

INTERNATIONAL MONETARY FUND

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES

MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Press Release No. 21

October 6 - 8, 1998

Statement by the Hon. **HALLDOR ASGRIMSSON**,
Governor of the Bank for **ICELAND**
on behalf of the Bank Nordic Countries,
at the Joint Annual Discussion

**Statement by the Hon. Halldór Ásgrímsson
Minister for Foreign Affairs, Iceland
on behalf of the Nordic Countries (Bank)
at the Joint Annual Discussion**

I am honored to speak on behalf of the Nordic Countries, Denmark, Finland, Iceland, Norway and Sweden. At the outset, allow me to extend a warm welcome to the newest member of the World Bank, The Republic of Palau.

The Financial Crisis and the World Economy

During the last 15 months the world economy has experienced serious financial upheavals. Nobody expected events of this magnitude and it is disturbing to note how grave the economic and social consequences are turning out to be.

As a consequence of the Asian crisis, world economic growth has been severely weakened. Output in 1998 is now projected to increase by only 2 percent, followed by a moderate rebound in growth in 1999. While the crisis in East Asia still deepens, emerging markets in other regions experience a growing pressure on their economies. Adverse terms of trade developments have contributed to serious financial market instability in Russia and reduced growth prospects in Latin America. Considerable uncertainty remains about the near-term outlook for the world economy and it is yet to be seen to what extent the crisis will spread to other regions. Western Europe and North America also risk to be more seriously affected.

The Asian crisis can not be solved through financial flows alone. We need to attack the crisis through an integrated approach, addressing both the structural problems and the severe social consequences. To establish conditions for renewed growth in the regions, investors' confidence must be restored through sound economic policies, firm bank and corporate restructuring, and strong commitment to address governance issues. We expect the international financial institutions to be a trusted partner in this endeavor, while the main responsibility will lie with the countries themselves. We welcome Bank efforts to protect the poor and vulnerable and stress that even further strengthening of Bank involvement is needed to meet the deteriorating social situation in many crisis countries.

The economic turmoil in Russia has called for extensive assistance from the international community. To improve the situation in Russia, continued assistance is needed, but more importantly, vital structural changes must be implemented. The initiative is therefore on the Russian side and the Russian government should demonstrate its willingness and ability to take decisive reform action before additional financing from international financial institutions is provided.

The negative spillover effects of the financial crisis have clearly demonstrated how interlinked global capital markets have become. Under these circumstances international financial institutions must react swiftly and have sufficient capacity to deliver appropriate financial and technical assistance. The Nordic countries are concerned that efforts to stabilize the economic situation have

yet to live up to expectations. We should strive for greater global coherence of policies in the fields of trade and finance and strengthen the collaborative work of international financial and development organizations. In this effort, the Bretton Woods Institutions play a central role. We await the Bank-Fund cooperation to deepen and strengthen in the future.

The Partnership Agenda

Development cooperation has been characterized by a multiplicity of actors, with each actor practicing its own development agenda. Today, development work is increasingly influenced by private sector involvement, participation of the civil society, and the reinforced role of national and sector strategies. Furthermore, the efficiency of development assistance has suffered from a lack of donor coordination. Therefore, strengthened cooperation between actors is needed more urgently than ever and we appreciate that the concept of partnership in development is gaining momentum. The Nordic Countries welcome and strongly support the World Bank's partnership approach. We commit ourselves to be active participants in this effort and urge other actors to do likewise.

One of the cornerstones of the partnership concept is the ability of the developing countries themselves - their public, private and civil institutions - to be at the core of the development process. Institutional capacity building and human development must therefore be essential ingredients of the partnership agenda.

Partnership is an important means to reach goals in our cooperation. If applied on a country-by-country basis, partnership can help us improve the development effectiveness of our joint work. When entering the new millennium development cooperation should be characterized by more consistency and coherence in the way development cooperation is delivered.

The Strategic Compact...

The partnership agenda is an important element of the Bank Group's renewal process. The Nordic Countries continue to be strong supporters of the Strategic Compact and we appreciate the progress already made to fulfil its objectives. The Compact is a central piece in the Bank Group's effort to adapt to the development needs of the 21st century and we will follow the progress closely in the months ahead.

...Private Sector Development

Let me use this opportunity to highlight one issue which the Nordic Countries find crucial for this work. That is the World Bank Group's participation in promoting and supporting appropriate partnership between the public and the private sector in developing countries. In this context, each unit of the Bank Group has a special role to play. We are pleased that MIGA has adopted policies that enhance its development impact, and that the resource constraints of MIGA have been removed. But more needs to be done. We have on several occasions expressed our concern about the lack of an overriding private sector policy for the World Bank Group. We expect to see concrete actions on this issue shortly and look forward to seeing the Bank Group apply a holistic private sector approach.

Debt Relief

I would briefly like to touch upon two issues that the Nordic Countries regard as particularly important in the work of the World Bank Group.

Firstly, let me reiterate our strong support to the HIPC Initiative. Currently, Nordic countries have contributed more than 40 percent of the funds to the HIPC Trust Fund and we emphasize the need for equitable burden sharing. The Nordic countries welcome the extension of the HIPC entry deadline which can enable more countries to seek to join the Initiative. There is, however, an urgent need to accelerate the pace of the HIPC Initiative. The Nordic countries encourage the Bank, as well as donor countries, to identify means to increase the efficiency of the Initiative. We welcome the work aimed at enhancing assistance to post-conflict countries. The Bank should proceed with this work and the Nordic countries urge other actors to do their part. We expect to see a strategy presented to the Development Committee at its 1999 spring meeting.

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Secondly, it is central to World Bank activities to continue the mission of IDA - to improve the lives of the world's poorest people. We must continue to pay full attention to the long-term needs of the poorest countries in spite of the restraints caused by the current financial crisis. The Nordic Countries remain strong supporters of IDA and we underline the importance of sufficient funding for its Twelfth Replenishment. At the same time we emphasize fair burden sharing.

Development cooperation is most effective in countries that are committed to economic and social reform, and sustain sound development policies. Consideration of such commitments should be an essential element in the allocation process. We also urge IDA to strengthen its focus on improved governance. In this context, a more elaborate strategy is needed to enable IDA to assist poor performers, thus creating a foundation for positive development towards better governance.

Africa

Finally, allow me to mention that during a recent visit to Southern Africa I was pleased to learn more about growth of democracy and improving economic performance in the region. At the same time I must express my concern over serious setbacks in countries experiencing civil unrest. To prevent this development from spreading and thus threatening economic and social achievements in other countries, the security situation in Africa must be stabilized.

The falling ODA-flows have hit the African countries hard. The Bank Group has a responsibility to assist them to reduce poverty through broad-based and sustainable growth. We call for the Bank and donors alike to increase their focus on Africa. A demonstrated commitment is needed, as well as a better, and more coordinated, use of resources. We also stress the need for increased investment and strengthening of the private sector. Furthermore, stronger emphasis must be given to human development through the provision of basic education and health services.

These goals will be difficult to accomplish. But the plight of Africa deserves our special attention, and the Bank Group must continue to be strongly involved in all of these areas central to the resurgence of African economic performance.

Poverty reduction and long-term structural development continue to be at the heart of Bank Group operations. At the same time it must respond strongly to the still evolving financial crisis. The challenge ahead is to overcome the economic turmoil and create a transparent and responsive international financial system, which prevents similar occurrences from happening in the future. The World Bank Group must define its role within this system and clarify how it can best continue to deliver upon its development agenda and improve the effectiveness of its work.