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Statement by the Hon. **NOUT WELLINK**,
Governor of the Fund for **THE KINGDOM OF THE NETHERLANDS** —
NETHERLANDS,
at the Joint Annual Discussion

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Governor of the Fund for the Kingdom of the Netherlands — Netherlands,
at the Joint Annual Discussion**

Addressing this Joint Annual Meeting, I would like to focus on seven points. First, the challenges for the global economy. Second, Quotas and Voice. Third, surveillance and crisis prevention. Fourth, the role of IFIs in middle income countries. Fifth, the Bank's strategy in the field of energy. Sixth, access to financing. And finally, countering terrorist financing.

The challenges for the global economy

As regards the global economy, the outlook points to continued strong growth in most parts of the world, with the momentum of economic expansion expected to gradually shift from the US and emerging markets towards Japan and the euro area. This positive outlook gives us a unique opportunity for addressing some risks still present, three of which I would like to mention.

First, there still is the risk of a disorderly unwinding of global imbalances. In this regard, I would like to welcome the Fund's new initiative for multilateral consultations, the first of which is focused on global imbalances. This consultation should not lead to complacency and each actor should continue to take its own responsibility in helping to orderly unwind the global imbalances. In some countries policies should focus on increasing savings, while others should allow for more flexible and balanced exchange rates, yet others should strive for increasing growth.

Second, especially for emerging markets, the current environment of low interest rates, low risks spreads and high commodity prices creates an opportunity for building resilience. This should include improving the profile of public debt, strengthening the financial sector or establishing a fund to preserve windfall profits from currently high commodity prices.

Third, a more long-term risk is the cost of population aging, especially in industrial countries. Preparing for these costs requires a strengthening of fiscal balances and, in many countries, reforms in pensions and healthcare systems.

Quotas and Voice

With respect to quotas and voice I welcome and support the outcome of the discussions and want to wholeheartedly compliment Managing Director De Rato and the IMF Board for their excellent work. I believe a historical step has been taken here in Singapore.

I fully endorse the decision to give an ad hoc quota increase to China, Korea, Mexico and

Turkey. In addition, I am open to a discussion on the Fund's quota formula. Such a discussion should focus on a formula that reflects the Fund's mandate. I thus fully agree with the Resolution that a new formula should as a minimum capture the economic size of countries as well as their openness. The latter should be defined both in economic and financial terms. The IMF is basically about the relations between countries; variables catching that should figure importantly in a new formula.

Once agreement is reached on a new formula, it is natural to reflect this in actual quotas and I thus support a second round of ad hoc quota increases. I have, however, misgivings about the need to ex ante request certain countries to forgo part of a possible quota increase. This would weaken the legitimacy of any quota formula. In my view this prejudices an open discussion on a quota formula. Furthermore, I do agree that if general quota increases are deemed necessary because of liquidity considerations, we should use this opportunity to further realign quotas.

On the issue of voice, the Netherlands has persistently called for a meaningful increase in basic votes. I thus fully support the request to the Board to bring forward a proposal to at least double the basic votes and subsequently safeguard their relative share. I hope such a proposal will be brought to the Governors already at the Annual Meetings in 2007, in order to live up to our promises and strengthen the voice of low-income and transition countries.

Surveillance and Crisis prevention

Turning to surveillance and crisis prevention. Given the increased importance of surveillance it is essential to improve the Fund's surveillance framework. I thus support the objective of strengthening exchange rate surveillance and am open to the possible amendment of the 1977 Decision on Surveillance over Exchange Rate Policies. At the same time, strengthening surveillance may well be achieved through alternative routes. Indeed other important initiatives are underway. For example, the Fund should bring its coverage of financial sector and capital market developments at par with other core areas of expertise in surveillance. In addition, Article IV consultations should be streamlined, and multilateral surveillance should be better integrated within these consultations. Fund-advice in this context has the most impact if Article IV consultations are discussed in the Board. As part of an improved framework, a surveillance remit could be helpful in setting priorities. We should, however, be careful to prevent this from becoming a complex bureaucratic process.

Lately, the IMF Board has had discussions on developing a new liquidity instrument, in which we take a constructive stance. Such an instrument should be effective in preventing crises and at the same time minimize challenging issues such as stigmatization, the exit problem, moral hazard and compromising on the level of conditionality. An instrument with a relative short duration, as proposed by staff, could be helpful in overcoming some of these challenges, especially the exit problem.

The role of IFIs in middle-income countries

The World Bank is currently reviewing its role in middle-income countries. Over the last decade, net private capital flows to middle-income countries have increased strongly. Concurrently, IFI-lending to these countries has declined. This does not mean that the role of IFIs in fighting poverty and increasing macroeconomic stability in these countries has become less important. It does, however, mean that there is a need to adapt the role of IFIs to changing circumstances. An overarching objective for IFIs in this respect is to assure their value added, both compared to the market and compared to each other. When deciding on entering into a project, program or TA activity or not, IFIs should explicitly consider their value added. This can be found in financial support in countries that have limited access to capital markets, as well as in providing expertise and in catalyzing private investment in order to strengthen capital market access. As countries develop, IFIs should be less involved in direct financing and should focus more on non-financial activities and indirect financial instruments. Whenever possible, countries should turn to the private capital market to finance their development needs. In addition, to prevent unnecessary duplication among IFIs, a clearer division of labor between them is necessary. This should be based on IFIs' comparative advantages. Close cooperation and partnership among IFIs is essential to avoid competition on price, standards and safeguards.

The Bank's energy policy

I would like to devote some attention to the World Bank's energy policy. Within the investment framework for clean energy and development, we should strive for the right balance between access to modern energy services for the poor and the promotion of a low carbon emission economy. I 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.

Access to financial services

An important issue I would like to address is universal access to financial services. In this regard I welcome the efforts of the World Bank Group and the IMF in promoting micro credit through their financing and technical assistance programs and through inclusion in many *Financial Sector Assessment Programs*. Of the 16 FSAPs that have not been finalized in Africa, for instance, 11 covered micro credit. I hope this initiative will continue to widen in the future.

Countering Terrorist Financing

Last March the Netherlands organized a Conference on Countering Terrorist Financing. Representatives, of both the public and private sector, out of over 40 countries participated and underscored the need to step up efforts in the combat of terrorist financing. They agreed to strengthen co-operation between public and private sectors, by ensuring sufficient exchange of information. Another important topic was the assessment of low income countries' implementation of the recommendations of the Financial Action Task Force. This is currently being followed up in the FATF. We call upon IMF and WB to support the follow up action within the FATF. The Conference concluded that existing funds for technical assistance can be used more effectively. This could be achieved by means of customized technical support, including a needs assessment.