



**SWITZERLAND**

**OSCAR KNAPP, Governor**

I would first like to thank the Government of the People's Republic of China, the authorities and the people of Shanghai, as well as the Asian Development Bank (ADB) for their warm welcome, kind hospitality, and the excellent arrangements for this meeting.

2001 was a year of major change and achievement for ADB. At the same time, serious shocks in the region created a context of uncertainty for the work of our institution. Economic growth dropped from 7% in 2000 to 3.7% in 2001, reflecting how vulnerable the region is to a global economic downturn. Moreover, growth across the region has been uneven, leaving some countries even further behind the 6–8% growth rate necessary to reach the Millennium Development Goals.

If we want to reverse this situation, governments must restore confidence in the region's economic future. This requires efforts to improve macroeconomic management, including structural as well as sectoral policy reforms with emphasis not only on financial and corporate restructuring and fiscal consolidation, but also on job creation and sustainable development.

With its rapid and strong assistance for Afghanistan, ADB has yet again given proof of its important role as the "family doctor" of the region, as you Mr. President like to call ADB. It has reacted promptly, in a flexible manner, and in concert with the rest of the international community to overcome the current crisis. We welcome this reinforced coordination with the other international finance institutions and United Nations agencies.

Switzerland welcomes that ADB has committed to develop its best efforts to make available \$500 million for the reconstruction of Afghanistan over the next two and half years. We however remain concerned about the present absorption capacity of the country. A significant area still remains inaccessible due to security reasons. Where public safety has been established, institutions are only beginning to be formed and thus are still weak. I am therefore pleased that the support for the reconstruction of Afghanistan is placed in a regional context that includes other countries of Central Asia.

Assistance for Afghanistan also raises some important questions regarding the Asian Development Fund (ADF). After the problem of multilateral arrears will

have been solved, ADB plans—as mentioned during this annual meeting—to present to the Board a loan of \$150 million for reconstruction and multisectoral programs. On this occasion, it will be necessary to draft some guidelines for the use of ADF funds in postconflict situations. This is justified given that the amount committed by ADB corresponds to nearly 10% of ADF VIII resources. We have therefore to make sure that lending decisions do not negatively impact on other poor countries, which could be neglected.

Turning to the institutional achievements, I am impressed by the performance of ADB in 2001. After having approved a series of important policies (e.g., the long-term strategic framework [LTSF] and medium-term strategy), ADB has undertaken a major internal reorganization. Management of ADB's financial resources has also been improved. I welcome these exercises as a proof of ADB's continuing efforts to enhance its development effectiveness and to adapt to a changing environment.

Although it is too early to evaluate the real benefits of ADB's reorganization, the new structure should result in a stronger, more efficient, and more effective ADB, capable of delivering real and sustainable changes. ADB's development effectiveness will be evaluated toward achieving these goals by the development assistance community. Among others, the decision to put countries at the center of the new organigram to create a much greater country focus in ADB's operations should bring program objectives in line with socioeconomic realities.

The new organizational structure should help ADB to better deliver its mandate of poverty reduction. Considering that it is now two years since the poverty reduction strategy was endorsed, I urge ADB to provide us during 2002 with a thorough review of what has been achieved so far. The implementation of the poverty reduction strategy should be continuously monitored and assessed in order to remind ADB of its mandate and stated intentions.

I look forward to discussing the new environment policy. This represents an important step forward toward implementation of ADB's LTSF. Poverty reduction and efficient protection of the environment cannot be separated from each other. For the most part, poor people have to bear the brunt of environmental destruction, do not have the means to protect efficiently their environment, or are forced to deplete their resources to survive.

Switzerland appreciates especially that environmental protection is treated as a multidimensional systemic problem that must be addressed at different levels, not only by specific projects but also as a crosscutting issue. Environmental considerations must be integrated systematically into all operations of the project cycle from the earliest stage of project design. In that sense, adequate performance indicators in the field of environment need to be established. Adopting a proactive approach means that the civil society participates systematically in formulating and implementing environmental programs, projects, and assessments. Another important element of an efficient environment policy is the strengthening of the capacity building of the public administrations of member countries at national, regional, and municipal levels.

In the context of this new environment policy, I would like to emphasize the importance of the Inspection Panel. Its current review must lead to a more effective and frequent use (if necessary) of this panel. At the end, the main objective of this

instrument is to enhance the development effectiveness of ADB by applying good governance principles and by demonstrating its transparency, fairness, and readiness to formulate corrective measures. The Inspection Panel must not be seen as a risk but as an asset of ADB.

For the implementation of the LTSF and especially the poverty reduction strategy, I strongly believe that adequate technical assistance (TA), in terms of quantity and quality, is decisive. This is particularly true for the social sectors (health, education, etc.) where participation, ownership, and social processes are involved. I therefore fear that the current decrease of resources for TA operations can easily go at the expense of development effectiveness in poverty reduction. Facing the urgency of the situation, I encourage the ongoing TA review to analyse in an open spirit all potential options to resume an adequate level of TA operations. These include resuming net income transfer, introducing to some extent and where appropriate TA loans instead of TA grants, using more cofinancing, and reconsidering the ADF-VIII allocation for TA.

The increase of the cap on private sector lending needs to be seen as part and parcel of the modernization of ADB's instruments and as recognition by member countries of the crucial role of the private sector in the development of the region. While Switzerland has supported the increase, it is crucial that risk management be scaled up quickly, and that Management puts into place a regular reporting system on the status of the private sector portfolio. The structuring effect or leverage effect should be demonstrated in all private sector operations. It is worth mentioning that private sector interventions should not replace but crowd in private capital flows, given the fact that the cumulated investment financing from all aid agencies is estimated not to represent more than 2% to 4% of the overall effective needs of the Asian region.

ADB has taken significant decisions at the strategic and managerial level to modernize itself in order to achieve its mission and objectives as stated in the LTSF. I think ADB is on the right track in this regard, Mr. President, and I would like to congratulate you and your staff on this achievement. The challenge will now be implementation and translation into development effectiveness. The international financial institutions are increasingly scrutinized for effectiveness and are asked to demonstrate the development impact they achieve (or do not achieve) in cooperation with borrowers. This implies: greater emphasis on outcomes and impact in lieu of inputs and outputs, better measurability in favor of professional and systematic evaluation, and—last but not least—a change of the corporate culture and incentive framework in many international institutions, including ADB.

To conclude, I would like to welcome Portugal as new member of ADB.