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Statement by the Hon. **HANS HOOGERVORST**,
Governor of the Bank for the Netherlands,
at the Joint Annual Discussion

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Mr Chairman, fellow Governors, Ladies and Gentlemen,

[1] Introduction

Over the past 50 years, globalization has been the source of unprecedented gains in human welfare. But it has also brought risks and challenges, such as disruptive volatility in international capital and trade flows. Both the IMF and the World Bank play a crucial role in guiding and shaping the process of globalization. In particular over the last five years, both institutions have clearly shown that they have learned to adapt their policies to the needs of a changing global economy. I would like to highlight six areas in which initiatives need to be strengthened and renewed for global stability and growth and for more inclusive globalization.

[2] Learning from the Asian crisis: an unfinished agenda

The IMF and World Bank have drawn clear lessons from the Asian crisis, which threatened global stability and growth exactly five years ago. First, they have led new initiatives to monitor the complex linkages between a country's macroeconomic and structural development and the quality of its institutions, notably through the Financial Sector Assessment Programs (FSAP) and the Reports on the Observance of Standards and Codes (ROSC). Second, along with promoting transparency and adherence to the universally accepted "rules of the game" among their member countries, the World Bank and IMF themselves have become increasingly open. Third, the Bank and Fund have taken steps to focus and streamline the conditions of their lending, promote national ownership and to achieve a sound division of labour. Notwithstanding considerable progress, the agenda emerging from the Asian crisis is still unfinished. The Netherlands encourages the both institutions to continue these initiatives.

[3] The crisis in Latin America: setting a new agenda

New risks threaten global stability and growth, which – and this is important to emphasize – are not confined to the emerging economies or developing countries. As noted in the *World Economic Outlook*, one of the risks is the widening current account deficit of the US. The second risk relates to the sense of uncertainty regarding the "true value" of corporate USA. Apparently, there is a need to pay as much attention to risks and vulnerabilities arising in the so-called advanced economies, as we do to problems in emerging markets and developing countries. The third risk to global stability and growth is the crisis in Latin America. Particularly this crisis in Latin America should give birth to at least three new or renewed initiatives. The first is the new framework for debt sustainability as an essential part of the Fund's work in crisis prevention and crisis resolution. The second initiative is the impetus given to the discussion on ways to smooth debt restructuring processes. The Netherlands welcomes the efforts by the IMF to make progress on the design of the Sovereign Debt Restructuring Mechanism proposal as well as the promising first results of the work by the G10 on collective action clauses. This two-track approach also demonstrates the clear intention to move away from bail-outs towards work-outs.

[4] Solving the crises: it takes three to tango

Third, the crisis in Latin America has nourished the discussion on the financing role of the IMF in managing financial crises. We support the intention to make the policy on access to IMF resources clearer and more predictable. Exceptional access should be truly exceptional. Otherwise IMF support might provide incentives for private lenders to underestimate risks and for national authorities to refrain from adopting sound policies. The Fund's interventions are necessary, but not sufficient to promote global stability. In this case, it takes three to tango: Fund, country, and private creditors. Against this background, a general quota increase does not seem needed at this juncture. We also urge the Fund to be cautious in its review of the quota formulas. It requires utmost care so as to ensure that changes to the system do indeed constitute improvements, and do not weaken its logic and robustness. We particularly believe that quotas should adequately represent countries' openness in both trade and financial terms. The current quota system performs its complex task relatively well.

[5] Intensifying the fight against terrorism financing

Spurred by the dramatic events of September 2001, the IMF and the World Bank have intensified their efforts to ensure the integrity of financial markets, in particular by fostering compliance with the international standard in the fight against money laundering and terrorism financing. We strongly support the Bretton Woods institutions in contributing to this fight through their surveillance activities, notably the ROSC-process and technical assistance. We urge both institutions to collaborate with the FATF and FATF-style regional bodies. As agreed last year, the IMF will coordinate efforts to identify and respond to the needs for technical assistance. In order to allow the IMF to perform this role in an optimal way, the Netherlands stands ready to support TA-activities with a financial contribution of 400,000 euro.

[6] The Monterrey consensus: put your money where your mouth is

Globalization should work for all. In Monterrey and Johannesburg, we have done the talking, let us now do the walking. Amongst others, this implies not only increasing the quantity but also the quality of ODA by focusing more clearly on results. The way in which we practically deliver aid is crucial to improved development effectiveness, which is required to achieve the Millennium Development Goals. Aid effectiveness is not only a matter of shifting to performance-based aid allocations. We believe that partnership, coordination and respect for the country-driven nature of policies and systems are of equal importance. Many countries have devised national development plans and are trying to mobilise the necessary resources. At the same time, however, they have to manage a multiplicity of individual donor projects and international initiatives. Strategic alignment, harmonisation and coordination among donors are therefore major challenges in enhancing aid effectiveness. This is clearly shown by the case studies on Education for All, water and sanitation and HIV/AIDS.

[7] HIPC: Paying your bills

One of the greatest initiatives of the last few years, the Heavily Indebted Poor Countries Initiative, risks losing its glamour. The Netherlands urges the World Bank and the IMF to place more emphasis on the significant problem of the current financing gap, estimated at nearly US$ 1 billion. Several of us have already fulfilled our HIPC commitments, on top of which we have cancelled additional debts of several HIPC countries bilaterally. It is now time for pledges already made by other donors and institutions to be honoured and new commitments to be made to fill the financing gap. But also the results of the HIPC initiative are at risk. Ultimately, each HIPC country should be able to stand on its own feet and attract financing and investments without constantly facing the spectre of unbearable debts. There are three ways to render the initiative more effective. First, the World Bank and the IMF should engage in a closer monitoring of the balance of payments of HIPC countries. The impact of exogenous shocks on the manageability of the debt will then become visible sooner. Second, it should become standard practice to offer HIPC countries capacity building assistance in the sphere of fiscal and debt management, as part of the debt relief package. Third, economic growth and productive employment should be promoted by better market access, export diversification and an improved investment climate to provide a more solid basis to withstand future shocks. Fourth, we should expand to *all* HIPC countries the OECD agreement on untying ODA to the Least Developed Countries. The HIPC-initiative needs to be put on a stable footing. We hope the World Bank and IMF as well as the larger development community will take up these new challenges.

Ladies and Gentlemen, fellow Governors, Mr Chairman,

We trust that under the excellent leadership of Messrs Wolfensohn and Köhler both institutions will keep on learning and applying lessons learned in the areas I have mentioned: continuing the initiatives that emerged from the Asian crisis, taking up the new challenges from the crisis in Latin America, implementing the Monterrey Consensus and keeping the HIPC initiative “alive and kicking”. Not for their own sake, but in order to better promote global stability and growth and to make globalization more inclusive. Rest assured of the continued support of the Netherlands in doing so.