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Statement by the Hon. **SAULI NINISTO**,
Governor of the Bank for **FINLAND**,
on behalf of the Bank Nordic Countries,
at the Joint Annual Discussion

**Statement by the Hon. Sauli Niinistö
Deputy Prime Minister and Minister of Finance, Finland
on behalf of the Nordic Countries (Bank)
at the Joint Annual Discussion**

On behalf of the Nordic countries, Denmark, Finland, Iceland, Norway and Sweden, I would like to express my appreciation to the people and governments of the People's Republic of China and Hong Kong for their generosity in hosting the Annual Meetings of the World Bank Group and the International Monetary Fund.

The economic and institutional set-up of Hong Kong has led to a remarkable economic performance in the past. On this occasion I would like to extend my best wishes also for the future of Hong Kong.

World Economy

The world economy continues to grow at a steady pace with low inflation. I note with particular satisfaction that recent estimates indicate that five out of twenty of the world's fastest growing economies likely to grow more than six percent in 1997 are located in Africa. In the transition countries the fast reformers are today attracting significant amounts of direct foreign capital and the private sector in those countries counts for more than two thirds of GDP. It is evident that strong reform policies show tangible results. The World Bank Group should continue to support such efforts.

Looking forward, the overall picture for growth is expected to remain favorable. Yet demanding challenges remain. The policy track record and economic performance in developing countries as well as in the transition countries have begun to differ significantly. We witness growing inequities both within and between countries, increased national vulnerability and global environmental degradation. Our challenge is how we seize the positive opportunities and curb the negative impacts of the process of economic globalization. This is a cause for deep concern and demands special attention. The Bank Group can and should play a role in this process.

Private Capital Flows and Financial Sector Development

The continuously increasing private financial flows now constitute more than four-fifths of the international capital flows to the developing world. While still heavily concentrated on some limited number of countries, the opportunity of utilizing these flows could be seized by new countries by creating a more hospitable environment for private sector participation. We should actively foster private sector led development while ensuring that the resulting growth reaches all segments of society.

In many of the most successful developing countries a vibrant private sector has been the engine of growth, producing job opportunities and generating incomes. Increased private sector engagement in the economy broadens the tax base and releases public resources. This contributes to macro-economic stability and allows increased social expenditures.

A challenge for the World Bank Group is to enhance private sector development by helping to catalyze private capital flows and to support governments in establishing an enabling environment needed for private involvement. Two important elements in such a strategy are institutional development and increased use of guarantees. This should be done in close collaboration with the private sector entrepreneurs and partner governments.

An effective financial intermediation lies at the core of mobilization of resources and a well-functioning private sector. Recent turbulence in financial markets particularly in Asia is a reminder that the financial sector remains highly sensitive to imbalances with sometimes severe consequences for the people and societies involved. In an interdependent world such problems are spreading rapidly.

Concerted and systematic international efforts are needed to restore public confidence and to consolidate financial sectors nurturing growth and development. We urge the World Bank Group to give assistance to its member countries in matters related to development of the financial sector. The Nordic countries welcome efforts by the Bank and the Fund to increase collaboration and also to clarify further the division of labor in this field.

Role of the Public Sector as a Facilitator

The state has a crucial role in providing the overall framework, including systems of law, education, health and regulatory structures for development. A prerequisite for favorable private sector development is an effective public sector that complements the private sector by providing a framework conducive to sustainable economic and social development. A well balanced division of labor between public and private sector responsibilities guarantee the best outcome. We welcome the emphasis on the role of the state in the World Development Report 1997. We encourage the Bank Group to continue to help countries in speeding up liberalization of national economies and in reducing public sector involvement in commodity producing activities.

Good governance is central for economic efficiency, growth and sustainable development. We warmly welcome recent initiatives by the Bank and IMF to support good governance and guard against corruption. Fight against corruption to undercut its adverse effects should be intensified. Corruption must be taken into account in lending decisions. Credibility, transparency and accountability are important underpinnings of all-out development efforts.

Official Development Assistance (ODA) and HIPC Debt Initiative

Despite the propitious development of private international capital flows, the majority of the poorest countries are still primarily dependent on the concessional aid resources. To take full advantage of the increased private capital flows in the future, they will continue to require official external assistance to buttress on-going reform processes and to support investments needed for sustainable development. We are deeply concerned with the declining trend of ODA, which needs to be reversed.

Scarce ODA resources should be used effectively. We need to be more selective and performance-based. All the partners should strive for improving the allocation of concessional flows by targeting, to a larger extent, recipients with firm commitment to reforms. This will increase the likelihood of sustainable development impacts and also back-up for future allocations.

As strong supporters of the HIPC initiative, we are deeply concerned with disagreements over the initiative's costs and a general unwillingness to contribute, which are shifting focus from the need of the eligible countries. Reaching debt sustainability is crucial for leading the way to more sustainable overall development.

Development in the Transition Economies

Let me now more closely touch upon on the recent developments in the transition countries. In the advanced transition economies the progress already achieved in macroeconomic stabilization and structural change is already forming the basis for resumed economic growth. For the applicant transition countries the accession to the European Union is posing several challenges in the coming years. Apart from macroeconomic convergence, all member candidates need to pursue further structural and institutional adjustments in order to harmonize current practices with future requirements. The Bank is in a unique position to help these countries in this process in close cooperation with the European Union.

Russia is at a critical juncture in its economic transformation process. We commend the Bank's commitment for its assistance to Russia. Strengthening the rule of law in the legal and regulatory systems, especially in areas relating to the financial sector, property rights and competition are necessary.

There is a necessity to pursue privatization further in every transition country. At the same time the World Bank should, however, also try to moderate the negative aspects transition may have on socially vulnerable groups by establishing viable social safety nets, which must be well-designed in order to meet the needs of those who really need support from the society. The social sector loans recently approved by the Bank are necessary and welcome. The environmental situation in the transition economies gives rise to a deep concern. This is a vast task and all the IFI's must work together in this area. We wish the Bank to take a more active role in the environmental sector also in Russia, where small scale projects have proved to be most effective.

Strategic Compact

The Strategic Compact acknowledges the fundamental changes that have occurred worldwide. It is the Bank's response to the above mentioned challenges. I commend President Wolfensohn and his staff for their commitment to this reform. The Nordic countries support the renewal process. We expect to see it leading to a more flexible and result oriented institution which remains dedicated to the fundamental objective of poverty alleviation through sustainable growth and investment in people.

The true challenge now both for the institution and the shareholders lies in translating these commitments in to proper actions. The ambition level and expectations built in the process are highly demanding. An intense monitoring of the progress is a key factor to its success. The vision of what the Bank Group wants to be in the beginning of the new millennium is clear: the most effective global financial and development institution for fighting poverty. I think we all share this aspiration.