



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)



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Statement by

Ms. Doris Leuthard
Federal Councillor
Federal Department of Economic Affairs
Switzerland

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

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Six months into a financial turmoil and a looming global economic slowdown, we welcome the opportunity of sharing views and analysis among Governors of the World Bank Group (the “Bank”) on the impact of these developments on low- and middle-income countries, as well as on the Bank’s strategy and financial standing. This spring session of the Development Committee must send a strong and clear message that efforts must be undertaken to assist the developing countries to face and to positively contribute to the new challenges, to consolidate their achievements and to accelerate progress towards the Millennium Development Goals. The Bank has a leading role to play on these fronts.

Over the last decade, globalization has contributed to generate the fastest growth the world has experienced of late, with rapidly expanding trade, private investments, technology innovation, and labor mobility. Millions of people have escaped extreme poverty, especially in the emerging economies. While these solid forces deploy their effects, we are worried that income inequality has further increased, both among and within countries. Moreover, while the emerging markets have so far remained resilient to the adverse developments on global financial markets, we are concerned by the potential impact of an extended economic and financial turmoil, and the ensuing credit squeeze, on the growth outlook of developing countries and on poor households. Many of them remain highly vulnerable to possible capital flow reversals or to protectionist trade measures.

Rising energy and food prices can have drastic effects on poverty and food security for net importing countries but they can also represent an opportunity for developing countries which are exporters of commodities and natural resources. Indeed, net exporting countries can profit from high commodity prices to enhance sustainable and equitable growth. The Bank should support improvement of their public finance management including increasing revenues allocated to sectors with high pro-poor growth potential and assisting in diversifying their economies in order to limit their vulnerabilities to future exogenous shocks.

With a strong presence at the country level worldwide, the Bank is in an excellent position to analyze the effects of the current crisis on individual developing countries, with a particular attention to the most vulnerable groups of their population. There is no single policy prescription for crisis prevention and resolution; but we have learned a lot from past crises. They can spiral out of control, leading to hyperinflation, high public debt and a significant decline in GDP. This has with disastrous consequences for the poor. We therefore encourage the Bank to reinforce its dialogue with all partner countries to strongly anchor good policies and to assist them in managing the delicate mix of measures needed to address sustainable and equitable growth.

The Bank’s comparative advantage is in structural and longer-term issues. Getting the fundamentals (policies and institutions) in partner countries right as well as improving the knowledge about crisis prevention, effects, and solutions, as exemplified in the Bank’s analysis on external shocks, are measures of crisis prevention and shock abatement. In addition, we can see a supportive role of the Bank directly in crisis management, where the respective country teams of the Bank and the Fund should be appropriately

supported and where the leeway built into the Bank's instruments and modalities should be adequately exploited.

With regard to the Bank's financial position, we are reassured that the current solid capital basis does provide an adequate buffer for possible countercyclical operations. We also welcome the high expected net income for this financial year. Still, there is no reason for complacency. The drastic reduction of net income expected as from next financial year does indeed question the long term provisioning to the reserves and the traditional contribution to concessional resources for poorest and fragile countries. We therefore welcome the recent decisions by the Board to increase the competitiveness of the Bank's products not only because this will render the Bank more responsive to client demands but also because of its own institutional interests, including the simplification and reduction of loan pricing, and the extension of the loan maturities up to 30 years.

Towards the Millennium Development Goals

Halfway to 2015 and in the year which saw such a broad endorsement of the MDG Call to Action at the World Economic Forum in Davos, we welcome the Global Monitoring Report 2008 (GMR) with its focus on the critical challenges facing human development, Africa, fragile states, and environmental sustainability. The report highlights continuous progress in global poverty decline, although the decline is concentrated in a limited number of emerging economies. But there is still a large unfinished agenda and it is becoming clear that no fragile state will reach the MDGs by 2015.

The trend is indeed qualified by marked regional disparities and prospects, growing inequalities both within and among countries, as well as by the daunting challenges in fragile states. It is therefore urgent to recover the lost ground on the MDG and to accelerate progress in each country. The GMR reminds us correctly that such efforts must also fully integrate the climate change dimension, and its threat on the well-being of all countries – in particular the poorest - and on the sustainability of their development. We fully endorse the proposed six-points Action Plan to reinvigorate the efforts to achieve successfully the MDG by 2015.

Poverty reduction

Inclusive Growth and private sector development remain central for poverty reduction and further progress on the MDGs. However more is needed to accelerate further the path of growth and to sustain these gains. The renewed emphasis by the Bank on economic infrastructure financing, including clean energy, is appropriate and responds to high demands by partner countries. But, in parallel, the Bank must engage adequate resources to promote a more inclusive development that empowers the poor and addresses inequalities, emphasizing good governance issues and anti-corruption measures.

One important element to be highlighted relates to agriculture and the still untapped potential for growth, poverty reduction and improved food security it offers in many developing countries. The Bank has to revisit its support policy and operations in the agriculture sector along the observations of last year's World Development Report. Renewed efforts to increase agricultural productivity, particularly through research and extension, to improve land use security and the sustainable use of natural resources, and to facilitate market access will contribute towards a more inclusive and pro-poor growth. The Bank needs to ensure that opportunities of higher commodity prices are tapped by small producers and poor rural households. We encourage the Bank to enhance its own capacities, coordinate with the UN specialized agencies, private foundations and regional development banks to scale up its support to agriculture as part of a strategy aiming at diversifying national production and exports, including the integration of disadvantaged producer groups through the support of fair trade initiatives.

Fragile states

Despite the complexity and magnitude of the issues at stake in conflict-affected and fragile states, we share the GMR views that progress is possible and represents a crucial challenge to the Bank's development mission, adaptability, and effectiveness. But to succeed in making a difference in fragile states, reinforced coordination with the UN system is necessary and a sensible mix of security, diplomacy, and development measures is required, according to the specific needs of the different categories of fragile states. We welcome also a complementary role for the IMF in this regard, in coherence with development actors such as the World Bank.

In line with the OECD/DAC Principles for Good International Engagement in Fragile States and Situations, we believe that the central objective for engagement is to focus on state building and capacity development. Besides preventing violent conflict, restoring legitimacy and accountability of the state, this objective is essential for creating the enabling environment for the recovery of the economy, engaging in the reconstruction and moving towards social and political stability. The Bank has an important role to play in such a process in closely cooperating with other development partners, to formulate joint strategies, advisory work, and action plans considering respective comparative advantages. These instruments should be tailored on the basis of a thorough context analysis that takes conflict risks and political economy aspects into consideration. It is also essential to bolster the resilience of achievements against slippage in countries which are on their way out of acute fragility.

We appreciate the concrete steps taken over the recent months by the Bank to increase qualified staff presence in fragile states, to mobilize grant resources for capacity building and community-based support, and to engage early in the analysis of possible options to resolve situations of arrears due to the multilateral financial institutions or severe indebtedness. We recommend that the Bank improves the management and effectiveness of its grants for fragile states, by merging existing trust funds. Moreover, we believe that more flexibility is required in the management of these financial resources.

Environmental sustainability

We welcome the efforts of the Bank to integrate the climate change dimension in its development and poverty reduction agenda, and to support developing countries in facing the challenges of mitigation and adaptation. We agree with the principles and objectives set out to address this pressing and overarching development challenge: in particular, ensuring consistency with the UNFCCC process and the recommendations of the Bali Action Plan, exploiting synergies within the Bank and working with other multilateral and bilateral actors – along comparative advantages - are pre-requisites.

We acknowledge the need for the Bank to mobilize more resources to address the climate change challenge. But the proposed portfolio of Clean Investment Funds (CIF) raises a lot of questions, including their additionality to existing instruments such as the Global Environment Facility (GEF). Mobilizing the private sector will be critical for success. The Bank has an important role to create enabling regulatory frameworks as well as to leverage private investments for addressing climate change. We see potential for developing risk mitigation products for clean technology investments and we are willing to provide support in this field.

Overall, we acknowledge important work in progress. Several important questions remain open. We appreciate therefore that the Bank has formulated a clear and solid work plan, including broad internal and external consultations that shall lead to the submission to the Annual Meeting in October 2008 of a comprehensive Strategic Framework on Climate Change and Development. We endorse this process and the timeline.

A Strategic Framework for the World Bank Group

We appreciate the extensive work undertaken since our last meeting in October 2007 to elaborate on President Zoellick's vision of an inclusive and sustainable globalization as framework for the six strategic themes for the Bank. A broad consultation within the Bank has contributed to adequately develop and anchor the six themes within the institution. Substantive dialogue between Management and the Board, including in the context of the medium-term planning and budget cycle, has further enriched the process. We understand that Management is developing a results-based framework for the six themes. These are steps in the right direction and we encourage these efforts. In addition IDA-15 negotiations which were successfully concluded can shape a solid policy package as central foundation for the strategic framework to build upon.

This being said, and while acknowledging that flexibility and innovation are vital for the Bank to seize opportunities and better respond to its clients' needs, we are convinced that the Bank must still better clarify its role, comparative advantages and priorities for actions in a rapidly evolving aid architecture. Based on the extensive work conducted so far with the six strategic themes, we believe that the Bank is in the ideal position to synthesize this work into a concise and operational strategic framework. We very much look forward to discussing such a document during our next Annual Meetings.

Voice and Participation

We note the agreement that concludes the second stage of the quota and voice reform at the IMF. We believe that these developments provide a basis to move forward with the World Bank Group own voice and participation agenda. Our constituency strongly supports the principle that the voice of developing and transition countries be enhanced to adjust to today's global realities and consolidate the Bank's legitimacy and credibility. It is also important that contributions to IDA and Bank's Trust Funds be properly reflected in the reform process ahead. We call for early consultations among all shareholders to address this challenging agenda, and we look forward to reviewing at our next Annual Meetings concrete proposals from the Board for a comprehensive package of reforms.