



Memo

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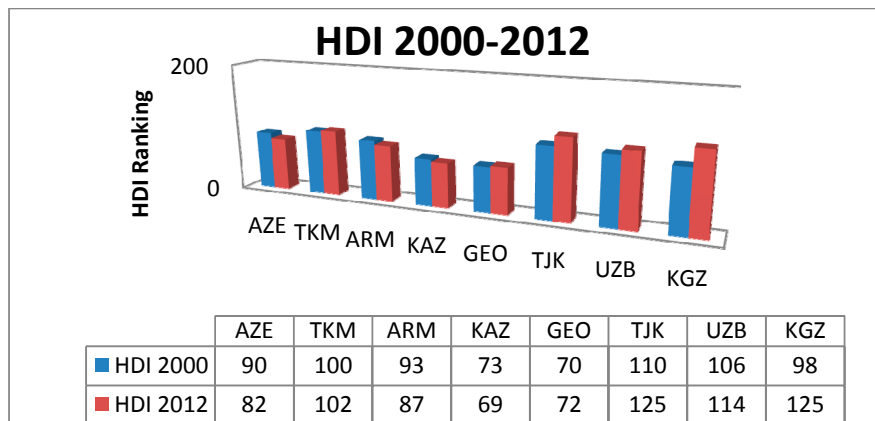
It's a pleasure to participate in this conference which the Swiss State Secretariat for Economic Affairs is supporting as part of its engagement in the region.

Macroeconomic Support is in fact one important area of the Swiss economic development cooperation and I very much agree with the excellent summary of the past experience Mr. Kähkönen has just done. The region has certainly made notable progress in several areas. The question is whether this can be deepened and at the same time broadened to other key domains in the future. Let me thus concentrate my few remarks on the vision sketched by Mr. Kähkönen:

- One first comment coming to my mind after hearing the presentation is the issue of the resilience and inclusiveness of growth in the CCA region. As Mr. Kähkönen rightly pointed, growth remains very volatile and heavily dependent on commodities. It is therefore of utmost importance that the authorities tackle deep structural obstacles to make growth more broad-based, inclusive and stable. Strengthening the macroeconomic framework, diversifying the economy, increasing access to finance and confidence in the domestic financial sector while tackling connected lending and investment and reforming the overall business environment are key issues for making this possible.
- The second point I would like to make concerns the management of natural resources, and I'm purposely referring to a wider concept than only "energy" resources. For some countries the present and for others the potential impact of natural resources is enormous. The meaning "resource curse" should be understandable for the many economist in this room, but is still worth remembering that the good management of natural resources represents a real challenge. The enlarged fiscal space from such resources can certainly boost economic growth and generate large revenues for the government. But for these revenues to finance public goods and services

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that benefit sustainable development and poverty & inequality reduction, such as investment in education, health, and physical infrastructure, governments need to properly address the institutional and policy challenges that come along. Evidence from many resource-rich countries shows their performance on human development indicators compares unfavorably to less-endowed countries. The evidence for the region seems unfortunately to confirm this pattern.



For CCA countries to really maximize the benefits of extractive industries there is a need to: a) develop an appropriate fiscal regime and an effective and trusted administration in charge of collection; b) effectively spend resource revenues by establishing the adequate budgetary mechanisms; c) strengthen governance by ensuring transparency and accountability of the public sector dealing with extractive industries, d) facilitating more investments (within and outside the extractive sector) by ensuring an attractive and stable investment climate and rewarding corporate social responsibility, and e) saving part of the revenues (e.g. in sovereign wealth funds) to achieve greater intergenerational equity and facilitate anti-cyclical policies.

- Finally, a last central theme to master the way forward, be it on fiscal, monetary or financial sector issues, is the need for stronger institutions -and by this I certainly don't mean a bigger state. Central banks need to become more independent and credible in conducting monetary policy. Budget institutions need to be more effective and efficient in the management of public resources, parliaments need to become more thoughtful of developing a legal framework that is conducive for growth and provides a clear signal to the private sector willing to invest. Supreme audit institutions and similar domestic accountability mechanisms need to be empowered to play the role they have in the system of check-and-balances.

For institutions to be stronger it is not enough to change the formal rules governing them. Many reforms have been undertaken, but implementation is weak. Capacity has to be built within the institutions and the right incentives need to be set for rewarding "playing by the rules". Neither fiscal sustainability nor a strong financial supervision can be achieved per decree. Supporting CCA countries by building local capacity and providing targeted training is, as the Swiss State Secretary mentioned over lunch, a major focus of Switzerland's macroeconomic support in the region. Our partnership with the Fund is an important vehicle to achieve this goal.