

INTERNATIONAL MONETARY FUND

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

J

Press Release No. 33

October 3, 2004

Statement by the Hon. **AGNES VAN ARDENNE**,
Alternate Governor of the Bank for the **NETHERLANDS**,
at the Joint Annual Discussion

**Statement by the Hon. AGNES VAN ARDENNE,
Alternate Governor of the Bank for the Netherlands,
at the Joint Annual Discussion**

Mr. Chairman, fellow Governors, Ladies and Gentlemen,

Let me join fellow-governors in congratulating the Fund and Bank with their 60th anniversary. In this statement, I would like to focus on four topics. First, the recovery in the global economy. Second, crisis resolution and exceptional access to Fund resources. Third, debt sustainability in low-income countries. And fourth, the mobilisation of resources for development.

The world economic outlook points to continued strong growth in most parts of the world, although global imbalances still represent a downside risk. The key challenge for all regions is supporting and consolidating this economic recovery through sound fiscal and structural policies. I would like to highlight three issues with respect to the economic outlook.

First, the urgency to take appropriate measures to ensure medium and long term sustainability of public finances in view of the costs of ageing. At present, the Fund's debt sustainability analyses for industrial countries have a five-year horizon. The major impact of ageing in Europe will be felt after 2010, however. It would therefore be appropriate to extend this horizon. The long term impact of ageing can then be mitigated by measures in the short term.

Second, the present economic momentum should be effectively used to implement budgetary consolidation in all major economic areas of the world. It is of paramount importance to increase budgetary discipline in good times with the objective to gradually achieve budgetary surpluses.

Third, the opportunity to foster economic growth by reducing the administrative burden for the business sector. I refer to it as 'opportunity' since this growth-promoting policy does not lead to budgetary costs. The World Bank's 'Doing Business' report clearly demonstrates that reducing the administrative burden for the business sector could significantly accelerate economic growth in both developing and developed countries. But deregulation and a better investment climate have to go hand in hand with strong institutions as illustrates the World Development Report 2005 "A Better Investment Climate for Everyone". That means that we should also invest in capacity building.

Turning to crisis resolution. The Fund's involvement in crises has in some cases led to a prolonged and high exposure of the Fund to a small group of borrowers. This might

jeopardize the principle of equal treatment of member states and risk the revolving character of Fund financing. Therefore, a strict implementation of existing IMF policies, especially the exceptional access framework, is required. Furthermore, we favour the presumed use of the Supplemental Reserve Facility in exceptional access cases. In addition, I invite the Fund to design a specific exit strategy for existing exceptional access cases.

The development of a Code of Conduct could foster an ongoing dialogue between sovereign debtors and the private sector. We therefore encourage these parties to swiftly agree on such a Code.

A positive development is the increased attention for Fund arrangements to provide a signal on good policies without significant financing. The Fund should not be peddling loans to countries that do not need the Fund financing, or have precarious debt levels. The quality of a country's policy can be demonstrated by adherence to Fund's conditionality, Board involvement, and an appropriate level of ownership. This can induce the private sector and donors to provide a country with necessary funds. These three crucial elements determine the value of Fund arrangements as a signalling device. Examples of these arrangements that have proven effective in the past are (low access) precautionary stand-by arrangements and low access arrangements under the Poverty Reduction and Growth Facility.

The third issue I would like to address is the need to ensure long-term debt sustainability in low-income countries. HIPC has been a useful tool to deal with intolerable debt burdens and I fully support a limited extension of the HIPC initiative with two years, while ringfencing eligibility. However, it is time to focus on the future and prevent new debt problems from arising. We have to break the vicious circle of lending, new unsustainable debts and subsequent debt relief. Against this background, we should assess the various proposals for further debt reduction that are now on the table.

I call upon both the Bank and the Fund to show leadership and accelerate the development and implementation of a framework for Long-term Debt Sustainability in low-income countries. This framework and joint Debt Sustainability Analyses should be the sole determinants for the allocation of grants and credits of all development partners, including the regional development banks. Of course, this could imply that also IDA will provide grants in certain circumstances. However, I would caution against turning IDA into a 100% grants window. Not because I am per se against grants but, more fundamentally, because I am very much against, weakening important development institutions that are grant based as a consequence, notably the UN Funds and Programmes.

I would like to stress the need for a strong multilateral system. In a globalizing world with increasingly a common international agenda, we have to ensure that our multilateral institutions can live up to the challenges. This principle should in my view guide the ongoing UN reforms.

A stronger multilateral system should ensure more co-ordination and co-operation and less overlap and ineffectiveness. This implies the avoidance of mission creep and a clear division of labour, for instance between the World Bank and the UN Funds and Programmes.

Of course, we should also step up our support to developing countries. At least an additional \$ 50-60 billion needs to be raised to achieve the Millennium Development Goals. As countries improve their policies and institutions, this amount could be used effectively by developing countries. This is taxpayers' money well spent. As a believer in equal burden sharing among donors, I urge countries to formulate a convincing time frame within which to raise aid levels to the UN norm set some 35 years ago.

Finally, next to aid volumes, the delivery of aid should be improved. I thus call on Fund, Bank, and donors to further align their policies with recipient country policies and harmonise their procedures and policies. Furthermore, aid should also focus on private sector development and be supported by better international trade opportunities for developing countries. Let us use the coming year to do whatever we can to finalize the WTO negotiations. This in itself will already lift hundreds of millions of people out of poverty.

Thank you!