



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)



**SIXTIETH MEETING**  
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**Statement by Mr. Pascal Couchepin**  
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**Switzerland**

**on behalf of Azerbaijan, Kyrgyz Republic, Poland,**  
**Switzerland, Tajikistan, Turkmenistan and Uzbekistan**

## **1. The HIPC Initiative**

The submitted proposal for an enhanced HIPC framework provides a solid basis to achieve a true debt exit strategy for those heavily indebted poor countries which have pursued consistent efforts in adjusting their economies. The new modalities proposed for the enhanced HIPC Initiative are consistent with deeper and faster debt relief, in the respect of crucial factors such as a strict link to good performance and minimized moral hazard. However, careful attention is still required to preserve fair and equitable treatment of all HIPC eligible countries. This applies in particular to the terms and conditions in the treatment of the "retroactive cases", as well as to the implementation modalities of the so-called "floating completion points". The conditions to reach the "floating completion points" must be realistic and objectively measurable. They should not become stricter to delay completion if there are difficulties in financing HIPC.

The enhanced HIPC framework proposes a closer link between debt reduction and poverty reduction: This could become the source of a strengthened focus on poverty in all World Bank operations and for better coordination among the Bretton Woods Institutions. In this context, I welcome the current discussions to better integrate HIPC Initiative decisions into comprehensive anti-poverty national strategies: I encourage the Bank and the Fund to test this new approach as soon as possible in order to introduce it gradually. Debt relief is indeed a necessary - but not sufficient - condition in the fight against poverty. But the effectiveness of the financial resources freed up by debt relief and the mobilization of additional resources for poverty reduction depends on an effective and transparent budget management and the strengthening of institutions within a national poverty reduction strategy.

Securing the necessary financing remains therefore the key challenge before we can formally endorse the enhanced HIPC framework. The huge amounts involved, and the high expectations raised, do indeed call for a careful approach and analysis to assure that the international community effectively can deliver its promises. In my view, there are two points we have to look at carefully: (i) we have to make available funds for countries and institutions who are not in a position to put up funds on their own; and (ii) we have to avoid solutions which are at the cost of other low income countries.

Switzerland has already contributed some 30 million USD to the HIPC Trust Fund of the Bank, and has pledged a more than proportional amount to the ESAF/HIPC Fund of the IMF. Switzerland is determined to contribute further and significantly to efforts that represent a truly common, equitable and global solution to the financing of the enhanced HIPC Initiative.

## **2. The IBRD's Capital Adequacy**

The IBRD's risk bearing capacity has been negatively affected as a consequence of the massive emergency lending in response to the recent financial crisis and of the increased portfolio risk. A weakening of the Bank's financial standing is unacceptable, and the AAA-rating is crucial for the Bank's ability to fulfil its mission. It is therefore appropriate for the Bank to initiate an in-depth review and analysis of the long-term structural sustainability of its finances, and of all possible responses. I note the work already conducted, and I encourage the Bank to continue these efforts.

The global economic environment has grown more volatile, particularly during the past two years: we cannot anymore look at the issue of the Bank's capital adequacy only on the basis of historical steady trends and a business-as-usual perspective. At the same time, I consider it a serious mistake to simply extrapolate future trends, based only on the most recent events and factors. We have to look carefully at the fundamentals, before defining a clear and coherent line of action. The role of the Bank in the recent financial crisis resolution cannot be established as a standard for future lines of operation. While the possible involvement of the Bank in time of crisis is not in question as such, the nature and scope of the financial support should still be clarified and better defined. In all circumstances, the Bank has to focus primarily on its developmental core mandate. Increasing substantially the Bank's ability to react to financial shocks may lead to unhealthy situations, by raising undue expectations. Any such effort to anticipate the need of the multilateral system to cushion future possible crises would send the wrong signals to the markets, and increase moral hazard.

We require a substantial preliminary discussion on the future development strategies and priority agendas of the Bank. Such scenarios cannot be based on the sole assumption of a permanent (more or less rapid) expansion of the Bank's lending volumes. The Knowledge Bank is not necessarily an ever-expanding lender. Recent developments could restrain, in a medium-term perspective, the lending volume of the Bank, as for example the expansion of private flows towards developing countries, the expected massive debt reduction under the HIPC Initiative, or the improving efforts in the mobilization of local resources in the developing and transition countries. I therefore request the Bank to present as soon as possible some concrete proposals on how to tackle all the related strategic, policy and financial issues.

## **3. The Role of the Bank in the Strengthening of the Financial Architecture**

Substantial work is being carried out within various institutions and forums on the new financial architecture. Several months after the financial crisis in East Asia receded, it is comforting to see that the international community remains seriously committed and focused on looking at effective ways and means to better prevent and resolve such crisis. I appreciate the Bank's continuing efforts to play a prominent and constructive role in this process.

There is a wide recognition on the importance and relevance of the Bank's involvement in the strengthening of the national financial systems, as well as in the promotion of corporate governance and of good practices in social policy. In addition, the Bank brings a unique

development perspective to the international standard-setting bodies, as a further significant input to the establishment of a credible set of international standards and norms. The current discussion on the reorientation of the Bank's strategy in the private sector development, as well as the role of the IFC, is an essential part of defining the corporate agenda of preventing and mitigating crisis, i.e. making countries less vulnerable to them. In this context, the role of the World Bank Group in providing countercyclical finance to the private sector should be clearly identified. We ask the Bank to present a strategy paper on this issue in the near future.

At this stage, I encourage the Bank in pursuing its efforts to define more clearly what should be its future role in the context of financial crisis. We need to pay special attention to capitalize on the experience made and the lessons learned. The Development Committee should be periodically informed of the best practices and guidelines coming out of these lessons, in a similar way as is already established for the social practices.

I strongly believe that the Bank should firmly resist from being drawn into massive general liquidity support during financial crises. Its involvement should be more targeted towards advice on structural issues, and its financial assistance should be restricted to clearly defined social programs aiming at mitigating the human cost of crisis. More importantly, the Bank has to focus on its regular lending and capacity-building program, to help countries to reduce their vulnerability. Transparent and efficient public management will underpin these reforms. I expect that the Bank presents a paper outlining a roadmap as regards its future strategic orientation for sustained efforts towards prevention and mitigation of financial crises. This contribution of the Bank should be clearly integrated in the overall corporate development agenda.

What is the role of the Development Committee in the international financial architecture? There is a severe risk that it is about to diminish when we look at the strengthening of the Interim Committee, the creation of the G-X, and the institution of Joint Sessions. We need to reaffirm our core business – the poverty focus, and the mobilization of resources for development – and assure that our voice is heard.

#### **4. Developing Countries and the International Trade Agenda**

Our main objective on trade/development issues must be targeted towards further integration of developing countries and countries in transition into the multilateral trading system. This objective can only be attained if these countries can make real use of the opportunities the world trading system is offering. In this debate, improved market access is a necessary but not a sufficient condition. Two further problem areas have to be addressed: (i) the weak supply base in most developing countries and countries in transition, and (ii) the weak institutional and human capacities for addressing trade related issues in many developing countries and countries in transition

Many developing countries and countries in transition are importing more than they are exporting. Therefore, the present or potential usefulness of trade liberalisation is less visible to them than for countries with a strong export base. Trade liberalisation is an engine of growth but left alone it will not move a country on the development path. Trade does not exist without production. Promotion of trade is closely linked to promotion of investments, to the increase of

value added, to the improvement of competitiveness of the trade and investment environment in a given country.

Today, investment is an essential element of international trade, and there is tough competition to attract foreign direct investment. It is in the better interest of developing countries to have strong rules on locational subsidies and investment incentives than to impose domestic content, joint venture and technology transfer requirements which discourage companies from transferring their best know-how.

I support suggestions for a new action agenda aiming *inter alia* at an evaluation of current technical assistance delivery mechanisms before July 2000, improvement of co-operation among intergovernmental organisations, stronger incorporation of bilateral donors and technical assistance providers into an expanded Integrated Framework for Trade-Related Technical Assistance.

The World Bank should not be another agency for trade related technical assistance. Its role is much broader. The Bank should help developing countries (i) to analyse of their offensive interests in a new trade round; and (ii) to define what is needed to take advantage of the opportunities provided by a new round.

Globalization and liberalization are forces that exist and benefit all countries. These forces can only be maintained when the world community sees to it that the benefits are realized by all countries. The new round will only succeed if it provides all countries with the means to benefit from global liberalization. The World Bank has a crucial role to determine what additional actions have to be undertaken to assure that developing countries profit from liberalization. Obligations resulting from liberalization and their implementation should be linked to obligations to help countries which might have difficulties to profit from them.

## **5. Other Business: Issues for the 21<sup>st</sup> Century - A New and Broad Pragmatism**

At this point of time, we are looking back on fifty years of development experience. What have we learned? First, to assure broad based growth, macroeconomic stability is an essential prerequisite for development. Second, growth does not trickle down; development must address human needs directly. Third, there is not one policy or theory that will bring about development; we need a comprehensive approach. And fourth, stable and effective institutions are key to development; sustained development should be rooted in processes that are participatory, socially inclusive and responsive to changing circumstances. These insights are crucial when we go about defining a future development policy. In addition to reducing poverty, other challenges include scarcity of resources, in particular water, food security, cultural loss and environmental degradation. Development thinking is moving away from the search of a single, overarching policy prescription towards a new and broad pragmatism. Despite this more pragmatic view, let me mention a few key issues.

- **Institution Building:** Effective development requires a functioning dialogue of different players, i.e. government, the private sector, donor groups, and civil society. It cannot be reached

without a solid foundation of effective organizations and institutions. Development cooperation must therefore contribute to the building of sound and effective organizations and institutions. This requires efforts for continuous **Capacity Building** as a crucial prerequisite for development. Globalization requires governments to find new institutional responses. Governments should be able to seek and to profit from agreements with partners, i.e. other national governments, international organizations, NGOs, and multinational corporations. But it also means that national governments should increasingly reach agreements with regions and cities through subnational institutions on issues such as sharing responsibility for raising revenues. Building institutions and enhancing capacities is therefore also a prerequisite for decentralization. In its development cooperation, Switzerland is contributing to institutional strengthening, capacity building, and assisting governments on decentralization.

- **Good Governance:** Over the last few years, the issue of good governance has gained importance. I note with satisfaction that also multilateral institutions such as the World Bank are about to adopt its principles. I am particularly glad that IDA-12 has developed a framework for applying the principles of good governance and empowerment. Countries need institutions that strengthen organizations to promote good governance, e. g. through laws. Rule based processes are key to increase transparency which in turn enhances accountability, responsibility, and therefore good governance.

- **Private Sector Development:** It is urgent for the World Bank to create synergies in private sector development. It should take a closer look at the respective functions of the Bank, the IFC and MIGA. Unfortunately, not much has been done so far in joining forces. Recent proposals presented by Bank Management resemble more a bureaucratic compromise than a clear-cut operational strategy. We would like to encourage the Bank to be more determined and more effective in this area: privatisation (particularly in the transition countries), support to SMEs and micro-enterprises, private investment in utilities and the linkage between the productive and the financial sectors are essential elements for the future Bank. There is no time to wait.