding at both institutions needs to be considered through coherent and simultaneous discussion of both a potential SCI and GCI, in both IBRD and IFC.

**Maximizing Finance for Development**

A strong focus on maximizing financing for development is crucial to go from the billions to the trillions needed to achieve the Sustainable Development Goals. We support the approach to maximize finance for development through the Cascade approach, strong country ownership combined with actions to strengthen fiscal and debt policies and investment climate, and through a close cooperation with other development partners and within the World Bank Group. It is important to build ownership by recipient countries, and, in this context, to proactively address concerns about cost, sustainability, risk allocation, and transparency of Public Private Infrastructure Projects. To make it a success, there is also a need for a broad outreach to civil society organizations and other relevant stakeholders. They can play an important role in establishing checks and balances and in ensuring transparency and accountability. In addition, the Bank needs to take a leading role in developing a stringent and disciplined approach to blending finance, including engaging with donors, to avoid the risk of a race to the bottom.

There is much that the World Bank and other multilateral development banks can do to foster private solutions at the project level. The landmark report of the High-Level Panel on Water and Peace launched at the UN General Assembly in New York last month highlights how existing tools like the World Bank’s Global Infrastructure Facility (GIF) should be utilized to address the current shortage of bankable projects in sectors such as transboundary water cooperation. In addition, the report highlights the need to create a
“safe space” for consultations in the early stages of project development to allow stakeholders to proactively address major implementation issues early on, generate innovative ideas, and build confidence. We encourage the Bank to take a leading role in these areas.

**Investing in Human Capital**

The WDR 2018, *Learning to Realize Education’s Promise*, represents an opportunity to take stock of what we know and to provide guidance on how to expand the scope and quality of education around the world. Quality education is key to acquire the knowledge and skills for life and work. Too many children leave school without basic competencies – 60 percent of students in Sub-Saharan Africa, for example, cannot read and write after completing primary school. Beyond literacy and numeracy, basic education is also about developing talents, acquiring skills, building social competences and shaping the ability to judge needed to live a fulfilled life. The WDR 2018 rightly focuses on the quality of learning. Improving quality of learning requires enhancing the capacity of education personnel; ensuring context-relevant content and materials, and providing safe and healthy quality learning environments. We are convinced that these components must be closely considered when analyzing learning outcomes and be integrated into national Education Monitoring Systems. Better data and evidence and more awareness of the negative impact of weak and underperforming education systems would bolster the case for investing more in education.

In this context, we welcome the initiative of the Bank to develop a Human Capital Project. The Bank with its profound knowledge of human development on one hand, and economic growth on the other, is in the best position to deliver this new set of indicators and to put it to productive use for its members. At the same time, it is important to build on the work of others, as for instance the World Economic Forum.

As the financial capacity discussion goes ahead, the Bank stands before some most important decisions for its future. It is first a discussion about financial capacity but it is strongly interlinked with far reaching strategical decisions. It will be decisive in positioning the Bank within the multilateral development system. This Constituency looks forward to engage in these important discussions.