



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)



**SEVENTY-SECOND MEETING  
WASHINGTON, DC – SEPTEMBER 25, 2005**

DC/S/2005-0051

September 25, 2005

Statement by

**Ms. Agnes van Ardenne**  
Minister for Development Cooperation  
The Netherlands

Representing the constituency comprising Armenia,  
Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel,  
the Republic of Macedonia, Moldova, The Netherlands, Romania and Ukraine

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**72nd Meeting, Washington, D.C., September 25, 2005**

**Statement by Ms Agnes van Ardenne,  
Minister for Development Cooperation of the Netherlands,  
representing the constituency comprising Armenia, Bosnia and Herzegovina, Bulgaria,  
Croatia, Cyprus, Georgia, Israel, the Republic of Macedonia, Moldova, the Netherlands,  
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One and a half weeks ago we reached agreement on a more effective multilateral system. The Outcome document clearly restates the Millennium Development Goals and the action needed. And action is needed. The report "Where is the Wealth of Nations?" warns us that reaching the MDG's could be at risk from unsustainable environmental policies. Sustainable development not only includes social and human development but also sustainable management of natural resources. This weekend we should discuss how the international community and the Bank and the Fund can put these commitments into practice.

*Aid finance*

My constituency would like to welcome the successive announcements on various sides of higher aid commitments since Monterrey. We note with satisfaction that the EU, for instance, has pledged to nearly double its ODA to 0.56% GNI between now and 2010 and to reach a collective ODA/GNI target of 0.7% by 2015.

In order to realize these goals some countries are considering the introduction of innovative financing mechanisms that can help deliver the necessary financing. My constituency has a positive approach towards applying such mechanisms by these countries in as far as they lead to structural and additional financial ODA-flows. The Netherlands is a long time advocate of the 0.7% target and since long contributes 0.8% of its own GDP to development cooperation.

OECD/DAC should monitor whether donor countries live up to their commitments and whether their contributions, including those aimed at debt relief, can be considered additional to current ODA levels.

*Domestic resources and access to financial services, including microfinance*

Recipient countries should do their part and maximize domestic resources to fund national development strategies, for instance by enlarging their tax base and strengthening tax administrations. An advantage compared to foreign aid is that domestic taxation generates a more stable flow of financing for the MDGs. As the World Development Report 2006 indicates, tax systems can be designed so as to serve both efficiency and equity purposes. Domestic resources can also be mobilized in the private sector by granting the poorest wider access to financial services such as credit, insurance or pension schemes.

We welcome the attention that is given to microfinance during this UN International Year of Micro Credit. The potential benefits of financial services, including microfinance, are large, not only for poverty reduction but also for private sector development and broad-based macro-economic performance. A healthy and well functioning financial services sector is therefore of great importance. This sector should cater to the wide variety of clients and their needs, especially the poor whose access to financial services is generally low. We therefore need both strong microfinance institutions as well as commercial banks whose services link up perfectly with each other. Efforts are needed at different levels. At the micro level capacity building, for example better governance and risk-management and the adoption of new technologies, can improve the functioning of mainstream and microfinance institutions. In this regard I invite the Bank to apply in its microfinance interventions the useful guidelines agreed in CGAP.

At the meso level adequate data is needed for all those involved in the financial services sector, including supervisors, donors and commercial banks and specialized micro Finance Institutions. I would like to encourage the IMF and the World Bank to review data availability on access to finance and assist in the accumulation of data that is accurate and standardized in order to enhance comparability. Data availability and quality is often especially low in the area of microfinance. Data availability will facilitate the establishment of national strategies directed at increasing access to financial services for the poor. At the macro level, maintaining macroeconomic stability is a prerequisite for microfinance and the functioning of the financial sector in general. A sound regulatory framework, appropriate supervision and a healthy investment climate are essential as well. Through its regular surveillance work, the IMF can continue to address these policy issues where relevant. We therefore value the Financial Sector Assessment Programs. We encourage the Fund and World Bank to continue to include attention to microfinance in FSAPs where appropriate on a structural basis.

### *Debt relief and HIPC*

My constituency welcomes and supports the G8 multilateral debt relief initiative. We are of the opinion that, if adequately funded, the initiative should lead to an increase in ODA-resources providing developing countries with more fiscal space to support their efforts to attain the MDGs. The Netherlands stands ready to provide its share in the proposed donor contributions if the longer term additionality of donor contributions is clearly defined and guaranteed and the long term viability of IDA and the African Development Fund are adequately ensured.

We feel that resources to fund this initiative should be additional to current ODA levels. We urge donor countries to provide upfront and long term commitments to compensate dollar for dollar IDA and AfDF, so that they can continue to serve development purposes during the next decade. All donor countries should do this as much as possible in a similar way. The Netherlands for its part is prepared to issue promissory notes over a period of 40 years to finance its share.

The financing of IMF debt relief should not undermine the financial solidity of the Fund, especially the Fund's ability to meet the financing needs of low income countries from Fund resources dedicated for that purpose. In line with agreed standards on the use of Fund resources, we believe that IMF debt relief should be based on the principle of Uniformity of Treatment.

MDG-effectiveness also requires that sound economic policies are in place as debt relief takes its effect.

Providing debt relief without ensuring future debt sustainability will not help to escape from the vicious cycle of lend and forgive. At the same time countries whose debt has become sustainable should not unduly be excluded from new borrowing. Therefore, at this stage we do not support any changes to the agreed rules governing the grants windows in IDA14 and AfDF10 and the underlying Debt Sustainability Framework.

In my view, we cannot provide debt relief without a similar resolve to enabling greater access of developing countries to international markets. Participation in global trade provides countries the opportunity to generate the resources needed to finance their own development, including the servicing of concessional loans. I therefore call upon you to express a strong commitment to a successful conclusion of the Doha Round in Hong Kong, including agreements on reducing trade barriers and crossing out of export subsidies.

My constituency awaits the Bank's final analysis on which countries meet the criteria under the extended enhanced HIPC initiative, as this may have additional funding implications for the above proposal for multilateral debt relief.

#### *Africa Action Plan and the scaling up of aid*

The global partnership for achieving the internationally agreed development goals, including those contained in the Millennium Declaration and the Monterrey Consensus, is not restricted to the question of funding, but also covers the effectiveness of aid delivery and the achievement of results. It is in this context, that my constituency welcomes the World Bank Action Plan for Africa as it highlights a number of these issues, where both donor countries and recipient countries will have to take their responsibilities.

While the delivery of aid has become more effective over the last couple of years, my constituency feels that further progress on harmonization and alignment is essential, not the least because more financial resources for development will be available in the run up to 2015. We therefore call on all countries and international agencies to adhere to the principles, targets and indicators agreed upon in the Paris Declaration on Harmonization and Alignment. Bank and Fund could, for instance, contribute to the reduction of the multitude of policy frameworks and plans introduced by the donor community, aid instruments, monitoring systems, conditionalities and reporting requirements, which seriously hamper the effective implementation of poverty reduction strategies. In this light, we are pleased with the current tendencies of a decreasing number of conditions used in loans, improved coordination among financial institutions and donors, as well as a more equal partnership between Bank or Fund and client.

My constituency welcomes the Bank's recommendations on conditionality for program lending and supports conditions that are limited to policies that are essential for the attainment of the program's objectives. To us, essential for a successful partnership between Bank and client country are the application of the rule of law, the participation of civil society and underprivileged groups such as the poor, an adequate financial management system and a well

functioning domestic tax system. Partners should determine the accountability framework on the basis of known variables at the time of contracting the loan, so as to avoid changing or adding conditions during the program's duration. We also support initiatives to avoid overlapping or contradictory conditions among development partners, thereby respecting each other's mandates.

The availability of additional funds should enable us to scale up our efforts to more appropriate levels, especially in Africa. Analyses by the Bank indicate that in this part of the world current capacity could absorb a 60% increase in aid. The Sachs report indicated earlier this year that current levels of funding will have to be multiplied if the international community wants to meet the MDGs by 2015. We feel that these figures ask for a thorough analysis of the issues of fiscal space - in particular how to avoid Dutch disease effects and reduce the volatility of aid flows, recipient countries' existing institutional capacity and an assessment of their needs in terms of capacity building.<sup>1</sup> In this context we welcome the Bank's further work on fiscal space scheduled for the Spring Meetings next year and would like to invite the Bank to elaborate on its ideas on institutional capacity as laid down in the Africa Action Plan.

Aid effectiveness and a rational use of national capacity require development partners to buy into national development strategies such as laid down in Poverty Reduction Strategy Papers. These should be developed through an open and participatory debate on proposed policies and program content with all stakeholders. The next generation of PRS's should clearly contribute to achieving the MDG's. National efforts should be complemented by supportive programs, including activities by the Bank.

In this context, we suggest that Bank and Fund to focus future annual reviews on specific aspects of the PRS process, while evaluating the process at large once every three to five years. Specific aspects should include progress made in the areas of scaling-up of aid, capacity building strategies within the PRS, reducing paperwork and streamlining procedures, and finally strengthening the quality of PRS growth strategies.

A well-formulated PRS includes alternative growth and aid scenarios. These scenarios should first and foremost be formulated to strengthen the quality of a PRS and of decision-making processes. They can also help open up political debate and broad support in society for up-scaling a PRS and MDG achievement.

#### *Complementarity: infrastructure and peace and security*

Especially in Africa, it is important that Bank, Fund, UN-agencies and bilateral donors come to a division of labor, based on comparative advantage. The Africa Action Plan rightly points out the importance of peace and security for development in this part of the world. Although the Bank can offer its financial expertise in this area as it currently does in Sudan, bilateral donors and the United Nations may have a comparative advantage when dealing with security related issues. The Peacebuilding Commission can play an important role in this process. We encourage the Bank and the Fund to support the Peacebuilding Commission with its brainpower. Similarly, when it comes to investing in infrastructure the World Bank should seek stronger cooperation

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<sup>1</sup> This is one of the reasons of why we think initiatives for the coordination of technical assistance at the country level, like AFRITACs and ACBF, are important.

with the AfDB and the EU who are major players in this field. The same goes for areas such as agriculture and regional integration. Initiatives coming from the continent itself, for example via the AU, NEPAD and the APF should particularly be encouraged.

My constituency welcomes the Bank's renewed attention for infrastructure as a driving force for economic growth, poverty alleviation and meeting the MDGs. A well-functioning infrastructure does not only create favorable conditions for private sector development, but is also crucial for effective public service delivery in the social sectors and a pre-condition for developing countries' participation in world trade. The Netherlands welcomes the use of country systems for infrastructure programs as long as they are at least equivalent to current Bank safeguards. I would further welcome the Bank to work on the impact of infrastructure investments on poverty alleviation.

#### *Doha Development Round and Aid for Trade*

My constituency supports an active role by the Bank and the Fund within their areas of expertise and mandate when it comes to trade. Opening markets in agriculture and non-agricultural products and tackling trade-distorting subsidies in agriculture is vital to create opportunities for growth, poverty reduction and achieving the MDGs. My constituency recognizes that not all developing countries stand to gain from a successful Doha Development Round if they are not properly equipped to participate in world trade. If the international community wants the Doha Development Round to succeed, it should now come up with commitments for strengthening the trade capacity of such countries. Bank and Fund should stand ready to assist countries facing adjustment problems. At the same time developing countries should, with the assistance of the World Bank, make progress on mainstreaming trade into their poverty reduction strategies, which donors subsequently can support.

#### *Voice*

My constituency would like to reiterate once again the advantages of mixed constituencies such as ours in making the voice of developing countries heard and our support for updating the amount of basic votes.

#### *The way ahead*

We would like to call on all countries, donors and recipients, to take the partnership for development that was reconfirmed in New York seriously.