DEVELOPMENT COMMITTEE
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on the
Transfer of Real Resources to Developing Countries)

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Statement by

H.E. Petteri Orpo
Minister for Development Cooperation

Finland

on behalf of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden

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98th Meeting of the Development Committee

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We extend our warm expression of gratitude to the Indonesian government and the people of Bali for hosting the Annual Meetings on this beautiful island. During the past weeks, Indonesian people have been suffering from the devastating impact of the earthquake and tsunami on the island of Sulawesi. We express our deepest sympathies to those affected. We stand united with you as you recover from this tragedy.

Global growth continues to be strong, but tariff increases in trade can undermine it. To maintain the growth momentum – essential to achieving the SDGs and pave the way to a climate safe future - we need to avoid protectionist measures and find cooperative solutions.

We would like to highlight some key future challenges, where the WBG and IMF have a key role to play.

Debt sustainability is key to economic stability

Growing debt distress in low-income countries requires particular attention from the global community. Debt relief created significant policy space in the not so distant past. With this space now eroding in many countries, we should not let history repeat itself. Debt sustainability risks need to be managed carefully to avoid another large-scale sovereign debt crisis in low-income countries.

The IMF and WBG should, as a matter of high priority, step up their efforts to ensure sufficient capacity building is provided for enhancing macroeconomic management, including public financial management, investment planning and management as well as debt management in low-income developing countries. All capacity development activities should be tailored to country needs and well-coordinated between donors.

Even though there is a strong momentum for maximizing financing for development, and for a good reason, we need to carefully assess how to leverage finance to the poorest countries in a sustainable manner. The key is to ensure that public spending and investments create conditions for broad-based economic growth with more and better jobs and an expanding tax base, and to prevent excessive build-up of debt overall. Once a country has an unsustainable debt stock, it becomes increasingly difficult to manage it in a controlled manner.

If debt is deemed unsustainable, all creditors need to take their fair share of restructuring. For sovereign creditors, the debt restructuring process should be well-coordinated, and as rules-based and broad as possible. Therefore, efforts for creditor coordination in debt restructuring situations should be strengthened. We expect the World Bank in collaboration with the IMF to deepen outreach to all creditors to promote debt transparency and if needed debt restructuring to ensure debt sustainability.

The global coordination and monitoring of debt issues needs to improve. It is positive that the IMF and WBG are ready to support the implementation of the G20 guidelines for sustainable lending. To widen this work on sustainable lending to include more countries, and strengthen the IMF's and WBG's potential to engage, global principles on sustainable lending and borrowing should be developed and adopted, and their implementation monitored.

Impacts of new technologies to be better understood

Building human capital, extending social safety nets and strengthening domestic revenue mobilization are the three recommendations of the WDR 2019 – The Changing Nature of Work – offered to help developing countries capture the benefits and avoid the pitfalls associated with the new emerging technologies. The WBG should lead in supporting countries as they transition to new pathways of sustainable inclusive growth. Playing this role with maximum effectiveness and efficiency is all the more important given the enormous – yet in many ways still unknown or only partly known - risks and opportunities associated with disruptive technologies. We encourage the WBG to develop the practical approach of how it will play this role, reflecting on how emerging technologies could improve public sector effectiveness both in mobilizing domestic resources and in providing necessary services. The WBG should also contribute to synergies and holistic approaches, based on assessments of what other actors do in this field, and focus on areas where its work can have the greatest impact.

Despite great expectations and frequent claims, new technologies have not always generated great benefits at the aggregate level. Many of the benefits of the rapid diffusion of global knowledge have yet to materialize. Firms are more connected than ever before, yet global productivity growth is stagnating rather than surging. The world of work is becoming increasingly technology intensive, yet average real wages are stagnating and the share of middle-paying jobs is shrinking. Schools are getting wired, but the standard learning outcomes are barely improving. To explain why digital technologies have been less successful in delivering on their promise, we need to understand how technology and its complements interact.

Global approach to fintech is necessary

We welcome the broad descriptive framework brought by the Bali Fintech Agenda. Financial technology supports the efficiency of financial system and contributes to sustainable growth. However, new financial innovations also involve risks to financial stability, integrity and might have negative environmental consequences. Further work in this area, in collaboration with all other global standard-setters, is a high priority.

Further collaboration with other international bodies and fora is necessary in the near term to find an efficient division of labor and dynamic processes for international coordination on fintech related issues. Maintaining a strong link with the work and results of ongoing fintech innovation programs and experimentation in the field is important for understanding in practice the great opportunities, needs and risks associated with fintech.

Health and education are the foundational pillars of human capital

As technological change, digitalization and globalization shape the development progress across the world, it is increasingly apparent that human capital is at least as important as physical capital to the success of countries. We welcome the Human Capital Project and the foundation it lays for an informed dialogue and intergenerational investment planning. Health and education are the foundational pillars of human capital: service delivery in these areas needs to be enhanced to ensure that countries and populations are not left behind in an increasingly competitive global economy. Gender equality and the empowerment of girls and women also lead to larger gains in terms of productivity and living standards.

Not all countries share the same needs related to human capital development, but all countries share the need for human capital development, regardless of income levels or other indicators of development. Lifelong learning for both girls and boys, men and women, from pre-school to retirement, is going to be increasingly crucial for a productive and competitive work force. At the same time, we also need to think about prioritization, as there are many demands on public budgets. Where there is limited access to basic services like water and energy, greater investment in human capital may not bear fruit. We therefore need to pay attention to proper sequencing and balance.

We welcome the introduction of the Human Capital Index and emphasize the importance to work in close cooperation with relevant partners, such as UNESCO and WHO when developing the index further. The index has potential to be a useful tool for governments when prioritizing investments.

Climate change calls for quicker response and new tools

The heat waves across the globe in 2018 made climate change effects seem very real. Extreme weather events will become more common, increasing vulnerability across the world. We see this in the Nordic and other Arctic regions, in the Sahel, South Asia, globally. Those living in fragile countries and situations are particularly vulnerable to the negative impact climate change. But more frequent droughts and floods as well as changing rainfall patterns and rising sea levels affect production, consumption and the quality of life across in all parts of the world and make it much more difficult to accomplish the Sustainable Development Goals. WBG can play an important role in building resilience and address the multiple dimensions of fragility. We welcome the new Global Crisis Risk Platform, which focuses on the prevention of climate risks, as well as risks for countries in fragility, conflict and violence situations.

The response to the climate challenge must be collective and effective. It also needs to be quick. The longer we wait, the higher the cost of inaction to our societies will be. We must fully harness the power of the markets to reduce emissions in all sectors of the economy. There is also a need for coordinated global effort to combat marine litter and improve global ocean management.

Governments, and especially ministers of finance, are in charge of powerful tools. Taxes and budgetary expenditures influence households' and businesses' economic decision-making. By designing these tools appropriately, they can be used to foster environmental integrity and transformation to sustainable patterns of production and consumption. The World Bank Group can support national governments to make climate change and sustainable development considerations an integral part of the budgetary and legislative processes.

Finally, we would like to conclude by congratulating the Bank on the recent capital increase, which provides more financial strength to address the above challenges and beyond.