



**DEVELOPMENT COMMITTEE**  
(Joint Ministerial Committee  
of the  
Boards of Governors of the Bank and the Fund  
on the  
Transfer of Real Resources to Developing Countries)



**SIXTY-SIXTH MEETING**  
**WASHINGTON D.C. – SEPTEMBER 28, 2002**

DC/S/2002-0038

September 28, 2002

**Statement by**  
**H.E. Jan O. Karlsson**  
**Minister for Development Cooperation, Sweden**  
**on behalf of the Nordic and Baltic Countries**

## ***A NEW ENVIRONMENT***

During the last few years, the environment in which the World Bank acts has changed significantly. I would like to introduce by emphasizing three aspects of this changing environment; (i) the global economic downturn, (ii) the "Global Deal", and (iii) the implications of IDA13.

### ***The Global Economic Downturn***

The global economic situation is marked by a considerable uncertainty. There are several factors in the US, in the Euro area and in Japan, which indicate that downside risks for the global outlook still exist. Moreover, the economic situation in Latin America is especially troublesome because of global uncertainties and domestic problems. Financial sector worries stemming from unreformed banking system and burdensome stocks of non-performing loans in some countries still pose a threat to economic growth in some of the Bank's largest client countries.

While these problems in many cases have large endogenous components, one general trend is the decrease in net FDI flows to developing countries. The turbulence in financial markets and the terrorist events of last year added to the increase in risk aversion due to the general economic downturn in most countries. The concentration of these more stable flows of financing to a few emerging markets also remains a great concern.

### ***A Global Deal – Monterrey, Doha and Johannesburg***

Recent multilateral conferences such as Monterrey, Johannesburg and Doha, express a global deal. In the deal, the developing countries themselves have the prime responsibility for their own development. In this responsibility lies the recognition that there are options from which the developing countries must choose to maximize the effect of policies to reduce poverty and sustain growth. The international community also has responsibilities in supporting these actions, not least by reducing trade barriers and granting market access to exports from both low and middle-income countries. We, as donors, have reaffirmed our commitment to aid and to further enhance the effectiveness of aid, with actions such as harmonization on the part of the donors and commitment to good governance and sound macroeconomic policies on the part of the client countries.

The Johannesburg conference underscores the interconnection between the environment and economic and social development. However, prioritization is necessary to achieve progress. The Monterrey Consensus in particular outlines the political framework and the need for all actors to set their priorities.

### ***IDA 13 and the Bank as the World's Largest Distributor of Aid***

The recently concluded negotiations on IDA13 will have as a result that the World Bank will be the single largest provider of grant financing to many developing countries. This is a development viewed with mixed emotions in my constituency. The long-term financial cost of grants is a key issue to IDA as an institution.

### ***Challenges for the Bank***

This changing environment will be challenging for the Bank, both in general terms and more specifically for MIC and IDA-countries. Let me start with the general challenges:

The role of good governance and sound macroeconomic policies in developing countries as agreed to in the global deal is crucial and it is therefore important to support governments adhering to these policies.

A new global environment calls for a strong multilateral system, with a strong role for the Bretton Woods Institutions. As for the World Bank, this vision includes development, economic growth and social stability as well as a setting in which multilateralism is adhered to as the fundamental way of reaching our goals. In order to keep its focus the Bank will have to set its priorities and strive to continuously improve its capacity in these fields. A strong and efficient multilateral system requires close cooperation and coordination. The Bank should not – and must not – take the lead in all areas.

### ***Implementation of Monterrey, Doha and Johannesburg - Achieving Results***

At the last DC-meeting, most of us agreed that we have learnt a lot on “what works” and “what does not work” concerning development cooperation during the last 50 years. We agreed that focus should now be on implementation. We support the Bank to continue to contribute to the implementation of Monterrey, Doha and Johannesburg. While doing this, there is a need to further sharpen the way we manage, measure and monitor for results, in order to achieve results. We note that implementation and monitoring and data reliability issues require close collaboration and clear division of labor between Bretton Wood Institutions, the UN and WTO.

The most important determinant of results at the country level, as expressed in the global deal is the policy and governance decisions of developing countries. Of primary importance is the adaptation of sound macroeconomic principles and commitment to alleviate poverty. In support of this work the Bank need to continue allocating resources based on performance. While we strongly support conditions on prior actions, we caution against relying too heavily on over-determined ex ante conditionality. We welcome the initiative to strengthen statistical capacity in recipient countries as well improving the results- and quality systems within the Bank. These efforts are welcome parts in order to sustain effectiveness and *achieving the Millennium Development Goals*.

The Nordic Baltic Constituency want to support the efforts made by the Bank and IMF to help countries analyze the consequences for the poor of various policy choices through for example Poverty and Social Impact Analysis, PSIA, where quantitative and qualitative methodologies are combined. We do, however, regret that the introduction of PSIA:s is proceeding rather slowly and we urge the World Bank to accelerate this work.

Results at the country level also depend on the quality of national institutions. We know a lot about how to effectively build and support institutions, but we do not know everything. The sequencing of reforms, necessary conditions for particular institutions and ways to make them work more effectively are fields where more research is critical.

I would like to underline the importance the Nordic Baltic countries place on the fight against corruption at all levels. We know that corruption is a serious threat to economic growth and development and that it makes aid less effective and sometimes even counterproductive. Transparency of public finance management is of paramount importance: people need to have more possibilities to hold the governments accountable for the use of public funds. We need to further explore ways to support development in countries with a solid stance on good governance, while not forgetting the poor in countries with less satisfactory track record. It is important to steer scarce resources to countries that are conducive to growth and poverty alleviation while focusing on policy change and capacity building in other countries.

While supporting allocation of resources based on performance, the Nordic Baltic Countries have also been concerned about poor performers. There is obviously a need to distinguish between those that perform bad due to ill will and those that do so due to lack of capacity. We welcome the discussion on the role of the Bank in relation to these countries.

### ***The Balance Sheet of the World Bank***

Turning our attention to the balance sheet of the Bank, we recognize that the prospects of a weak and delayed recovery also mean that the Bank is affected. The trade-off between increasing its exposure to borrowers in difficulties and thereby increasing the risk in the Bank's portfolio is ever so obvious. The Bank has a rather high exposure to a few client countries already, and any allocation decisions will have to be measured primarily against its risk-bearing capacity, taking into account the over-arching goal of reducing poverty and the fundamental principle of allocating resources to where they would be most effective in achieving this goal.

As a special case, I would also like to voice a few concerns for future reference when it comes to the implications of our discussions on how we manage lending and the Bank's exposure to countries that are close to the concentration limit. Weighing even a small increase in risk for the Bank against extending financing above the concentration limit, we believe that there is little room for the latter.

While the World Bank is rather unique in that most of the clients in the non-accrual portfolio, in history, have come back to meet their principal payments, there is still a risk that a large borrower, in the future, might have difficulties doing so. We welcome the opportunity to discuss and assess the risk-bearing capacity of the Bank this fall.

### ***Harmonization of Operational Policies, Procedures and Practices***

Efforts on harmonization of operational policies, procedures and practices must be scaled up. As an example, we believe that the Bank should roll out its new Bank approach towards Sector Wide Approaches, where donors take a collective approach to financing of a particular sector in a country. In a number of countries and sectors, governments and their bilateral partners are waiting for full World Bank participation in these processes. However, there are some unfortunate examples of countries where the Bank has not progressed very far in aligning its program to an existing Sector Wide Approach.

Furthermore, participation in SWAPs also benefits from a speeding up of the decentralization process within the Bank. We support the high-level meeting scheduled to take place early next year.

Partnerships are put to the test in Poverty Reduction Strategies. The Nordic countries have expressed strong support for the PRS-process and started internal processes aimed at aligning our bilateral programmes with the Poverty Reduction Strategy Papers. We expect other partners to do the same, particularly the World Bank which we feel has a special responsibility to "take the lead" in adjusting its working modalities to fit into the PRSP. We welcome and acknowledge that significant changes in the right direction that have taken place.

We welcome the pilot project on Combating Money Laundering and Terrorist Financing and the cooperative nature of the approaches suggested. This is an important step in our efforts to build a safer world and strengthening the financial system. We also reaffirm our commitment to the role of the World Bank in promoting and working towards strengthening corporate governance and necessary reforms in the banking sector in many countries.

### *IDA-Countries*

Concerning IDA-countries, the World Bank is already the largest creditor. With the IDA13 agreement the World Bank will also be the single largest provider of grants. The central modus operandi of the Bank remains the provision of loans for developing purposes on market or concessional terms. The guidelines for allocating grants under IDA-13 must be complemented with clear priorities and operational rules. It is also important that the Bank utilizes the grant element with the accumulated effectiveness of the wider multilateral system in mind.

Loans, by their inherent structure of disbursement and repayment, sharpen the responsibility of the borrower, and create a natural incentive to put the money to a more productive use. IDA loans incorporate the positive aspects of the discipline that debt provides in all financial systems, in developed and developing countries alike. For the poorest countries, external shocks and structural weaknesses in the economy create a rationale for concessional lending as well as for aid financing, which in many aspects is complementary to loans.

With all the new grants finance, the process of strengthening monitoring and managing for results is welcome. We welcome the enhanced assessment process in IDA for monitoring country performance through the Country Policy and Institutional Assessment, CPIA. We find that it would be a constructive initiative of the developing countries if they agreed to make these CPIA reports public.

IDA depends, for financing, to large degree on reflows of loans. The increased grant element will result in diminished reflows, for which we must fully compensate IDA. Donors must take long-term responsibility for IDA. In this respect, pay-as-you-go is not the most feasible solution. We urge all stakeholders to aim to come up with a more responsible solution at the mid-term review, instead of leaving it to coming years to find a solution to the challenge of smaller and smaller reflows.

*Middle-Income Countries*

The recent economic events in Latin America show that there is still a need both to stay engaged in Middle Income Countries, at the same time as it is a reminder of the high vulnerability of emerging economies. In other regions, MIC:s are also struggling to muddle through. A majority of the world's poor live in the middle-income countries. These people are most vulnerable to global economic downturns, since the emerging economies to a larger degree than many of the poorest countries are integrated with the world economy. We believe that the MIC:s themselves to a large part are responsible for reducing poverty in their countries. We note that there are important lessons to be learnt from countries such as India and China, in light of the dramatic reduction in poverty, in these and several other countries the last ten years. We remain committed to the strategy for MIC:s and we support an active implementation of the strategy, while taking into account the risk-bearing capacity of the Bank.

The increased exposure to a few MIC:s means that the Bank is more vulnerable, but also that there may be scope for a wider outreach to other MIC:s. The Bank has an additional role to play in increasing the share of financing to MIC:s with low or no present borrowing from the World Bank.

What determines the demand for World Bank financing and advisory services in middle-income countries? Besides the availability of finance from other resources, two main answers must be the cost of doing business (including administration, the time cost of processing, the cost of different safeguard mechanisms etc) and the array of available instruments. Although we think there may be room for tailoring instruments such as risk-mitigating tools to the specific demands of client countries, this is not enough. We need to continue to analyze and discuss the cost of doing business with the Bank, keeping in mind the very positive effects of crucial safeguards such as environmental assessments.

**Summarizing, we call for implementation** – this is the fundamental conclusion from the discussion on development effectiveness. As one key aspect of implementation we call for progress on harmonization, beyond merely applying the same standards and forms for all donors. On IDA 13, we stress that the use of the grants element will have to be carefully evaluated. Furthermore, we call for donors to find a responsible solution for the long-term financing of IDA, addressing the lack of reflows from loans. Finally, we stress the need for caution, reflection and contingency planning at this time. We remain highly concerned with the financial soundness and the risk-bearing capacity of the World Bank.