Statement by Hilde Frafjord Johnson
Minister of International Development
Norway
On behalf of the Nordic and Baltic Countries
Mr. Chairman,

1. It is an honour for me to address the Committee on behalf of the Nordic and Baltic countries. I would like to start by extending my sincere condolences to the innocent people who have been struck by the tragedy of the events on and following the September 11th attack. It was a shock to the entire world and I am pleased to note that we, despite these tragic events and the ensuing heightened level of global insecurity, have been able to meet here in Ottawa. Our meeting today is an important symbolic act in the face of terrorism, which reinforces the message that we cannot and will not yield to acts of terrorism. I would like to express our gratitude to the IMF and World Bank staff and the Canadian authorities for arranging this meeting at such short notice.

Impact of Recent Events

2. Terrorism is borne of evil minds and must be strongly condemned. It strikes indiscriminately and has wide-ranging consequences for the lives of ordinary people. The recent events more than amply illustrate that. A terrorist attack on one nation-state has wide-ranging implications on the entire world economy. While not ignoring the additional pressure that this event has placed on an already strained world economy, it is the poorest countries where economic growth is a particularly fragile process, that are likely to suffer the most from its consequences.

3. I commend the Bank for its ability to quickly analyze the situation and its implications for the world economy. It is no doubt that the recent events have meant a set-back to hopes for a speedy economic recovery of the global economy. Nor is there any doubt that this economic down-turn will have negative effects on poor people in the world. The extent and gravity of this economic down-turn is very difficult to assess at present and the situation is likely to remain volatile. Consequently, the Bank needs to develop a preparedness on how to act in case the down-side scenario will materialize. Initiatives to take in this case seem to require an even stronger focus on trade related issues. In addition, we need to find ways to help the people of Afghanistan who have suffered considerably in the aftermath of September 11th. The Bank must make full use of its ability to build alliances and partnerships with others, particularly the UN, in the planning for and reconstruction of the country. It should contribute to a coherent response by the international community.

4. In this context, we want to point out that money-laundering is a challenge to the international financial system. With the recent events, money laundering has become an even more pressing problem. We welcome the Bank’s involvement in anti-money laundering activities such as diagnostic work and capacity building. Close cooperation with the IMF, FATF and other standard setting bodies is essential in this respect.

5. We appreciate the efforts made by the Bank to take account of recent developments. We believe that the Bank should respond to the new situation. We do not believe that the Bank can or should do everything. The Bank’s considerations should be based on a sound economic analysis along the lines normally followed by the Bank. The Bank has an important role to play in this new situation -- a role it should play within its mandate. Recognizing other actors’ importance and the real constraints as regards the Bank’s financial capacity, greater selectivity may be necessary. The implications of a generally riskier environment on the Bank’s risk bearing capacity must be continuously monitored and reported back on. Whereas an assessment of the Bank’s ability to meet present development challenges with existing
instruments is appropriate, any actual involvement must arise from a demand driven process. And in such a process, strict adherence to established lending criteria and fiduciary safeguards must remain the basic premise for involvement. Good governance, for example, must not be compromised.

**Financing for Development**

6. Beyond the impact of the events of September 11th, there are also important development issues of an overarching nature that need to be addressed, in particular on the mobilization, both public and private, of financial resources for development. My constituency attaches great importance to the Financing for Development process. We see it as an important step in the efforts of the international community to reach the Millennium Development Goals (MDGs) that serve as a focal point in this process. We commend the Bank and the Fund for their active and constructive participation, which we feel has benefited the FfD process and contributed to the high quality of the various documents that have been prepared. We remain committed to working actively with all relevant parties to ensure a successful result of the international conference on Financing for Development. The outcome should reflect the innovative nature of the process and confirm its unique and holistic approach to development financing.

7. In the following, I would like to take this opportunity to comment on the major themes of the current development agenda and the roles we see for the Bank in implementing that agenda.

**Mobilizing Domestic and International Resources**

8. Development primarily remains the responsibility of countries themselves. This responsibility includes the mobilization of financial resources and their judicious use to implement broadly owned development strategies which also poor women and men have had the opportunity to influence. Policy makers need to uphold principles of good governance and work toward securing a stable macroeconomic framework, an enabling environment for private sector development, and social development and protection as prerequisites for development. The PRSP process, constitutes a vehicle for low-income countries to ensure that a strategy with the broad support of the poor themselves is in place and forms a sound basis for attracting and coordinating external support. We need to act and provide our support, while at the same time allowing for a gradual improvement of the process itself as new generations of PRSPs are developed. We encourage middle-income countries to consider adopting the concept of a Letter of Development Strategy to achieve a similar basis for external support. And in both cases we urge development partners to have the patience not to hurry the processes and thereby compromising their quality and usefulness.

9. In partnership with, for example, bilateral agencies, the World Bank has a key role in assisting governments that are committed to sound social and economic policies in support of poverty reduction in both low and middle income countries. Through a strengthened focus on high quality analytical and diagnostic work, including economic and sector work (ESW), poverty and financial assessments (FSAP), the Bank can assist policy makers in identifying problems and developing solutions. This analytical work, together with the various sector strategies that have recently been adopted, must also underpin the Bank’s country assistance strategies (CAS). Fundamentally, though, the CAS has to be based on or rather respond to the development priorities set out in the countries’ nationally owned strategy (PRSP or other). In
countries where government commitment and performance is relatively weaker, the Bank still has an important role to play in the fields of advocacy and advice with the aim of arriving at a situation where ordinary lending programs from the Bank are feasible. The progressive shift to more programmatic lending through the new poverty reduction support credits (PRSC) is also in line with the notion that assistance must build on greater government responsibility for policy formulation and implementation as expressed in a nationally owned poverty strategy. In order for the Bank to live up to its fiduciary responsibilities, the PRSC crucially depends on sound and transparent public finance management. The Bank's own procedures and requirements need to be adequately aligned.

10. The lack of infrastructure to satisfy basic needs is a serious bottleneck to achieving the Millennium Development Goals. Investments in infrastructure used to be a public domain. Lately, private initiatives in this area have become increasingly important. Private provision has often proved to be a good way of increasing the efficiency, coverage, as well as quality of services. However, given the high rates of return required for private actors to engage and the often imperfect policy, legal and regulatory regimes in many countries, there are limitations in the availability of long-term risk financing, particularly debt financing for investments. In this light, for a number of countries, public private partnerships could offer an alternative by which additional resources would be made available. Thereby, the private sector could become more involved in the achievement of the MDGs. For the Bank Group, this offers attractive leveraging opportunities, requiring close cooperation between the IBRD/IDA, the IFC and MIGA. In this context, we look forward to the adoption by the end of the year of a comprehensive private sector development strategy, supporting the Bank's role in policy advice and advocacy and acknowledging the state's role as a regulator and provider of an enabling environment. In this domain, the Bank should, while respecting its mandate, support efforts to ensure that core labour standards are adhered to.

11. The last years of reforming the Bank have led to an improved ability to fight poverty and we commend management and its staff for its efforts. It must now take on the challenge of delivering in the field, among others we expect to see real progress in the mainstreaming of gender in the Bank's operational activities. We are pleased to note the increased budgetary allocation to front line operations of the regional departments in the Bank. However, a concern of ours is that the Bank, despite a long stated commitment to the principles of selectivity and comparative advantage still seems to have trouble implementing them. Implementing these principles is important and the Bank must narrow its focus and cede leadership in fields where it does not have a comparative advantage. Bank staff members are stretched too thin and appear to have little guidance regarding what tasks or sectors they can usefully withdraw from. We look to management to provide this guidance as part of the continued work on the strategic directions for the Bank.

Promoting a More Coherent International Development Framework

12. The FfD agenda devotes a large section to the issue of greater coherence in the international monetary, trading and financial systems to promote development. Guiding the Bank and the Fund's input to the FfD process, we feel that at the international level focus should be more on improving existing structures rather than suggesting new ones. On the issue of increasing SDR allocations and reviewing IMF CFF, we do not see the need for changes to the present arrangements.
13. Harmonization of procedures and better coordination between the IFIs and the UN system could assist in building coherence. While underlining the fact that coherence starts at home, my constituency strongly supports this work bearing in mind the different roles and mandates of the institutions involved. As I have already emphasized, it is essential that the PRSP becomes the focal document for how the engaged development partners organize their support. Division of labor must take into consideration the comparative advantage of respective actors.

14. My constituency welcomes a number of recent proposals concerning MDB reform, especially those that relate to accelerated and increased harmonization. We also support the proposal to stress good governance through a focus on public sector management, accountability and anti-corruption. However, we remain unconvinced as regards some of the other proposals, particularly those regarding possible price differentiation within IBRD. We are also concerned with a significant expansion of grants in IDA. The Nordic countries have long advocated a greater use of grant aid in general for the poorest countries, but an expansion of IDA’s grant capability must be carefully limited. A significant increase in IDA grants would undermine the financial sustainability of IDA, unless the grants are adequately compensated by the IDA donors. It would also undermine IDA’s nature as an international lending institution. Generally speaking, we also feel that the viability of IDA supported activities that are unable to generate sufficient flows to repay the very concessional IDA terms should be questioned. Importantly, redirecting a larger share of grants through IDA must be complementary to and not compete with grant financing from other sources, in particular the UN at a time where the World Bank itself has stressed the necessity of collaboration with the UN in the effort to combat poverty. The Bank and the UN need to have specific and complementary roles and we should not contribute to a blurring of their roles.

15. There may be merit in price differentiation between different types of IBRD loans. However, we oppose attempts to give different terms to different countries for the same type of loan as both inequitable and counter-productive. Also, we believe the idea that Bank Group loans to certain sectors such as health and education should a priori be subsidized or even grant financed is unfortunate. This could have a negative effect on the country's feeling of responsibility for, and thereby ownership of, reforms in these sectors. Since these sectors are crucial for long term development, there is also no reason to mark them out as less suitable for loan financing. Furthermore, the sector that contributes most to poverty reduction will vary from country to country. Designing loan terms on the assumption that one sector universally, across all countries, contributes more to poverty reduction than other sectors is thus a fallacy. Instead, based upon ESW, the CAS should provide the instrument for the Bank to determine which sector contributes most to poverty reduction in a specific country and whether the Bank is best equipped to finance that sector or if other actors should take that responsibility.

Trade

16. We recognize the importance of trade liberalization for development and welcome the decision to launch a new round of multilateral trade negotiations. In light of recent events, it is even more pressing that such a round has the interests of the developing countries at the center. We also urge other industrial countries to follow the example of the “Everything but Arms” initiative. As has already been stated, the World Bank has an important role to play in trade and development at the global level as an advocate of trade liberalization. At the national level, adequately sequenced, it needs to assist countries to build the capacity to
participate in multilateral trade negotiations, pursue trade liberalization and undertake necessary policy and institutional reforms. In this respect, we are encouraged by the discussion of the “Leveraging Trade for Development” report this spring. The World Bank should continue to strengthen its role in the Integrated Framework and encourage developing countries to take trade policy issues and supply-side constraints more into consideration in the PRSP-process. At the international level, the World Trade Organization is the natural leader. Yet, the Bank is uniquely positioned through its intellectual leadership to plead the moral case for greater access to industrial country markets for products from developing countries. The Bank should therefore step up its advocacy work.

Reflections on ODA and Debt

17. Before closing, I would like to touch briefly upon ODA and debt issues. As I stated above, development and resource mobilization are primarily the responsibility of each government. Capturing private capital flows and benefiting from increased market access for exports offer larger potential volumes of financing than ODA. While ODA can only be complementary to the above flows, it remains of fundamental importance. The Bank has estimated that ODA must be doubled if the goal of halving poverty before 2015 is to be achieved. Substantial progress toward attaining the 0.7 percent target is therefore fundamental. We urge all donors to follow the conclusion of the Development Council of the European Union to fulfill their ODA commitments. At the same time, we want to emphasize the importance of enhancing the effectiveness of ODA, *inter alia* by untying aid to the least developed countries that pursue sound policies in accordance with the OECD guidelines. In the same vein, we also re-emphasize the importance of building public private partnerships to maximize the catalytic effect of ODA for the mobilization of private resources. Donor coordination is another essential aspect of ODA effectiveness. We must reduce the administrative burden on the recipient countries.

18. The role of global and regional public goods, in the context of ODA, has already been the topic of much discussion. The provision of global public goods (GPG) is beneficial to all countries, developed as well as developing. This is one of the reasons why GPG as a rule should be financed through additional resources. It is thus important to find innovative ways and means on how to finance GPG. The public sector will have to play the key role, but we also need to find ways to actively involve the private sector. Being a lending institution, we believe that the Bank's role as a financer of GPG should primarily be at the country level. At the global level, its role should primarily be of an analytical character. It remains important to find innovative ways and means to finance GPG. One way to do this is to actively involve the private sector. The UN and financial mechanisms such as GEF, might be better placed when it comes to the actual implementation of the GPGs.

19. One of our concerns in the context of GPG is the effects of HIV/AIDS and its impact on the development of those countries which are hardest hit by the pandemic. While their capacity to generate domestic resources is diminishing, the need for such resources is increasing. Among international initiatives, the creation of a global fund to fight HIV/AIDS, tuberculosis and malaria will add considerably to the pool of funding required for this challenging task and we look forward to further contributions and initiatives from the international community -- states, as well as the private sector.

20. The HIPC initiative remains as important as ever, if not even more so in light of the recent events. We welcome the paper on the operating procedures for reassessing HIPC relief
at the completion point. Expectations of lower economic growth in the world pose an additional challenge to the successful implementation of HIPC. We feel that the credibility of the initiative is at stake if creditors cannot ensure that the goal of debt sustainability is reached even when a country follows sound policies. In this context, it is important to underline that all creditors must take their fair share of the burden, including non-Paris Club bilateral creditors and commercial creditors. For a HIPC country to receive additional relief, it must be ascertained that the reason debt sustainability was not reached is due to exogenous factors. Furthermore, recalculations of additional debt relief should not include that which has already been announced by creditors on top of agreed amounts within the HIPC framework. On current forecasts, committed relief will in certain cases not be sufficient and resources in the trust fund are expected to run out. In accordance with the principles that have guided the initiative since its inception HIPC debt relief should be additional to other development assistance. We must therefore identify new financing in order to secure the long-term financing needs of the initiative and deliver the required assistance. As a first step, we urge all donors to fulfill existing commitments. The consultations on HIPC financing “back-to-back” with the IDA13 replenishment meetings constituted a promising start for addressing the funding challenges and we welcome the recent agreement among donors to continue regular consultations on the financial requirements to ensure the successful implementation of the initiative.

21. Certain FfD documents have put forward the notion that further debt relief is needed and that it should extend to middle income countries. We cannot see the case for debt relief to MICs and believe that debt relief for this category of countries could in fact be counterproductive as they might be cut-off from future access to private capital markets.

Conclusion

22. The events of September 11th have had a negative impact on the near-term prospects for global economic growth. This in turn will have immediate negative effects on the poorest people in the world and is likely to have adversely affected the prospects for reaching the Millennium Development Goals by 2015. It is imperative that the Bank acts swiftly in the new situation. At the same time the general operational guidelines that have served the Bank so well must not be compromised in the process. The Bank’s basic mandate must remain the basis for all involvement and selectivity must be employed. Furthermore, principles for providing credits must be upheld and risk exposure must be held at prudent levels.

23. The Financing for Development conference is an important part of our concerted efforts to secure and leverage financial resources for development and to assist countries to put those resources to efficient use. It is clear that the Bank has a fundamental part to play in this process. Nevertheless, the prime responsibility for poverty reduction lies with the government of each country, which needs to show its commitment to this task - notably by producing and implementing a nationally owned development strategy in the form of a PRSP or other similar exercise. Based on improved analytical work and with the new instruments both in the form of sector strategies and programmatic loan instruments, the Bank can assist implementation at the national level and now is the time to step up this effort. The Bank must focus on operationalising the concepts of comparative advantage and selectivity at the field level to ensure that its interventions have the desired impact. This means stepping back in certain sectors as well as coordinating its efforts with other donors.
24. Harmonization is a cornerstone to ensure a more coherent international framework and work must progress beyond the diagnostic stage to actually deliver better results on the ground. A number of proposals have been made both to improve the MDB system *per se* and the international framework overall. We support the aims of these initiatives though not always the design of them. We remain skeptical towards more grant financing within IDA and price differentiation within IBRD based on the level of development of a country. We are, however, on a more general level, positive to exploring innovative new sources to finance development.

25. My constituency sees the FfD process as a key element to achieve the Millennium Development Goals. A priority outcome of the International Conference for Development Financing in Monterrey, Mexico should be the awareness and recognition by all key development actors, in developing as well as developed countries, that they are not alone in contributing to Financing for Development. Each actor must seek greater consistency and coherence in its actions to ensure that resources are mobilised and used as effectively as possible. Clearly the Bank has a significant role in assisting countries to mobilize resources for development and we welcome that the Bank will remain actively involved in the FfD process.

26. In closing, let me reiterate our support for the broader approach to poverty reduction that the Bank has adopted over the past few years. We believe the strategies and loan instruments that have been developed to implement this agenda will be successful. We look forward to increased productivity in client countries, to higher quantitative and qualitative growth and improvements on the security dimensions of poverty on the path to sustainable development. We feel the Bank is on the right track and must now focus on implementation and results on the ground.

Thank you.