



DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
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Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)



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Development Assistance has had effect

First of all, I would like to welcome the discussion on Development Effectiveness. The paper and the underlying study show that development assistance has worked and has helped millions of people to a better life. Infant mortality has declined in several countries, literacy rates have risen and for millions of people in low and middle income countries life has improved. The study provides us with an important message: better policies in developing countries, together with improved allocation of aid, imply that aid is more effective today than ever before. With this as a point of departure, we should aim at achieving even more effective development and poverty reduction.

Today, we know more about the necessary prerequisites for development than we ever did before. We have gained insights in what the multidimensional task of reducing poverty means. We have seen how we must look at development in a comprehensive manner and we have realized that development heavily depends on actions and commitments from the countries themselves. Good governance and sound economic policies are crucial. An enabling environment for private sector participation and foreign direct investments must be created. These are in turn dependent on functioning financial markets. Experience has shown that social and economic development are two sides of the same coin - one is dependent on the other.

The progress we have seen has, however, not been uniform. The transition economies have seen higher poverty levels. Income levels in Sub-Saharan Africa have not risen. In our work, there has been a lot of trying and failing and we must not underestimate the shortcomings. The conclusion we can draw, however, is that prospects for the future in most cases look more promising than they did fifty years ago. With its accumulated knowledge, gained experience and its ability to adapt to different circumstances, the World Bank is a major partner in supporting low and middle income countries in their efforts to reduce poverty.

This being said, we cannot be complacent. We have learned a lot but there is still a long way to go to halving poverty. It is now a matter of applying what we have learned, both in our multilateral and bilateral assistance, particularly in areas such as harmonisation and co-ordination and a general shift towards budget/programmatic support.

The recent conference on Financing for Development (FfD) has shown an evolvement of a *Global Deal*, which implies that development is a concern for all involved.

First of all, we reaffirmed that the developing countries themselves have the prime responsibility for their own development, and an obligation to implement "good policies". We also have to acknowledge that the ownership and commitment by developing countries implies that we must take a step back and allow for the developing countries themselves really to be in the driver's seat. PRSP is the instrument in which these efforts are made concrete.

Secondly, and in order for the countries to achieve the Millenium Development Goals (MDGs), the international community, the donors, also have responsibilities as supporters of these efforts. There is an urgent need for policy coherence in all areas where we are active and in all sectors relating to development, e.g., foreign direct investments, other private flows and official development assistance and trade. Significantly reducing trade barriers and opening up our markets to exports from both low and middle income countries may potentially have greater effect on development than will all development assistance that we currently provide. Here, the EU initiative Everything But Arms (EBA) could serve as an example. Coherence

will potentially increase the impact of the efforts on development and poverty reduction, and the responsibility for its implementation lies within our own national governments. We have to try to behave in a coherent manner in all policy sectors.

The ability to benefit from the multilateral trading system greatly affects a country's possibility to ensure sustainable economic development. Therefore, the new round of trade negotiations decided to be initiated in Doha last November must be a true development round. This entails much more than opening up our markets and increasing the resources available for trade related technical assistance. The multilateral trading system must be designed in a way that ensures that developing countries perceive it as beneficial and not a burden to participate and implement the various agreements and rules. The World Bank plays an important role in the Integrated Framework. We commend the Bank for the results achieved so far. More could be done, however. The next step should be to assist countries in mainstreaming trade in national development strategies and PRSPs.

In addition, to the evolvment of a global deal, the FfD conference was also the first time all the major bilateral and multilateral institutions came together in a commitment to the issue of resource mobilization, in order for both poor and middle income countries to achieve a sustainable development and poverty reduction. This is an important message for the future. As a complement to other sources of financing, ODA plays a significant role and the Nordic countries support the 0.7% target. However, it is necessary also to fully explore additional sources. Private sector involvement is also crucial.

The FfD conference provided leaders of the world with an opportunity to manifest their commitment to development by contributing financial resources needed to reach the international development goals. The next step is for the same leaders to give guidance on how to obtain sustainable development. The World Summit on Sustainable Development lends itself to this critical task. The FfD conference has already paved the way in the area of financial resource mobilisation, by setting out the essential elements of a partnership approach between developing and developed countries. Members of my constituency are fully engaged in the preparations for the Johannesburg conference in order to contribute to a successful outcome.

Bank as a institution based on lending and knowledge

In the multilateral system, each institution has different tasks derived from its comparative advantages. Through this, the institutions have come to have their strategic roles, where each institution within its mandate potentially reinforces the work of the other institutions. In terms of financing, the Multilateral Development Banks (MDBs) mainly provide loans on market and highly concessional terms. The UN and its agencies provide assistance in the form of grants. This interaction of mutually reinforcing institutions has become a cornerstone in the multilateral system. However, MDBs, just as all other international organisations, must be prepared to constantly adapt to the ever changing environment.

In short, the Nordic and Baltic countries are pleased with the way the Bank has developed its recent activities to improve effectiveness and its refocus on poverty and its comprehensive approach to development. Today, the World Bank is better equipped to contribute to development processes in both low and middle income countries than it was in the past.

It is our firm belief that the Bank's work and the work from bilateral donors has had a significant impact on achievements when it comes to economic growth and development. But

the Bank has done more than that. It has, through its extensive research and expertise, contributed to further knowledge of the development framework. Today, the Bank is a highly relevant partner to an array of different countries at different stages of development, both through its lending and through its Economic and Sector Work and Technical Assistance activities. What the Bank has achieved is commendable and the Nordic and Baltic countries strongly support its ongoing work. This also includes intensified efforts to combat money laundering and financing of terrorism, an issue our constituency takes very seriously. The efforts made by the Bank regarding LICUS is also commendable, although there are still some issues outstanding.

We should not do anything that might harm or reverse this evolution. We would caution those who fundamentally question the applied MDB model. We have a system that has proven itself in many respects, but there is, naturally, always room for improvements. For example, the Bank could further develop the ways in which developing countries could participate in decision making. We must always make sure that methods are translated into effectiveness on the ground, but now is not the time to fundamentally alter the Bank.

One issue of concern is the role of IDA in the future. Today, there is a limited amount of resources that could be used as grants. We feel it is important not to exaggerate this capacity. Turning IDA into a grant institution would be to move away from the comparative advantage of the Bank. Furthermore, it would seriously effect the efficiency of ongoing development work. Turning IDA into a grant institution would also imply to compete with other grant financing institutions such as the UN and creating uncertainty of distinction. What we need in development financing is not further overlapping and competition, but more cooperation, as expressed very clearly in the text from the FfD conference. Moreover, a move to grant financing would seriously undermine the financial viability of IDA.

Another issue of concern is the Bank's role in provision of Global Public Goods. Many of the problems that cross borders have to be addressed by collective action and we support what the Bank has done in areas like financial stability or fighting infectious diseases. However, what specific role the Bank should have in the area of Global Public Goods still needs clarification. In its continued engagement, it is important for the Bank to find the right balance between global and national programmes. My constituency strongly believes that the most important role for the Bank is in building on its national level engagement and country based lending. By doing this, the Bank can continue to play an active role when action contributes to spill-over effects with regional or global benefits. We still think that the financing issue needs more thought and more creativity. We must, therefore, actively try to find other means of financing. To involve the private sector on a broader basis is but one source that could be explored more thoroughly.

A third area of concern is that of premium pricing, i.e., pricing based on ability to pay. The Nordic and Baltic countries believe that pricing of products should not discriminate between borrowers. The Bank must continue to apply uniform pricing with standardised terms for borrowers. Premium pricing would most likely be detrimental to both the borrower and to the Bank. We appreciate the strong stance the Bank has taken on this issue and we strongly support the existing pricing policy.

All in all, instead of contributing to mission creep and further overlapping, we must safeguard not only the Bank's, but each institutions' strategic role, thereby reinforcing the impact they potentially can have.

This being said, we must not deny that there is scope for improvements. One important task the Bank has to deal with is the correspondence between policy decisions at the strategic level and implementation at the country level. Ongoing work on coordination between MDBs and between the World Bank and the UN system should also be intensified, not least at the country level. In the harmonization area, current work on financial management and procurement is an important step but more remains to be done, also within the Bank's own policy domain. Another internal challenge facing the Bank is flexibility in responding to extreme situations. One should also take seriously the need to strengthen the abilities for developing countries to participate in international economic decision making.

Moreover, it is crucial for the Bank to find ways to respond to the needs of middle income countries, ways that are driven by a genuine demand. The low level of lending to these countries persists which is worrying, as this may imply that the Bank is seen as less relevant to this group of countries. It is a crucial issue for the Bank to actually stay relevant. The Bank's financial soundness is heavily dependent on continued cooperation with middle income countries.

Other important issues

Let me now turn to a few specific initiatives my constituency feels strongly about

PRSP

The PRSP process constitutes a major step forward in the way the international community organizes itself in order to fight poverty. National ownership is crucial. But the PRSP, triggering HIPC debt relief and concessional lending, may put the ownership under stress. This calls for flexibility and sensibility on the part of the BWI. Some countries have both the will and the capacity to take this responsibility immediately - others do not.

National ownership means that the donors have to take a step back and let the PRSP process be run by the developing countries themselves. It is the concern for each developing country how this is handled. The role of the donors is to support them in having a true participatory process. For the credibility of participation, the national parliaments' role should be emphasized. Capacity building to strengthen the institutional abilities essential to poverty reduction must be supported. Again, this is the very essence of true ownership, which we commonly have agreed is crucial to successful and sustainable development.

Furthermore, the donors must adjust programmes and bilateral assistance to procedures used by recipient countries. The coordination and cooperation must therefore be at the country level.

There is a close relationship between the PRSP process and Sector Wide Approach (SWAP) processes that are ongoing in many LDCs, particularly in social sectors. We welcome the World Bank's efforts to adjust its framework to participate more effectively in these processes. We do, however, wish to emphasize that active involvement in PRSPs as well as in SWAPs require a strong field presence, hence a need for the Bank to continue its decentralisation process and strengthen its field offices.

HIPC

The adoption of the enhanced HIPC initiative reconfirmed the need for debt relief for the eligible countries. It was widely acknowledged that the debt burdens of the least developed countries (LDCs) would severely add to the difficulties for these countries to reach sustainable development. HIPC should provide an exit from these situations. However, debt relief is only a part of a solution to poverty reduction. Debt relief must be accompanied by, inter alia, sound macroeconomic and structural policies in order to be effective.

Until today, 26 countries have reached either completion point or decision point under the framework. The issue of financing of the multilateral debt relief under the initiative is still of great concern. It cannot be emphasized enough that the credibility of the initiative is crucially dependent on such funding. Each creditor must take its fair share of the burden and make sufficient financing available. My constituency has therefore contributed to the HIPC Trust Fund by around \$245 million. We will continue to participate in the funding and urge all donors to deliver on their commitments. However, projections regarding financing requirements show that pledged contributions will not be sufficient neither for the short term nor for the long term need. This fact underlines the importance of an independent and transparent replenishment process throughout the lifetime of the HIPC mechanism. It is not acceptable that the financial integrity of the multilateral institutions is compromised.

We, therefore, welcome the separate discussions held back-to-back with IDA 13 and expect such a process to continue in IDA 14. It is also necessary that the annual technical meetings on HIPC, starting already this year, will focus on the issue of its financing.

Final remarks

Evidently, we know more than before on what works and what does not work in development assistance and we must extend our knowledge even further. The Bank, as a supporter of national efforts, has an important role to play. At the FfD conference, both developing and developed countries made commitments they are now expected to implement. The Bank must now continue to support ongoing efforts in order for poorer countries to reach development and poverty reduction. Concessional loans provided by the MDBs supporting economic development, technical assistance for capacity building and enhanced ownership consequently serve a purpose.

The Bank and the other multilateral institutions are bodies that can influence that globalisation is being handled in a way so that it benefits all. Given its extensive research, knowledge, experience and significant financial resources, the World Bank has an important strategic role as a development institution and it deserves our support as such.