



ANNUAL MEETING OF THE BOARDS OF GOVERNORS

FORTALEZA, BRAZIL

AB-2191
12 March 2002
Original: English

**ADDRESS BY THE TEMPORARY ALTERNATE GOVERNOR FOR FINLAND
AT THE THIRD PLENARY SESSION**

Jorma Pauku

1. I have the great pleasure and opportunity to address this distinguished audience today on behalf of my Government. I would like to join my colleagues in expressing my delegation's gratitude to the city of Fortaleza, the state of Ceara and the Government of Brazil for their hospitality and warm reception.
2. There is no need to repeat how much the world has changed during the past year, we heard it loud and clear from the three Presidents yesterday. However, the recent developments have yet again exposed the Latin American vulnerability to economic shocks. Unfortunately, economic growth and the structural reforms implemented in the 1990s have not produced a solid economic standing, nor have they led to a reduction of poverty in the region. As the assets and economic growth in general in this continent are unequally divided, so are also the negative impacts of economic and other shocks. This unfair distribution is often particularly evident for women and the poor, who get even poorer, the indigenous remain excluded, and the gains made earlier continue to be lost when a new disturbance arrives.
3. Turning to the Bank's role, the Governors reached a consensus to improve IDB's response capacity. We welcome the new framework. Now that the proposal has received the necessary quorum for approval, we should focus on its timely implementation. Taking into account the Bank's stable but limited resource base, we feel that the most important element of staying relevant to its shareholders is to enhance the development effectiveness of the operations, even without additional resources. We welcome the work done by the Management and the Office of Evaluation and Oversight in order to clarify and enhance the process. However, further and fast action is needed inter alia to introduce specific measures and mechanisms; first to link IDB's assistance more towards national development needs and goals, secondly to change its corporate culture towards result-based management and increase result-orientation especially in Country Programs and operations. Thirdly, to improve the capacity to measure progress and learn from results, and finally to stress the ownership and accountability of governments.

4. In parallel with the Governors' process, President Iglesias commissioned another group to study the art of being relevant. The External Advisory Group under the leadership of Mr. Gurría has recently presented its report. We welcome the fresh thinking and especially recommendations related to creating an enabling environment for private sector development and upgrading the Bank's risk management. We welcome also the outline from President Iglesias on how the thinking that has gone into the report could best be incorporated into the new lending framework, as it is translated into programs and actions. My Government attaches utmost importance that new ideas on staying relevant cover all countries irrespective to their size or global importance.

5. During the last year, the Bank's funding limit for the private sector strategy was raised. Yet, the discussion is going on how the Bank could be more relevant particularly in reversing the flow of private investments to the region. One proposal is to institute new instruments that would reduce the risks for private investors, and another suggests setting up new institutions to attract private sector funding for bankable activities in high-risk countries. We believe that the private sector in the region continues to be the driving force for economic growth, but it needs right incentives to make long-term productive investments. This applies equally to both domestic and foreign investors.

6. In our view this discussion on the right incentives, and on the role that the IDB could play, should be broadened. It is not enough to deal with the level of instruments that would provide additional comfort to the private sector, but the discussion has to cover policy and strategic issues. We believe that for action and results, comprehensive strategy is needed.

7. I can only add my voice to those millions and millions of poor peoples' voices who would be willing to participate in productive activities and earn their way out of poverty, rather than rely on public sector welfare programs. At the same time, I feel that there is another set of voices that we, as representatives of governments and international organizations, should be listening to more carefully – the private sector itself. We should be in dialogue with multinational corporations, SMEs and small private entrepreneurs, to hear what are their perceptions about the appropriate incentive framework. We might be surprised that there is more to incentives than just the financial ones. But also in the area of financial incentives, the IDB could particularly look more closely into developing further the kinds of Public-Private Partnerships that Chile and some other governments in the region have been experimenting, with increasingly positive results.

8. Private sector and the financing it provides is one of the elements for a coherent development approach to be discussed very soon in the context of the Financing for Development conference. We regret that the Bank, until recently, has been merely a bystander in the FfD-process. We urge the Bank to clarify its position towards the UN system in order to gain visibility and access to the global forum.

9. We were heartened to hear from President Iglesias that the Bank is now incorporating the Millennium Development Goals in its planning, programming and monitoring processes. The Bank should also help its member countries to put poverty reduction at the center of their economic and social policies.

10. Poverty reduction is the first MDG, and the most important one. Halving the proportion of people living in extreme poverty by 2015 is an enormous challenge. This

challenge requires firm national commitment, rethinking of priorities and reformulation of current policies. Any conceivable amount of external assistance could not help the region to reach its goals without profound reforms in incentive systems that encourage domestic savings and long-term investments on the one hand and taxation and income redistribution on the other. The poverty goal can only be reached if the poverty problems are effectively tackled in Middle-Income Countries. Here the Bank can make a difference. It has been mentioned that poverty reduction is a moral issue. For sure it is. It is also a question of justice, justice for those who cannot defend themselves. No doubt about that. But besides all this, we must not forget that poverty reduction is also a question of pure economic calculation, because, my dear colleagues, increasing opportunities for the poor also leads to economic growth.

11. By way of concluding, I should like to mention two areas where we see potential for enhancing partnership. First, Finland has great confidence in the IDB as a promoter of economic and social development in Latin America and the Caribbean. As a Member of the EU, Finland is also committed to strengthen the trade links between the EU and Latin America, and firmly support the ongoing negotiations between the EU and MERCOSUR, as well as between EU and Chile. The second EU-Latin American Summit, which will be held in Madrid in May, also offers new opportunities to strengthen even more the ties between these two regions for mutual benefit. Even now, the major countries in South America export more to Europe than for example to the U.S.

12. And secondly, I want to point out the utmost importance of social inclusion in economic growth. Finland, together with other Nordic countries, has been active especially in promoting the social agenda of the Bank. Last January we organized a fruitful Poverty-Gender seminar between the Bank and Nordic countries.
(See http://www.iadb.org/sds/soc/publication_2547_e.htm)
We have also been co-financing seminars on social issues during the Annual Meetings. This year the Nordic countries co-sponsored the inspirational HIV/AIDS seminar.

13. Finally, let me express my heartfelt thanks to President Iglesias and his entire staff for the progress made since last year, but also for the positive and constructive spirit in which our collaboration and dialogue has been conducted.