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Statement by the Hon. **GEIR HILMAR HAARDE**,
Alternate Governor of the Bank for **ICELAND**,
on behalf of the Bank Nordic Countries,
at the Joint Annual Discussion

**Statement by the Hon. Geir Hilmar Haarde,
Alternate Governor of the Bank for Iceland,
on behalf of the Bank Nordic Countries,
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Mr Chairman, Mr President, Mr Managing Director, fellow Governors, Excellencies, ladies and gentlemen.

I am honoured to address the Joint Annual Meeting on behalf of the Nordic members of the World Bank. Allow me to begin by thanking the United Arab Emirates' authorities for the hospitality and the excellent organisation of the Meetings.

The Progress ... and the Challenges ...

The world has seen much progress in poverty reduction over the last 50 years and there are many success stories to learn from. Yet, the challenges continue to be formidable, the global economic outlook remains uncertain and the geopolitical situation is tenuous.

Facing the Challenges ... through Partnerships ...

The picture facing us may seem bleak, particularly in the poorest countries where, in many instances, progress continues to be absent. We remain especially concerned about the situation in Sub-Saharan Africa. Too many developing countries suffer from weak governance, civil strife and human rights violations. The growing severity of the HIV/AIDS epidemic poses an increasing threat to development in many poverty-stricken regions. Also, the weak institutional framework for private sector development in the poorest countries hampers private investment, which is so desperately needed to promote economic growth and reduce poverty.

However, if there is a goal to aim at, there is a dream to hold on to. We have a goal. The Millennium Development Goals represent an international commitment to the poorer people of the world. Reaffirmed in Monterrey, Johannesburg and Doha, this global contract embodies an unprecedented level of consensus on what is needed to promote poverty reduction and sustainable development. Accordingly, the developing countries take the responsibility for their own development by creating an environment for growth and investing in their people; the developed countries provide more and better development assistance, along with increasing market access; and international institutions serve as facilitators through more effective analytical and financial resources.

We know that the progress in achieving the Millennium Development Goals has been slow and uneven. At the current pace, most countries of Sub-Saharan Africa will not be able to achieve the goals by 2015. We cannot accept this. All signatories of the global contract need to scale up their efforts and demonstrate results. We do not have much time.

But how can the goal be reached and the dream realised? I believe that a significant part of the answer is through **partnerships** – a process characterised by mutual cooperation and responsibilities, and embodied in the Millennium Development Goals.

The World Bank ... and True Partnerships ... through the PRSPs ...

Mr Chairman, allow me to dwell a little longer on our vision of “partnerships” and turn my attention to the World Bank in particular. Partnership is about more than “division of labour” between the developed countries, developing countries and international institutions. Partnership is about real ownership and equality, and ensuring that all parties have a voice and listening.

This leads us to the importance of the Poverty Reduction Strategies of which the Nordic countries have been strong supporters. Partnership is inherent in the PRS process, both within the recipient country, as well as between the recipient and the donor community. The country-led nature of the Poverty Reduction Strategies is the key to their success. The catalytic role that the World Bank plays in supporting the PRS process is commendable, but in our view the Bank must increasingly make the PRS the central focus of its activities. Despite recent positive steps, the Bank still seems to be inclined to use designs and conditionalities that are not always sufficiently aligned with the Poverty Reduction Strategies. Poverty and Social Impact Analysis could increasingly be applied as a useful tool to identify appropriate conditionalities and expand policy options for the countries concerned. I would also like to emphasise the responsibility that bilateral donors have in this respect.

... Harmonisation and Coordination ...

True partnership is also about harmonisation and coordination. It is about simplifying and coordinating practices and procedures. It is about untying of aid and contributing to an overall successful development outcome instead of trying to attribute it to an institution or a country. It is about developing countries taking the lead in their own development and for us to help them develop capacity and systems that ensure accountability. Ultimately, it is about making aid more effective and the PRS process work. However, we, the donors, still continue to add more burdens on already overstretched developing countries. There are still far too many separate and individual reporting requirements, we still prefer to trace our contributions to specific activities, and we still use different procedures and indicators for monitoring.

Harmonisation is key to a holistic approach to development and it is imperative that donors are coherent in their policies. We all need to align our rhetoric with concrete actions. The Rome Declaration on Harmonization marks a milestone on a challenging path. The Nordic countries are willing to follow this path and have taken the first steps. We urge other donors to do the same. We also expect the Bank to be fully engaged in the harmonisation agenda and use its instruments effectively and in a coordinated manner. This applies, not least, to the use of programmatic lending and Sector Wide Approaches (SWAs). It is also essential to develop incentives for the Bank's staff to work on harmonisation issues and we strongly encourage Bank Management to further pursue ongoing efforts to this end.

... And Enhancing the Voice of Developing Countries ...

In a true partnership, all partners need to have a say, to have a voice. The Nordic countries strongly support enhancing the voice of developing countries in the World Bank Group and we welcome the recently agreed capacity building measures in the offices of the two Sub-Saharan African constituencies. However, decision-making that affects developing countries is not confined to Washington. Capacity building in the developing countries must be an integral part of any strategy to increase their influence in decision-making. Furthermore, transparency and openness are also preconditions for a more inclusive and informed decision-making process.

Moreover, the Nordic countries are ready to consider more fundamental longer-term steps to secure a stronger vote for the developing countries. In this respect, we could support the increase of basic votes for each member country. We are also willing to explore other options, such as broadening developing countries' participation in the Development Committee and in IDA negotiations.

The HIPC Initiative ... and Beyond ...

Mr Chairman, a prime example of a successful partnership is the HIPC Initiative where substantial progress has been made. We are pleased to see governments in HIPC countries channelling freed resources to national priorities, defined under their Poverty Reduction Strategies. Nonetheless, more needs to be done, and the challenges are clear. Many countries risk being penalised by events outside their control, diminishing the success already achieved. Therefore, I would like to stress the need to review debt conditions at the Completion Point and to assess whether additional debt relief is needed, in response to external shocks. However, it goes without saying that inadequate implementation of sound policies cannot be rewarded with an excessively flexible approach. In addition, I would like to reiterate our stance that supplementary bilateral relief, beyond commitments under the HIPC Initiative, should be excluded when assessing the need for such additional debt relief.

Moreover, the prospect of longer-term debt sustainability is of particular concern to the Nordic countries. Receiving full debt relief is only the start of a long and delicate process. Debt sustainability depends not only upon the absolute level of debt, but primarily upon successful implementation of a complex set of policies that determine economic growth and poverty reduction. In this respect, it is important to undertake more detailed debt sustainability analyses aimed at facilitating the adoption of sound and far-sighted financing strategies in debt-vulnerable countries.

Increased financial support from the international community to the HIPC Initiative is essential in order to avoid undermining and discrediting the Initiative. It remains critical that multilateral development institutions obtain sufficient financing to cover their cost of debt relief. Fair and transparent burden sharing is as important as ever and the additionality of debt relief remains imperative. Here, I would like to emphasise the need for continued transfer from the Bank's net income to HIPC. In addition, I remain seriously concerned about the financing of IDA's share of the HIPC Initiative beyond 2005.

Trade and Market Liberalisation ... Working for the Poor...

Another key pillar for achieving the Millennium Development Goals is the liberalisation of international trade. There are substantial gains to be made from a more just and liberal international trade regime, both for developed and developing countries. Therefore, we regret that further progress could not be made at the meeting in Cancun. However, we still have time to deliver on the Doha commitments and make trade work for the poor. We cannot afford to let this opportunity slip away.

It is also important to note that trade liberalisation must be well managed and supported by other actions to provide for sustained growth. In this respect, the World Bank plays a central role by facilitating the necessary trade-related reforms, as well as by helping countries strengthen their competitiveness through improved delivery of basic services, such as primary education and health, and construction of vital infrastructure. A starting point should be better integration of trade-related priorities into the Poverty Reduction Strategies, which would enable developing countries to address trade issues comprehensively and, thus, ensure better results.

In Conclusion ...

Mr Chairman, it is through partnerships that we can further country ownership of development policies, harmonise development efforts and, as a result, improve aid effectiveness. It is through partnerships that we address debt problems and make trade work for the poor. And it is through partnerships that we show results, achieve our goals and realise our dream.