

WORLD BANK GROUP

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Statement by the Hon. **WOUTER BOS**,
Governor of the Bank for **THE NETHERLANDS**,
at the Joint Annual Discussion

**Statement by the Hon. Mr. Wouter Bos,
Governor of the World Bank for The Netherlands,
at the Joint Annual Discussion**

Mr. Chairman, fellow Governors, Ladies and Gentlemen,

I would like to discuss three issues. First, I will shortly reflect on the quota discussion. After that, I will address the turmoil that financial markets have recently experienced. Finally, I will outline my views on the World Bank strategy.

The debate on the distribution of quota and voting shares goes to the heart of the Fund. A proper governance structure is eminent to any organisation, and especially to a multilateral. This is why I am very pleased by the progress made this weekend.

As we have discussed this issue lengthily, I will not further delve into it or the Dutch position now and will turn to the other issues.

The past several months have been an eventful period for financial markets. The international financial markets were severely tested by spillover effects from the US subprime housing market. I do not want to delve into the origins as by now these are reasonably clear. What I feel is most striking is that no one had foreseen the contagion effects of the slump in the US housing market. The baseline scenarios of all major forecast institutions assumed that the problems would be confined to the US. Have we underestimated the likelihood of

contagion? Or has an unlikely risk manifested itself? These are the questions that we should be asking ourselves.

An important feature of the recent turbulence has been the lack of information. First of all, this raises the issue of transparency of complex products. Furthermore, questions arise on how these products are valued, monitored and treated within the framework of prudential regulation and supervision. Recent events also underscore the importance of better insight into the incentive structures faced by credit rating agencies, including possible conflicts of interest. In addition, excessive reliance on credit ratings by investors without carrying own risk assessments has to be dealt with.

Fortunately, the financial system has proven its resilience and central banks have prevented a vicious circle from developing. The latest projections of the Fund show that the turmoil will have a moderate impact on the real economy.

Then, the World Bank Strategy.

I very much welcome President Zoellick's vision as laid out in his 100 day speech. We support his idea of the World Bank as a "catalyst for market dynamism that seizes the opportunities of globalization, inclusively and sustainably".

We also broadly agree with the six themes he has identified.

Nevertheless, there is a risk that the goal of inclusive and sustainable globalization could overburden the Bank's agenda, where it tries to do "everything everywhere". The following criteria are crucial in determining what the Bank should do and where.

First and foremost, strategic priorities should be in line with the Bank's mandate, which is to reduce poverty and promote sustainable economic growth.

Second, we should keep in mind that the Bank is a financial and not a political institution, it should have a solid capital base, necessary to carry out its mandate.

And finally, the Bank should focus on areas where it has value-added and comparative advantage vis-à-vis the market and other partners.

Within this context, let me elaborate on the specific role of the Bank in middle and low-income countries.

In my eyes, it is essential that the Bank remains relevant to all its clients; middle-income as well as low-income countries. In order to remain relevant to MICs the Bank must respond to their wishes, for example by developing new and innovative products. The Bank should also adapt its engagement to the specific characteristics of each country. Some countries require financing; in others advice is the more appropriate instrument.

In low-income countries, the Bank should primarily focus on building a basis for sustainable development. It can thereby provide the "glue" in the international aid architecture. In the specific case of fragile states, the Bank should focus on strengthening institutional capacity. This should take place in close coordination with the UN and bilateral donors and in line with the ongoing policy dialogue with these countries. Only then the Bank will be able to effectively help countries coming out of conflict or seeking to avoid a possible breakdown of their economies.

Thank you.