

SWITZERLAND
OSKAR KNAPP, Governor

Let me first join in thanking the United States (US) government and the authorities of Honolulu for their hospitality in this beautiful and heavenly island. I would like to take this opportunity to welcome Turkmenistan as a new member of the Asian Development Bank (ADB), and Portugal, which will soon join ADB. We also warmly support the candidacy of Luxembourg for membership.

Economic Outlook of the Region

In the year 2000, the estimated growth reached for the economies of developing countries in Asia and the Pacific averaged 7 percent. This confirms the remarkable continuing capacity of the region to react to the 1997 financial crisis and to attain broader macroeconomic recovery.

However, as the annual report of ADB states “the extent of restructuring and regulatory reform was far from adequate, as complacency replaced urgency.” Serious challenges such as corporate restructuring, improved corporate governance, and financial and banking reforms are therefore of utmost importance. In particular, for the five countries most affected by the 1997 financial crisis, the strengthening and successful completion of these reforms is a prerequisite to ensure their long-term sustainable development and to reduce their vulnerability to external shocks. This urgency is particularly true if we consider the uncertainties .due to the slowdown in the US and global economies .related to 2002 economic performances.

The positive trends in the economic recovery have also contributed to the social recovery, even if the social indicators remain lower than those previous to the crisis. The perceptible effects in terms of poverty reduction lag widely indeed behind the macroeconomic performance: the problem of the distribution of growth has still to be better addressed, in particular when encouraging pro-poor economic growth.

Considering that a possible resurgence of a financial crisis cannot be dismissed, the question of how the international financial architecture can be strengthened remains unanswered. We recognize that the regional development banks (RDBs) have a role to play in the prevention of financial upheavals. However, this role should be defined, in a clearer division of labor primarily with the International Monetary Fund, but also with the other financial multilateral institutions. Concerning the role of ADB in this regard, we believe that it should focus in priority on the structural causes and social consequences of financial crisis rather than on financial crisis management and balance-of-payment support on a large scale.

Poverty Reduction and the ADB’s Long-Term Strategic Framework

After having adopted poverty reduction as its overarching goal in 1999, ADB had to define the strategic orientation that would contribute to this main objective. In this

sense, we particularly welcome the adoption of a long-term strategic framework (LTSF) for 2001-2015.

The Asian population represents around 70 percent of the developing countries' population, but accounts for only 47 percent of their gross domestic product. The resources at the disposal of ADB are obviously far below the real needs and development challenges of the region. Therefore, the only solution for ADB is in our view to continue

- 1) to increase its development effectiveness in order to reach a higher leverage effect,
- 2) to prioritize its interventions given its comparative advantages and to focus on an agenda where it can bring additionality, and
- 3) to develop new innovative lending instruments in order to better respond to evolving and varying clients.

In this context, an explicit definition of ADB's comparative advantage (specific strengths) and a better division of labor with the other multilateral development banks and the United Nations system is necessary to mobilize all possible synergies in aid cooperation. The coordination with the Comprehensive Development Framework of the World Bank and with the United Nations Development Assistance Framework should be improved. For example, for developing countries the elaboration of the different strategy papers requested by the different multilateral institutions (poverty reduction strategy papers, country assistance plans or now country strategies and plans, etc.) mobilizes resources, which primarily should be used for other development priorities fixed by the government policies.

It is planned that the LTSF has to be accompanied by a more operationalized set of priorities. In that sense, we will give particular attention to the forthcoming medium-term strategic framework. Considering that such a paper will contain the main operational recommendations for ADB's work program within the next five years, it seems to us of particular importance to get the final formal approval of the Board. Since most of the world's poor live in Asia, ADB has a particular responsibility to contribute all in its range of possibilities to the realization and achievement of the International Development Goals (IDGs), which aim at reducing the proportion of poor by half by the year 2015. Very probably, the IDGs cannot be attained, unless bigger efforts are undertaken. As part of this endeavor, it is obvious that such a comprehensive development agenda like ADB's LTSF cannot be realized without adequate resources.

Therefore we are open to a review of ADB's financial resources. However, the issue of financial resources needs to be addressed cautiously. As stressed yesterday morning by President Chino, ADB should first maximize internal efforts to utilize financial resources to the fullest extent before taking any other action. We indeed encourage ADB to consider the generation of additional capacity through restructuring and internal reallocation of resources. Switzerland favors the principle of optimization rather than maximization of the existing means. In that sense, we welcome the launching of the

study on ADB's resources requirements to finance its ordinary operations as well as the reorganization initiative.

ADB's Key Role in Promoting Good Governance

Because of the strong link to poverty reduction, Switzerland would like to commend ADB and its staff for having prepared the reviewed policy paper on good governance with a medium-term agenda and action plan. In fact, good governance is not only one of the three pillars of the poverty reduction strategy, the governance issue is also the key for enabling an environment for sustainable development. We would like therefore to encourage ADB to address the different issues in a determined manner.

The respect of human rights such as freedom of expression and assembly, or the participation of civil society in decisions of public concern is not only a question of human dignity but also a basic precondition for any development. Most important is also the so-called economic governance. In this area, we are of the opinion that ADB should play a more active role giving support for adequate allocation of public expenditure for promoting sustainable development and reducing poverty and for reforms that improve the fulfillment of the basic needs of poor people. In the same sense, the promotion of and support for more equitable distribution of income and assets is not only necessary for poverty reduction, but also for achieving higher economic growth rates.

ADB's Role in Private Sector Operations

Switzerland very much supports the role of ADB in private sector operations in order to achieve greater development results. The impact of the private sector in terms of job creation, skills training, and hence in terms of poverty reduction does not need to be demonstrated. However, the role of ADB should be first and foremost characterized by additionality. ADB must help create the enabling environment and strengthen the institutional capacity in client countries in order to facilitate the crowding in of private flows; it should not replace but mobilize private capital flows. Switzerland strongly believes that this result may only be achieved by focusing on a certain number of limited and selected operations where ADB has a comparative advantage and can create a higher leverage effect. As stated in my statement last year, ADB should become the leading promoter for responsible private initiative. We also encourage ADB to increase private sector lending by enhancing support for micro and small enterprises through microfinance operations.

On the proposal to expand lending in the area of private sector operations, Switzerland is flexible to consider a moderate enlargement of the current ceiling. However, the establishment of such a ceiling must also be assessed in relation to the risks deriving from private sector operations and on the potential negative impact on the financial soundness of the institution. An increase to 10 percent of the ceiling for private sector operations (compared to the current 3.5 percent) seems to us rather unjustified. Such an increase should not be underestimated in terms of absorptive capacity and in terms of staff and resources requirements.

The Finalization of the Seventh Asian Development Fund Replenishment

In the area of concessional lending, Switzerland welcomes the finalization of the seventh Asian Development Fund (ADF) replenishment. The satisfactory level of the replenishment will permit the financing of ADF operations during the next four years and will therefore bolster the implementation of the poverty reduction strategy. An important number of new policies have been committed during this exercise; to name a few of them, of particular interest are the introduction of a performance-based allocation system, stronger support for good governance, and establishment of a Development Effectiveness Committee. For Switzerland, it is of utmost importance that ADB as a whole endorses these policies and works toward their full implementation in its daily work.

On ADB financial situation, ADB is still facing some major challenges. Although the net income situation has considerably improved over the last year, we clearly understand that ADB is still facing constraints in making ordinary capital resources net income transfers to its concessional window and to technical assistance (TA). Switzerland feels therefore concerned about appropriate financing of TA, particularly when considering the new and ambitious agenda of poverty reduction of ADB. In this context, the review of the use of TA will be of utmost importance in the forthcoming weeks. We urge ADB to address this issue cautiously as the proposal to shift TA financing to administrative expenses might have substantial impact on the net income, i.e., on the financial ratios of ADB. In that sense, we would like to encourage ADB to analyze innovative approaches to finance TA operations. Among them, the increased use of loans instead of grants .based on the development level of the beneficiary country .should deserve particular attention.

The Future of ADB

A reflection is taking place within the multilateral financial system on the role of the multilateral development banks and on the diverse needs of low-income countries and middle-income countries in order to design appropriate and innovative instruments to better respond to those needs.

We are aware of the reflections, which are at a preliminary stage within ADB and urge ADB to adopt in this regard a global approach and not to limit its reflection on some specific partial issues. More specifically, the introduction of a more flexible and possibly differentiated pricing structure may be considered, provided it does not have negative impacts on ADB's poverty reduction focus. In that sense, we encourage close coordination with other development banks.

Conclusion

To conclude, I would like to congratulate ADB for its capacity over the last year to react and to formulate an important number of new policies and strategies. Although ADB is now well equipped, it has to implement and operationalize them. What counts

are not so much the good policies but the tangible impacts of the operations, which bring the proof of ADB's adequacy and effectiveness in responding to its clients' needs and thus contributing to the realization of the international development goals.