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**WORLD BANK GROUP**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL FINANCE CORPORATION  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES  
MULTILATERAL INVESTMENT GUARANTEE AGENCY

**INTERNATIONAL MONETARY FUND**

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Statement by the Hon. **GERRIT ZALM**,  
Governor of the Bank for the **NETHERLANDS**,  
at the Joint Annual Discussion

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Governor of the Bank for the Netherlands,  
at the Joint Annual Discussion**

Mr Chairman,

Ladies and Gentlemen, fellow Governors,

**[1] Introduction**

The recent international financial crisis clearly demonstrated that improvements must be made to enhance the effectiveness and the fairness of the International Monetary and Financial System. Already, the system has been made more open and transparent. The IMF deserves praise for the role it has played in the development of international transparency standards and the promotion of the implementation of these standards.

However, I think we should be more ambitious. I have three particular areas in mind in which work remains to be done: the involvement of the private sector in financial crisis prevention and resolution; the strengthening of the Bretton Woods institutions; and HIPC and its financing.

**[2] Private sector involvement**

On private sector involvement, in the absence of a set of clear internationally accepted rules on how to promote private sector involvement, the Fund has proceeded on an ad hoc basis. Although this approach succeeded in securing private contributions to the funding of members' financing gaps, the approach carries a number of risks. First, this is not very transparent, making the pricing of debt difficult. Furthermore, considering every case on

an ad hoc basis might also lead to unequal treatment of countries as well as of creditors. While recognising that every crisis situation has its own specific characteristics, I see a clear need for establishing some general principles and instruments for the involvement of the private sector in international financial crises. A key principle is that of equal treatment. Therefore, the following instruments should remain on our agenda: collective action clauses, creditor committees and the use of rollover options in debt contracts.

### **[3] The Fora: IMF and Interim Committee**

I now turn to our institutions. Recent experiences have clearly shown us how important it is to have strong Bretton Woods institutions. The IMF should remain at the heart of the International Monetary and Financial System. By combining wide membership with well-defined procedures for representation through constituencies, the IMF and its fora are better suited than any informal or ad-hoc grouping to discuss and decide on matters relating to the monetary and financial system. The participatory nature of the decision-making process in the IMF guarantees 'ownership' of and accountability for Fund policies with all IMF members. I welcome the fact that the role of the IC as the preparatory body for the Board of Governors has been reconfirmed. Improving the preparation of the IC by a deputies-IC on an as needed basis can contribute to this. Further strengthening could take place through the creation of working groups of flexible composition under the IC, with the appropriate participants being selected on the basis of the topic under consideration.

**[4] Capital adequacy World Bank Group**

Let me now turn to the World Bank. Unfortunately, progress with respect to strengthening the financial position of the World Bank Group has been limited since the Spring Meetings. Naturally, the need for an increase in the risk-bearing capacity and its size are directly related to the IBRD's strategy. We are not in favor of a strategy that takes the excessive liquidity support of the past years as a starting point. I would sympathetically consider proposals for additional capital for the World Bank group, including the IFC, if this is needed for a strategy aimed at long term structural development and poverty alleviation.

**[5] ESAF and HIPC**

It is of central importance to develop a concept of economic growth that is centred around durable poverty reduction. In that respect, I warmly welcome the enhanced link between debt relief and poverty reduction as exemplified in the new HIPC Initiative. It should therefore come as no surprise that the Netherlands supports the proposed modifications of the HIPC Initiative with the purpose of providing wider and deeper debt relief whilst encouraging recipient countries to conduct good policies. We support the idea of using floating completion points, and stress the importance of including key social and economic reforms as conditions for completion. It is of the greatest importance that we maintain the focus on good policies in the modified HIPC initiative and secure full and equitable financing for debt relief quickly, so that the road to sustained growth and poverty reduction in highly indebted poor nations is cleared. In this respect, I hope that improved cooperation between the Bank and the IMF takes off. Better quality and depth

of the Bank's poverty analysis should help the Fund to adequately sequence and fine-tune macro-economic stabilization policies. In addition, the financing of the self-sustained ESAF deserves the full attention of the international community.

#### **[6] South Eastern Europe**

In addition to their tasks in promoting international financial stability and sustainable growth, the Bretton Woods institutions have an important responsibility to help members whose economies have been severely damaged by a war or natural disaster back on their feet. I welcome the efforts that have been made by World Bank and IMF, in good co-operation with the EU, to help South Eastern Europe overcome the hardship caused by the crisis in Kosovo. A combination of well-targeted international assistance and sound domestic policies should facilitate a speedy recovery.

#### **[7] Conclusion**

Ladies and Gentleman, fellow Governors, Mr chairman,

The world economy is in far better shape than we could envisage last year. The IMF and the World Bank have played a key role in this improvement. I trust that under the leadership of the President and the Managing Director the Bank and the Fund will continue their further work on the various issues that I have outlined. Rest assured of the continued support of the Netherlands in doing so.