



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-FOURTH MEETING
SINGAPORE – SEPTEMBER 18, 2006**

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Statement by

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The Netherlands

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

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1. On behalf of my constituency, I would like to thank the Singaporean authorities for graciously hosting this year's World Bank-IMF Annual Meetings. We feel that Singapore is a good illustration of how rapid economic growth and poverty reduction can go hand in hand. These are the real topics of our discussions here.

The Bank's role in middle-income countries

2. My constituency supports a strong and at the same time relevant presence of the World Bank Group in IBRD partner countries. In order to maintain such a presence in the current changing circumstances, including increased net private capital flows to middle-income countries and a strong demand from these countries for more tailored support, we think that the Bank's role should be modernised. Although the Bank's mandate remains directed towards poverty reduction and the creation of the required preconditions for development, it should focus its activities on achieving value added, both compared to the market and compared to other IFIs. Added value has several dimensions, such as the provision of financial support in cases of insufficient capital market access, improving the quality of projects, programmes and policies, inter alia in terms of poverty reduction and catalysing private investment. The Bank should assess the relevance of these different added values consistently when deciding whether or not to pursue a certain activity.

3. Added value changes as countries develop. In IBRD partner countries with little access to the capital market, a strong financial role is natural, in combination with policy advice and technical assistance. In countries with substantial and sustained capital market access, the Bank should focus more on non-financial activities and indirect financial instruments such as guarantees, and on co-financing in order to catalyse private capital. Ultimately, the Bank should focus on helping MICs achieve the necessary conditions to graduate and to be able to fight poverty on their own. Our constituency believes that the Bank's graduation policy should be a process and not an abrupt moment. The current graduation policy should be defined better.

4. MICs are heterogeneous in various dimensions such as income level, quality of institutions and access to capital markets. The Bank should take this diversity into account when dealing with MICs and Bank involvement should be tailored to specific country circumstances.

5. In order to prevent unnecessary duplication with other International Financial Institutions, a clearer division of labour is called for, based on the comparative advantages of each institution and on the characteristics of the sector at hand (level of demand, scale economies). Greater efforts need to be made in the field of harmonisation and alignment and in reducing the non-financial costs of doing business with the World Bank Group. We therefore call upon all

signatories of the Paris Declaration, including the Bank, to do their utmost to meet the targets which were agreed upon a year ago.

6. A modernised role of the World Bank in IBRD partner countries also requires the strengthening of the Bank's governance and that of other IFIs. My constituency encourages all shareholders to speak with consistent and coherent voices in the different IFIs and we would strongly recommend that the Bank and the Board of Executive Directors use the concept of value added when discussing projects and programmes.

Governance and anti-corruption

7. My constituency fully supports strengthening the Bank's strategy on governance and fighting corruption. Governance and anti-corruption should be addressed from a development perspective and within the Bank's mandate. Fighting corruption can only be effective when it is part of a wider governance and development strategy. Recent proposals on governance, sanctions reform and the Voluntary Disclosure Program should be part of this strategy. The principal objective of the Bank's governance work should be to help build capable, accountable and responsive states that deliver services to the poor, promote private sector led growth and tackle corruption effectively and firmly.

8. We welcome the strengthening of the Bank's country teams in the governance area so as to find country-specific solutions. These teams can also help with the provision of technical assistance to the local authorities. The Bank should strengthen the institutional capacity that is required for gathering evidence of corruption and guaranteeing due process of law. Initially, this may entail engaging international anti-corruption and forensic accounting firms, and then gradually developing local independent and professional oversight authorities.

9. The current strategy could give more attention to a number of issues that we feel are important, such as capacity building at both national and sector levels, transparency in public finance, democratisation and the participation of civil society, and application of the rule of law. In all areas, the Bank should cooperate with other IFIs, the UN, OECD, EU, NGOs, civil society, financial intermediaries and bilateral donors.

10. When trying to improve governance and fighting corruption, the Bank should balance a country's need of Bank assistance against the fiduciary risks it runs. This assessment should be made on the basis of clear, transparent and objective criteria, not on the basis of impressions. It should also lead to consistency of treatment among Bank clients. The Bank should take decisions to alter its assistance to a client country for reasons of fraud or corruption in a predictable way and in consultation with other multilateral and bilateral institutions involved. The Bank's methodology for assessing and measuring corruption should be made public so as to avoid the impression of arbitrary decisions or political interference.

Next steps under the clean energy and development investment framework

11. Within the investment framework for clean energy and development, my constituency favours a balance between access to modern energy services for the poor and the promotion of a low carbon economy. We would like to call on the Bank to use its convening power to convince both developed and developing countries to sign up to the Bank's proposals.

12. We feel that the World Bank should further develop the funding mechanisms for the provision of access to modern energy services for the poor in the framework. We support the framework's emphasis on Africa, through a special action plan for this continent and invite African governments to also incorporate access to modern energy services into their development strategies. Our constituency believes that all the poor of Sub-Saharan Africa should have access to modern energy services by off-grid electrification and modern cooking energy. Together, we should aim for a significant increase of investment in this area.

13. My constituency recognises the potential of the financial mechanisms that the framework proposes for the promotion of a low carbon economy and would welcome their further elaboration in terms of value added and effectiveness. At the same time, we feel that existing instruments should also be strengthened for the mobilisation of more resources. The Netherlands and the Bank will host the conference *Make Markets Work for Climate* (Amsterdam, 16 and 17 October 2006) to discuss the opportunities for these and similar instruments

14. We support the Bank's conclusion that, for the time being, there is no need for a new set of instruments to deal with adaptation, but we do think that a debate on the funding of adaptation and the mobilisation of current instruments is urgently needed.

Education for All and the Fast Track Initiative

15. Predictable long-term funding as well as high-quality education programmes are required to meet the education MDGs by 2015. This is why we would like to call on all donors to convert their promises into cash and transfer their decision-making from headquarters to the field level, so as to accelerate implementation of the Fast Track Initiative. To this end, the Netherlands recently increased its 2006 allocation by €100 million to a total of €150 million and is committing €150 million annually to the Fast Track Initiative for the next several years. We call on other development partners to formulate similar commitments. Recognising the urgent need to provide predictable and longer-term finance, our Constituency is working with other Fast Track Initiative partners to create a more appropriate financing mechanism within Fast Track Initiative, which will hopefully be operational by early 2007.

16. In return, recipient countries will have to continue to improve their medium-term expenditure frameworks and link them to good long-term development strategies. We are very pleased to see that a number of countries are on track in terms of enrolment rates, but we should not forget that enrolment rates as such do not reflect the quality of the education provided.

Rationalising funding for the health sector

17. The need for long-term funding and high-quality programmes is not confined to education. In too many countries the health sector has lacked focus and financing, and approaches have at times been fragmented and duplicative. We appreciate the World Bank's leadership in highlighting these crucial issues and its initiative for *scaling up for better health*: improving ways of working starts at home. Over the last few years, the Bank's lending and grants have increasingly focused on disease-specific interventions at the expense of support to building health systems capacity and demand-led approaches at the country level. We are pleased to see

that the Bank's new Health Nutrition and Population strategy suggests this be corrected, and that the Bank focus on its core mandate of building systems capacity. We would also appreciate further work by the World Bank, and other multilateral agencies with a mandate in health-related issues to define comparative advantages, and clarify roles, responsibilities and working relations.

The Debt Sustainability Framework and the free riding issue

18. Last year, the Multilateral Debt Relief Initiative was one of the main topics at the Annual Meetings. Its focus is to solve the debt problems that still plague HIPC and to provide extra resources to achieve the MDGs. More than ever, we now have to look forward and try to avoid the build up of new, unsustainable debts. Our constituency believes more attention should be given to build up debt management capacity in the countries to enable the countries themselves to take responsibility for maintaining a sustainable debt level.

19. The Debt Sustainability Framework (DSF) developed by the IMF and World Bank, should be one of the main elements in solving these debt problems. Its success, however, depends on the involvement of all parties concerned, not only multilateral lenders, but also bilateral lenders, export credit agencies, the private sector and, last but not least, the recipient countries themselves. In relation to this, free riding should be prevented, which means that both recipient countries and creditors must accept their responsibilities. My constituency supports a further discussion on the issues of maintaining debt sustainability and preventing free riding during the Mid-Term Review of IDA 14 in November. That discussion should not be an abstract one, but should lead to concrete proposals and recommendations on ways to operationalise the forward-looking aspects of the Debt Sustainability Framework, apply the Framework more broadly and consistently and, by doing this, help to prevent free riding. All actors urgently need to make a concerted international effort to break through the vicious circle in which countries borrow, acquire unsustainable debts, receive debt cancellation, borrow again, etc.

IDA's future

20. Over the last few years, IDA grants have grown substantially. In order to maintain IDA's role of helping the poor in the future IDA should be fully compensated by donors to finance the provision of these grants. Financial compensation by donors is also needed in relation to the Multilateral Debt Relief Initiative. In April, the Bank expected that even with full donor compensation by donors for forgone reflows, IDA's liquidity is expected to plunge from the actual \$ 14 to 15 billion to just \$ 1 billion remaining available for commitment in IDA 15. Although it is of course positive that the two cumulative thresholds for effectiveness of the Multilateral Debt Relief Initiative are met now, these are still alarming numbers. IDA's commitment authority could be affected which could result in lower amounts of lending to poor countries.

Multilateral Debt Relief Initiative

21. We expect all donors to pay their agreed share for MDRI, HIPC and increase their contribution to IDA in the IDA 15 replenishment. Donors should be open and transparent on the question of their pledge, either to be seen as a regular contribution or as compensation. My

constituency is willing to take its responsibility in preparation of the Mid Term Review of IDA 14 and the IDA 15 replenishment, in order to retain a strong and financially viable IDA.

22. We have our work cut out. One year after the New York Summit, we cannot afford to slacken our efforts. We cannot fail the poor of this world, who expect us to fulfil our commitments on the MDGs by 2015, only nine years from now!