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)

SEVENTIETH MEETING
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Statement by

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I. Key messages

We are fully committed to the Millennium Development Goals (MDGs). We are still a long way off achieving the MDGs. The Global Monitoring Report clearly identified what we need to do, and who needs to do what. It is not easy, whether it is about mobilising more resources, improving development effectiveness or implementing policy reforms. But it can be done, and a number of both developed and developing countries have proved that it is possible and indeed feasible. Let's use this opportunity to reconfirm our commitments to the MDGs, and share views and experiences on how best to move forward.

Today's agenda items are all important tools in reaching the goals. We would like to highlight the following key messages:

- Aid effectiveness must be improved. We must move forward with harmonisation, donor co-ordination and alignment of aid to Poverty Reduction Strategies.
- ODA must be increased. The best option would be for donors to move towards the UN objective of 0.7 percent of GNI.
- New financing modalities should be further considered. A number of technical and political issues must be solved to make current proposals feasible.
- A good investment climate and private sector development is essential to achieve economic growth, but growth must be sustainable and accompanied by pro-poor policies to reduce poverty. Equity can, in itself, contribute to higher growth rates.
- Good governance and anti-corruption measures are crucial for ensuring a sound investment climate.
- Implementation of the HIPC Initiative is of key importance, and we must ensure that resources to cover IDA's HIPC costs are mobilised. But we also need to look beyond debt relief to ensure long-term debt sustainability and thereby foster long-term growth.
- The voice and participation of developing countries must be enhanced. We stress the need for constructive discussions of the issue in the Boards of both the World Bank and the IMF.

II. Aid Effectiveness and Financing Modalities

Aid effectiveness can and must be further enhanced. One of the most important determinants for increasing effectiveness is the developing countries' own policies. While overall policies have improved, governments must do more to strengthen good governance and public institutions. A number of encouraging initiatives have been taken in recent years and important progress has been made at country level to improve aid effectiveness. Government-led groups play a central role in this regard and help us align our support with priorities of the Poverty Reduction Strategies (PRS) and to co-ordinate programs. In some countries common results frameworks have been established that are based on joint indicators. But in most countries there is substantial scope for increasing the effectiveness of aid.

Better donor harmonisation is a prerequisite for improved aid effectiveness. We urgently need to translate our rhetoric on harmonisation into action on the ground. Progress in this area remain too slow. Donors need to further align aid with national strategies and to harmonise and simplify policies and practices. The World Bank should continue to strengthen and refine their role in promoting harmonisation efforts at the country level. Better alignment of Country Assistance Strategies (CASs) with PRSs is one of the very important challenges. The PRS must serve as the core framework for harmonizing and aligning donor assistance and be a vehicle for prioritising capacity building needs that are essential for improving aid effectiveness. The PRS should be better linked to the MDGs. In order not to strain the limited capacity of developing countries, progress reporting on PRS need to be unified with reporting on MDG outcomes.

National ownership of the PRSP process should be improved. In many countries, national parliaments, line ministries, local governments, the private sector and civil society need to be better involved in the PRSP process. We note with grave concern that PRSPs have been formally presented to the parliament in only half of the countries concerned. The criticism that country ownership may be hindered by the PRS being a requirement for concessional lending from the Bretton Woods Institutions should be taken serious. But we also recognize that this link has worked as an important incentive in the introduction of the PRS approach. We expect the Bank to further explore ways of alleviating this tension, including possible modification of the procedure of Board consideration of PRSPs.

The link between PRS and the national budget is in many countries inadequate. Incomplete costing of programmes is an obstacle for incorporating PRS priorities in budget allocations. The financing of the PRS should be linked to the medium term expenditure framework, the annual budget and programs where all resources, including domestic revenues and aid flows, are incorporated. We further believe that good governance and anti-corruption measures and systems for monitoring and evaluating results should be important elements of the PRS.

The best option for securing more aid would be for donors to move towards the UN objective of 0.7 percent of GNI. Delivering on the pledges from Monterrey is crucial, but not enough. It is estimated that aid has to be doubled by 2015 to achieve the MDGs. Aid has increased, but still falls significantly short of what is needed to reach the MDGs. Furthermore, half of the increases in aid commitments from 2001 to 2003 were due to exchange rate movements and inflation. In this connection, we would also like to caution against redefining ODA to include spending that are not primarily aimed at poverty reduction, since that will give us a false picture of the level of development assistance.

A substantial increase in IDA's resources is required. The donor community need to ensure that IDA maintains its crucial role in the fight against poverty. Bearing in mind that the IDA14 replenishment will constitute the bulk of IDA's contribution to financing the MDGs, we urge all participating countries to support a replenishment level that allows IDA to – as a minimum – maintain its share of the ODA that is required to reach the MDGs. Debt sustainability is a promising prime criteria for identifying the appropriate grants envelope in IDA.

More aid can be effectively used. The Nordic and Baltic countries believe that more aid can be effectively used. Sector and programme aid should, however, be encouraged in order to lower the administrative burden of external aid. Country experience shows that there is significant scope for scaling up and that more aid would accelerate progress towards achieving the MDGs. In many recipient countries capacity building remains essential. It is especially important that the respective governments improve the macroeconomic performance, governance and strengthen institutions. Improved public expenditure management is critical in this context. Donors must – where needed – support the governments' efforts in these areas.

The possibility of identifying new financing modalities should be fully explored. We welcome the work by the World Bank and others in further exploring financing modalities that may help mobilise additional resources to achieve the MDGs. However, these modalities should not be used to divert attention from previous commitments.

An International Finance Facility (IFF) could be a relevant instrument for countries prepared to make a legally binding pledge of future increase in aid. We strongly agree - as stressed in the DC document on this issue - that front loading of future aid flows through such a mechanism as IFF, must ensure additionality, i.e. result in a short term increase and then a steady flow of funds.

Some of the global tax proposals seem attractive. We appreciate the analysis on the various global tax mechanisms to mobilise further external financing. Although some of the global tax proposals have attractive features, such as correcting international externalities, they would take time to implement. At this juncture, they may not gain sufficient political support and will consequently not contribute to progress towards financing the MDGs. We would, however, like the Bank and the IMF together with the UN and other relevant actors to further explore the pros and cons of global tax proposals, as well as voluntary contributions mechanisms, such as a global lottery.

A more differentiated use of financing mechanisms could increase investments in reaching the MDGs. In our view, the Bank should continue as a primarily financial institution for concessional lending. However, we fully support the Bank's suggestion of looking more into where grants work the best and where loans are a more appropriate financing mechanism. Developing countries have very different access to the spectrum of financing mechanisms – be it domestic resources, ODA, private capital transfers or trade gains. We should, therefore, seek a more flexible financing system that is based on the needs of the recipients and aimed at supporting investments for reaching the MDGs.

Considering that a third of the poor live in middle income countries, innovative ways to make better use of existing financial mechanisms available for these countries are called for.

Aid in itself is not enough. Increased ODA is not sufficient to ensure that we reach the MDGs. Aid can only be complementary to other resources and a catalyst for enhancing the benefits of other steps taken. Increased trade is one of the most important factors for development and a key pillar for achieving the MDGs. We acknowledge the responsibility the industrial countries have in improving market access for agricultural goods. We, therefore, welcome the decision by the WTO on August 1 this year to proceed with the multilateral trade negotiations under the Doha Development Agenda.

III. Growth and Private Sector Development

Economic growth is essential, but needs to be accompanied by pro-poor policies and with measures to protect the environment. The Nordic and Baltic countries fully agree on the need for further enhancing our understanding of how to effectively improve the climate for investments and private sector development. It is simply crucial in our efforts to strengthen growth. We must, however, remember that growth is a necessary, but not sufficient, condition for sustained poverty reduction. It must also be ensured that it is environmentally sustainable and that the poorer segments of the population can both contribute to and share the benefits of economic growth. Accordingly, an inherent part of a comprehensive strategy to strengthen growth should also address issues of unequal distribution. Equity is an important element of the growth agenda and can, in itself, contribute to higher growth rates. We, therefore, very much welcome that the World Development Report 2006 will focus on equity and development.

A country specific approach to growth is required. Experience has shown that there are some fundamental principles for growth, including macro-economic stability, competition in allocation of resources and market access. Economic policies and advice must, however, be country specific in order to be effective. The Nordic and Baltic countries agree that more economic and social analysis at the country level is needed to obtain a better understanding of the unique situation and growth potential of each country.

The private sector is vital for growth, employment and poverty reduction. We agree, as stated by the Bank, that the developing countries need to improve the investment climate to attract investments and ensure private sector development. In this context we would like to emphasize the importance of social and environmental safeguards as an integral part of the Bank's support to private sector development. The results achieved by IFC in this area are appreciated. Provision of infrastructure services, property and labour rights, and the functioning of labour and finance markets also need to be ensured.

Links between infrastructure investments and poverty reduction need to be further explored. The Nordic and Baltic countries welcome the efforts of the World Bank Group in implementing the Infrastructure Action Plan, including efforts to mobilise funds from private sources and enhancing public private partnerships. We agree that the World Bank Group can and should play an important catalytic role in leveraging financing from multiple sources to ensure the provision of infrastructure services. Our understanding of the links between infrastructure investments, growth and poverty reduction is, however, not complete. We encourage the Bank to further explore these links.

Good governance, respect for the rule of law and anti-corruption measures crucial for stimulating growth and investment. It is time to move beyond rhetoric and take prompt action, whenever we face corruption. We welcome the efforts made by the Bank to fight corruption, and urge the Bank to further strengthen its efforts in this area. Good governance and respect for the rule of law should likewise be given high priority by all partners.

IV. HIPC and Debt Sustainability

Further progress in the implementing the HIPC Initiative is of key importance. Debt sustainability in low-income countries remains an essential condition for economic stability, growth and poverty reduction. We are pleased that debt relief under the Initiative continues to help countries to increase poverty reducing expenditures. We urge all creditors to participate in the HIPC relief efforts and all donors to substantially increase their contribution to the HIPC Trust Fund to secure the additionality of the HIPC Initiative and to make sure that IDA's ability to assist the poorest countries is not compromised. We must make sure that the HIPC technical meetings continue, and that the required recourses to cover IDA's HIPC costs are mobilised.

We support a further extension of the sunset clause of the HIPC Initiative by two years. The Nordic and Baltic countries note that a majority in the Boards of the IMF and the World Bank prefer an extension with a modification that limits the eligibility to a set of countries, using income and indebtedness criteria that are applied based on end-2004.

We need to look beyond debt relief to ensure long-term debt sustainability. It is important that we find ways to maintain what has been reached through the HIPC Initiative. The World Bank and IMF's Operational Framework for Debt Sustainability provides a promising basis for incorporating debt sustainability considerations in a forward-looking way. We would like to emphasise that close cooperation and coordination between the Bank and the IMF is of utmost importance in implementing this framework.

V. Voice of Developing and Transition Countries

The voice and participation of developing countries must be enhanced. The Nordic and Baltic countries are strongly in favour of enhancing the voice and participation of developing countries within the World Bank and the IMF. Important progress has been made on practical reforms, such as improvement of the capacity of the developing countries constituency offices. In this context we welcome the establishment of the Analytical Trust Fund. Furthermore we should not forget that poverty reduction strategies also provide an important instrument for developing countries to enhance their voice.

More must be done. We will constructively and candidly consider all options on the voice agenda with a view to move the issue forward. As a first step, we support an increase in basic votes to enhance the voting power of developing countries. We regret that only very limited progress has been made during the last year, and stress the need for continued discussions in the Boards of the World Bank and IMF. We urge countries to be more flexible in order to find sustainable solutions to these fundamental questions.