Statement by

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on behalf of the Nordic and Baltic Countries
2005 is a decisive year for development as several international meetings, the UN Summit in September, in particular, are scheduled to address the key issues of development. This year marks the first check point on our common strive towards meeting the Millennium Development Goals (MDGs). Today’s meeting gives us an opportunity, first, to provide input to the broad discussion on meeting the MDGs, secondly, to reconfirm the commitments made in Monterrey, and finally, to assess what kind of further efforts are needed to attain the goals by 2015.

The second Global Monitoring Report provides us good guidance in this respect and we would like to draw attention to the following key messages which we believe are the most important if we are to reach the MDGs.

- Equitable and sustainable economic growth, led by the private sector, is essential
- Capacity building, harmonisation, a strengthened national ownership, stronger institutions and good governance are crucial to ensure a more efficient use of internal and external resources
- Sub-Saharan Africa will need special attention and particular support
- Developed countries need to rapidly increase aid. The best option to increase ODA is for donors to move towards the UN objective of 0.7 percent of GNI

1. **Global monitoring report and messages for the key actors**

The Nordic-Baltic countries find The Global Monitoring Report’s five point agenda of actions needed to accelerate progress toward the MDGs appropriate and well justified. However, the report could have paid more attention to environmental aspects of the MDGs and we propose that the following GMRs focus more on these. We would like to provide the Nordic-Baltic perspective on some of the key issues in the report.

**Private sector-led economic development**

While the Nordic countries in our constituency are known for their welfare state, broad-based social security, and well developed social services, it is clear that this would not have been possible without strong and sustained economic growth primarily based on private domestic efforts. Even today the sustainability of the welfare state requires that our economic development is strong enough to support all the social services provided. Therefore, the emphasis in the Global Monitoring Report on sustainable economic growth is a welcome reminder of the most powerful domestic tool of development and of the responsibility of each individual country for its own development.

**Institution building and good governance**

Our constituency is committed to supporting the Bank in its efforts to promote equitable economic growth. The report rightly concludes that improving fiscal management, respect for property rights and the rule of law are key areas for ensuring efficient use of internal and external resources, thereby spurring sustainable economic growth. Good governance and an efficient institutional framework must be in place to ensure that growth benefits the poor and is compatible with sustainable development. Our own experience implies that institutions and policies, which promote the active participation of all members of the society in economic, social and political life, contribute to equitable and sustainable growth. This is also in line with the conclusions in the Doing
Business 2005 report, which highlights good governance and enabling environment in the Nordic States as prerequisites for a healthy investment climate.

The focus on anti-corruption deserves particular attention in this regard. In addition, the importance of equitable social development needs to be recognised as a generally accepted goal. We also believe that to make aid more effective and in order to make significant progress an all the MDGs social, cultural and environmental dimensions, as well as dimensions like good governance and human rights must be taken into account.

The Baltic countries in our constituency have since the beginning of the 1990s implemented a hard change from centrally planned to market economies, and confirm the significance of institution building as a prerequisite of private sector-led growth and good governance.

**Special focus on Sub-Saharan Africa**

We endorse the special focus on Sub-Saharan Africa, as the challenges to reach the Millennium Development Goals are greatest in this region. We note and welcome the several positive signals related to the sustainable growth, improved governance and increased political stability in the region while realizing the challenges that still remain. It is widely agreed that more aid is needed for the region to build on the progress and overcome its formidable problems.

We need to recognise the great potential of Africa’s own initiatives such as NEPAD and the peace keeping and reconciliation efforts of the African Union. In this context we support the Bank’s commitment for deepening collaboration with relevant partners in the areas of conflict prevention, reconstruction and analytical support.

We welcome the Bank’s Africa Region Indicative Action Plan as an important step in further defining the Bank’s strategic engagement in Africa. We also believe that the plan will serve as a useful input into the preparations for the UN Summit in September.

**Scaling up service delivery in health and education**

We agree with the message of the report that the human development outcomes at the core of the MDGs depend on access to basic services in primary education and health and that increased efforts are needed to scale up these services. The lack of progress regarding the human development goals on health and education in Sub-Saharan Africa is alarming. If we are to succeed in reaching the MDGs on human development we must deal with the health personnel crisis in these countries. We therefore urge the Bank to put special emphasis on this issue and help countries ensure adequate resources to deal with this issue while ensuring macro-economic stability.

We also find important the findings in managing the service delivery chain and the importance of addressing the underlying power and accountability relationships linking citizens, politicians, and service providers as prescribed already by World Development Report 2004. We take home the message for donors about the wastefulness of incompatible management information systems financed by different donors and technical assistance that fails to build true local capacity.

**Trade**
Improving coherence between aid and trade policies by reforming trade and opening developed country markets for the products of the developing countries is also rightly identified as an important tool of development. We agree with this and look forward to an ambitious outcome to the Doha Round which caters to the interests and concerns of developing countries, and a timely conclusion of negotiations. We realize, in addition, that technical assistance and investments in infrastructure are needed for developing countries to benefit from the potential results of the Doha round. We also believe that a necessary complement to this is that developing countries open their own markets to each other.

**Increasing the level and efficiency of ODA**

Providing more and more effective aid is a task that donors have committed to as parties to the Monterrey consensus and more specifically on the international fora on harmonization and alignment. We believe that much more needs to be done in this area. A number of measures are needed to carry out the Monterrey agenda and the Paris declaration, both by partner countries and donors. Particular attention should be given to the need to respect and strengthen national ownership in partner countries.

We appreciate and emphasize the importance of the commitment of the Bank and other IFIs, as reported in the GMR, to contribute to further harmonization, alignment and orientation to results. Increased cooperation among the IFIs as well as with other international development organizations needs to be further strengthened in this respect, and the IFIs should increase their efforts in using and strengthening developing countries’ own systems in their operations. We also welcome the emphasis on country focus and alignment of the development efforts with the country’s own development strategies. Experience shows that harmonisation works best in the developing countries themselves and under their leadership. Experience also shows that if donors are to succeed in harmonising development cooperation, more attention will need to be paid to strengthening the capacity of partner countries. We agree, in particular, with the conclusion in the GMR that new modes of technical cooperation are needed.

Improved aid efficiency is a prerequisite for additional development financing. Increased aid flows can only be secured by ensuring the efficient use of these flows. Absorptive capacity and aid efficiency is therefore important to consider if the much needed increases in resources are to become reality. Moreover, increased aid need to be a part of an overall coherent approach to supporting development. Here we also want to emphasize the significance of Official Development Aid as a primary source of development assistance and stress that the best option would be for donors to move towards the UN objective of 0.7 percent of GNI. We support the consideration of the idea of an interim target for 2010.

2. **Innovative financing mechanisms**

The Nordic-Baltic constituency has studied carefully the various proposals on new innovative instruments to enhance the development finance flows to developing countries and feels that further work is needed to fully establish the potential benefits as well as drawbacks that these proposals entail. We welcome efforts to scale up funding where it can be used effectively and we appreciate the work being done on the development of such new and innovative financing modalities.
We note with interest the work that has been carried out on the pilot International Financial Facility (IFF) for Immunization. We note that important issues are yet to be fully analysed. Implementation of the pilot by an interested group of countries could provide additional information for furthering the development of a workable solution of a full-fledged IFF.

However, our present concerns about IFF’s implications for future aid flows remain valid and mechanisms are needed to ensure that aid flows are truly additional, transparent, and do not drop dramatically when IFF bonds are to be repaid. It is also important that the implications for accounting in the national budgets are clarified.

Regarding proposals of global taxation we note that research on their potential viability is being carried out among others by the World Bank and we encourage the Bank to strengthen its analytical work on global taxation schemes. However, challenges in ensuring broad international cooperation and political acceptability remain to be solved. Also, fundamental elements, such as the equity impact of global taxes and the issue of additionality need to be given further consideration. However, for some countries the concept of international taxation is not acceptable.

In addition, as noted in the Bank’s background document on Financing Modalities Toward the MDGs, the international community could benefit from a more systematic work program to explore what can be done, specifically by governments, to encourage private and voluntary flows for development and to foster their effective channelling and use in support of developing countries’ own priorities. Likewise, the potential of blending and other cooperative arrangements designed to enhance the overall effectiveness of support could be further explored.

3. Debt relief

We would like to use this opportunity to acknowledge the various proposals for additional multilateral debt relief as means to release resources for developing countries’ efforts to achieve the MDGs. However, our first priority is to ensure the full financing and implementation of the HIPC. In this context we also reiterate our earlier request for a change in the methodology for calculating the need of topping up to the effect that bilateral additional debt relief is excluded.

Debt relief allows countries with good policies and governance to spend their own resources according to the priorities of national poverty reduction strategies, thereby increasing country ownership and efficiency. In such countries debt relief can also be an efficient way of transferring resources as its transaction costs remain low. However, the provision of debt relief to countries without appropriate policy and institutional framework will not ensure long-term benefits, on the contrary, it may lead to weak credit culture and moral hazard behaviour. Multilateral debt relief should also not endanger the viability of the International Financial Institutions. Therefore, while open to further discussion on additional debt relief the Nordic-Baltic Countries emphasise the importance of the full implementation of the HIPC initiative as the first priority.

If it is found necessary to extend debt relief beyond HIPC, the following principles should guide the assessment and potential decisions: additionality; preserving the financial position of the IFIs; link to clear criteria and conditionality so as to minimize moral hazard; consistency with ongoing initiatives, such as the HIPC; as well as coherence with the new framework for debt sustainability analysis and efficiency.
4. **Voice**

The Nordic and Baltic countries are strongly in favour of enhancing the voice of developing and transition countries in accordance with the Monterrey consensus. We note that important progress has been made on practical reforms, such as improvement of the capacity of the developing countries constituency offices. We also welcome the availability of the Analytical Trust Fund as well as the secondment program of the Bank in this respect. We should also not forget that the poverty reduction strategies provide an important instrument for developing countries to enhance country ownership and thus their voice. Furthermore, we note that the developing countries have actively participated in the IDA 14 replenishment negotiations.

In order to move the issue forward we stand ready to constructively and candidly consider all options on the voice agenda. As previously stated we, as a first step, support an increase in basic votes to enhance the voting power of developing countries. Only very limited progress has been made during the last year. We, therefore, emphasize the need for continued discussions in the Boards of the World Bank as well as the IMF. We would welcome simultaneous progress but do not exclude the possibility of sequencing potential actions individually across the institutions. We also reiterate our plea for more flexibility among member countries in order to find sustainable solutions to these questions.