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



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Statement by

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Introduction

We meet today in a context of encouraging signs of a modest economic upturn. However, the outlook for the global economy remains uncertain with substantial downside risks persisting. The current situation highlights the need for resolute action on several fronts in order to consolidate the ongoing recovery. Many countries are making encouraging progress in reducing poverty rates and on reaching the Millennium Development Goals. However, one major challenge lies in the clouded outlook for the global economy, which affects all countries. In addition to economic uncertainty, also political factors have contributed to the current situation. Confidence building in the multilateral system is clearly needed, and further progress in achieving the Millennium Development Goals and in trade negotiations in the context of the Doha Development Agenda would help significantly in creating such confidence.

The overriding theme on today's agenda is the implementation of the commitments made by both developing and developed countries last year in the Financing for Development Conference in Monterrey. In my remarks, I will briefly address each agenda item in front of us today focussing on issues that our Nordic Baltic constituency would like to highlight in the discussions.

Supporting Sound Policies with Adequate and Appropriate Financing

The first agenda item is responding to this implementation challenge at the country level. The NBCs would like to focus our remarks on the following points. Firstly, PRSPs, or equivalent national programs, constitute the country level framework for implementing policies and programs as well as monitoring progress towards nationally defined targets and ultimately the MDGs. These national strategies should be fully utilised to formulate medium term goals and translate these into budgets and programs where all resources, including domestic revenues and aid flows, are incorporated.

Secondly, many donor countries have formulated clear time schedules for increasing the volume of their aid budgets in line with the commitments made in Monterrey, thus acknowledging that increased aid volumes are necessary. We should now concentrate on fulfilling these commitments. Moreover, proven track record of sound policy performance should be an important determinant for the allocation of development assistance. Aid needs to be channelled in a way that creates incentives for improving policies and the institutional environment, thus giving aid a catalytic role in increasing domestic investment and growth.

Thirdly, while fully agreeing with the principle that larger proportion of aid should be provided in the form of budget support and/or sector programs, the efforts to improve public expenditure management and other standards for accountability need to be accelerated. We believe that the Bank and the Fund can be valuable partners for their member countries in improving these standards to internationally accepted levels.

Fourthly, ensuring the sustainability of financing and avoiding overindebtedness needs more systemic attention than before. Despite the instrumental role of the HIPC initiative in finding temporary solutions to the problems of high indebtedness, the challenge for the future remains in avoiding reoccurrence of these debt problems and keeping public finances on a sustainable path. For development assistance in general, the objective of debt sustainability

raises important implications as regards whether external support is provided in the form of loans or grants. The answers clearly need to be country specific and loans, in many contexts, are viable instruments for development. However, we should avoid lending to clearly unsustainable debt situations as well as creating other systems of aid provision that pushes the financial burden to future generations to bear.

Fifthly, while the main focus of the document for this agenda item is on the external financing part of development programs, we must stress that our primary concern should continue to be ensuring productive use of all available resources. As confirmed in the Monterrey consensus, the various sources that are needed for financing for development include domestic (private & public) resources, foreign investments, trade, ODA and debt relief. The primary responsibility for development lies with the countries themselves and thus the flow and mix of such resources will be determined by domestic policies and developments. In this respect, political and social stability and improving the institutional and policy environment remain key factors for which, of course, countries themselves have the primary responsibility. Indeed, improving the functioning of markets by enhancing competition and stability through effective regulation is one of the main tasks of every domestic administration.

Finally, we should bear in mind that also the global outlook has a great influence on developing countries' own growth prospects, including on domestic resource generation. In this respect, the work for all of us, the developed and the developing countries alike, starts at home. All countries must make sure that they credibly follow responsible and long term policies supporting economic and financial stability as well as sustainable domestic growth.

Enhancing the Voice and Participation of Developing and Transition Countries

Our constituency welcomes the discussion on voice as one important element of the Monterrey consensus aimed at strengthening international dialogue and decision making. Having a sufficient means for participation affects how each country can identify with the institutions' operations and policies. Our constituency also believes that the existing parallelism in the governance structure between the two Bretton Woods Institutions should be adhered to also in the future. Economic stability, growth and poverty reduction have to be treated coherently as integral elements of the overall development process.

Important steps in enhancing the voice agenda have already been taken through initiatives aimed at strengthening the capacities of the EDs' offices in both institutions. These initiatives should now be finalised and fully implemented in order to ease the workload of the two largest African offices. In addition to building capacity in EDs' offices in Washington, country level initiatives should in our view receive adequate attention. In this respect, we strongly believe that the PRSP approach holds much potential also as a means for enhancing the voice of developing countries in these institutions. Furthermore, close interaction between home authorities and EDs' offices should be encouraged and facilitated.

We would like to commend the staffs of the Bank and the Fund for producing the current paper under discussion that also includes the more longer term elements. Moving forward on many of the options presented clearly requires broad support from the member countries. Given that these longer term options entail difficult trade-offs for many member countries, this consensus building may take some time.

At this stage our constituency supports an increase in basic votes for each member country as a viable option for increasing the voting strength of developing and transition countries. In addition, we do support more effective representation of developing countries in IDA negotiations. Finally, the NBCs believe that increased transparency, decentralisation and staff diversity within the Bank and the IMF as institutions are potentially very effective avenues for enhancing the voice of all member countries.

Progress on Trade

Experience shows that international trade is of critical importance to growth and development more broadly. This message was also confirmed by all parties in Monterrey last year. In this respect, achieving progress on the ongoing Doha trade round should be one of the top priorities of the international community. We regret that it was not possible to yet reach a consensus in Cancún on some of the outstanding issues, and urge the WTO members to continue to work constructively in order to conclude the negotiations. Positive developments on the trade front would not only contribute significantly in the medium to longer term to growth and poverty reduction, but could also provide a boost in investor confidence in the shorter term.

It is clear that we need progress in reducing trade barriers both between developed and developing countries as well as, importantly, among developing countries themselves. NBCs acknowledge the special importance of agriculture to developing countries and, consequently, also the responsibility that industrial countries have in improving the market access for their agricultural products. However, increasing market access is only one, albeit very important aspect of making trade liberalisation beneficial for the poor. Adequate emphasis should also be put on the so called “behind the border” or supply side issues, including appropriate and adequate capacity building, in order to ensure that domestic production actually responds to new opportunities. Moreover, social safety nets should be designed in order to alleviate the burden of adjustment that affect some segments of society that may be negatively affected by liberalisation. In this respect trade, domestic policies and aid are clearly complementary. We welcome the role that the Bank has been playing in this respect and urge it to work even further, in cooperation with other stakeholders, to assist countries to integrate trade policies into their Poverty Reduction Strategies.

The Nordic Baltic countries welcome the implementation report on monitoring policies, actions and outcomes that are needed to achieve the MDGs, all eight of them. We believe that effective implementation requires systematic monitoring of actions and therefore we support the proposal to present this information on an annual basis for this Committee’s consideration. We also welcome the agreed division of labour between the BWIs and the UN in these MDG related monitoring efforts building on their mandates and institutional comparative advantages.

However, we would like to highlight the following three points when developing this monitoring framework further. Firstly, there is a need to improve further the robustness and transparency of underlying analysis in order to ensure fair assessment of individual countries

on both sides of the deal. In this respect, the NBCs would urge the Bank and its member countries to agree on both disclosing the Country Policy and Institutional Assessments (CPIA) at an individual country level and moving to a policy of presumed publication of all Country Assistance Strategies (CAS). In our view this would be important for ensuring that not only individual country performance, but also the Bank's analysis of it as well as support for it should be brought under public scrutiny. Secondly, in order to avoid duplication of work in various fora, cooperation in gathering underlying data and open information sharing between different stakeholders in this exercise (incl. member countries, BWIs, UN, WTO, OECD/DAC, Regional Development Banks, etc.) can not be overemphasised. Thirdly, we would like to provide a word of caution as regards relying too heavily on generalised formats for assessing the performance of various countries. These common formats serve their purpose, but they should be complemented by closer analysis of country specific factors.

HIPC and beyond

Progress made so far in implementing the HIPC Initiative has been relatively steady, but slower than anticipated due to both internal and external factors. Significant challenges in fully and successfully implementing the initiative still remain, three of which we would like to focus our comments on today.

Firstly, the option to consider topping up debt relief at the completion point, if there has been a fundamental change in a country's economic circumstances due to exceptional exogenous shocks, should be implemented in a coherent and transparent manner. However, it is important that insufficiently sound policies are not rewarded by an excessively flexible approach to topping up, since this would threaten the rationale of the Initiative itself. Secondly, in order to avoid some creditors subsidizing others and to provide an extra cushion for eligible countries, additional bilateral debt relief on top of and beyond HIPC relief should be excluded when calculating the need for topping up. Bearing in mind that procedural ways for creditors to prevent inclusion of their extraordinary debt relief in the topping up calculations have been demonstrated, our much preferred option would still be to change the current methodology for calculating debt sustainability at the Completion Point. In fact, should a fair burden sharing be obtained, all major European donor countries stand behind this call for a change in methodology. In this respect, NBCs strongly believe that it is important to secure the financing of the initiative based on a fair burden sharing, including the significant costs of IDA's debt relief. We urge all creditors, both official and private, that have not yet provided their share of the financing to do so as soon as possible. In case we see no progress in this respect in the near future, we propose that the Bank and the Fund and the contributing member states start intensifying their pressure on reluctant creditors both privately and also in public fora.

However, it is clear that debt relief alone can not guarantee a sustainable debt situation in the longer run. Broader issues relating to governance, institutional set ups, as well as economic and structural policies including medium term financial frameworks based on prudent debt management need to be addressed. In this respect, we ask the Bank and the Fund to prepare a paper on the longer term aspects of debt sustainability in post-HIPC countries for this Committee's consideration in time for the Spring meetings. In addition to highlighting key challenges from the low income country perspective, this paper should also focus on emerging challenges and potential constraints for the IFIs (including implications for loans

vs. grants discussion as well as for institutions' incentive structures) as providers of concessional loans to their low income member countries.

Progress on PRSP

At the country level implementation of the Monterrey commitments is being done within the conceptual framework of the PRSP approach stressing country ownership and alignment of external support to national priorities. We agree with the message in the Progress report that the focus should now turn increasingly from preparation of the strategies to actual implementation. Our constituency would like to make the following remarks as regards some of the emerging challenges with the approach.

Firstly, reliable data is a prerequisite for effective economic and social analysis informing national policy decisions. The availability and quality of this data in many PRSP countries still leaves a lot to be desired and there is a strong case for improving the statistical capacity and institutional arrangements in this area. Both BWIs should, in our view, contribute in their areas of expertise in building this capacity in their client countries. Secondly, more emphasis should be put on identifying potential sources of growth and analysing possible sector trade offs and supporting interlinkages with a view of giving greater consideration for alternative policy choices. In this respect, Poverty and Social Impact Analysis (PSIA) could increasingly be applied as a useful tool to identify appropriate policy options for the countries concerned. Thirdly, the links between medium term financial frameworks, budgets and the PRSPs are crucial for effective implementation. In this respect, significant challenges remain in improving the transparency of the budgetary process in many PRSP countries. As to the donors' responsibilities, NBCs continue to stress the need for improving the pace at which harmonisation of procedures, policies and actions is being implemented at the country level. This should, however, be done without compromising international standards related i.a. to procurement and financial management. And finally, although improving, the link between PRSPs and the MDGs needs to be strengthened.

Infrastructure Action Plan

Our constituency welcomes the reinforced attention on infrastructure needs in the Bank's client countries. Productive and sustainable investments in infrastructure play an important role in contributing to growth and to poverty reduction more broadly, including to social sector service delivery. Due to various reasons the expectations on private sector financing of the infrastructure investments have materialised only partially. Therefore, and in response to client demand, we can support the proposal to gradually reverse the recent decline in infrastructure lending. However, future lending should be aligned to PRSP objectives and support the positive interlinkages between infrastructure and economic and social development in order to effectively contribute to poverty reduction. In addition, current focus on policy and institutional environment needs to be continued in order to improve the productivity of infrastructure investments. The Bank Group will not be able to satisfy the infrastructure needs of its client countries alone, and leveraging additional financing from other sources, both official and private, remains one of the key challenges. Finally, it is clear that the new approach needs to be country and sector specific and tailored to individual circumstances.