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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **CHRISTINE LAGARDE,**
Governor of the Fund and the Bank for **FRANCE,**
at the Joint Annual Discussion

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Mr. Chairman, Mrs and Messrs Governors, dear delegates,

In this uncertain period with regard to the macroeconomic and financial conditions, the role of the international institutions as cooperation fora, at the forefront of which the IMF and the World Bank, is more essential than ever. The IMF, under the leadership of Dominique Strauss-Kahn, has continued to apply its ambitious reform agenda that we fully support. The agreements found between Member States in the first half of this year on the reform of the IMF quotas and voting shares on the one hand, on the new income model on the other hand, were great achievements. A similar agreement has been reached at the World Bank and provides for enhanced legitimacy and effectiveness of the institution, consistently with its core mandate.

One year after the triggering of the financial turmoil, no one can contest that the most urgent obligation falling within the responsibilities of public authorities is to restore confidence in financial markets and more generally in the International Monetary System's resilience. In my opinion, the current international conditions make necessary that strong political guidance in the functioning of international institutions be ensured and that cooperation among international institutions and among national authorities be strengthened.

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1. Maintaining strong guidance for both the IMF and the WB with clear objectives and effective instruments is key

The IMF and World Bank have firmly improved the response to their members' changing needs and to tackle the new challenges posed to the global economy in the 21st century.

Among the first lessons that can already be drawn from the current financial crisis is that international stability is indeed a global public good. Therefore, decisive actions have to be quickly taken to coordinate the different responses convened to mitigate the current financial crisis and prevent future crises to arise. The IMF, with its universal membership, should play its entire role over these issues, and contribute to set up a comprehensive approach aiming at strengthening our international financial system.

Strengthening surveillance should therefore be on top of objectives. In that respect, we welcome the strong focus held in the Triennial Surveillance Review and the Statement of Surveillance Priorities on better integrating financial sector and macroeconomic stability issues and strengthening the analysis of cross-country issues, which clarify IMF's objectives and are a necessary and timely first step in the adaptation and the reinforcement of the role of the IMF in terms of surveillance. Likewise, we look forward to the effective implementation of the 2007 Surveillance Decision over members' policies, while acknowledging the need to ensure even-handedness and the fact that the assessment of external stability should not be restricted to exchange rate developments.

Moreover, another priority should be to adapt IMF instruments to new types of crisis and evolving members' needs. We want to underline here that the global review of IMF lending toolkit must consider simultaneously the different axes as set out by the Managing Director. First, an extensive review of the analytical framework must be undertaken so as to address gaps and overlaps in the toolkit and IMF mandate. In this respect, we agree that the IMF lending framework should be streamlined. Second, we urge the IMF to consider as a priority to put in place a crisis prevention facility aimed at emerging economies, given the risk of the crisis spreading to emerging countries. Third, in order to preserve the crucial involvement of IMF in low-income countries, we welcome the modifications to the Exogenous Shock Facility towards more rapid access and streamlined conditionality. The revised ESF will provide in complement with the poverty reduction and growth facility a full set of adapted instruments to those vulnerable countries the IMF must assist as part of its mandate. Fourth and lastly, the charge and surcharge and access-level policy must be re-examined. As per access-level, we need to take into consideration the significant growth of many emerging economies.

As the World Bank has also increasingly been called on to respond to emergency situations, its policies and processes were developed to meet broader circumstances. The World Bank's new framework for rapid response to crises and emergencies that has been initiated in 2007 gave keys in particular to address engagements in fragile states. This move has been maintained by addressing with strong commitment the global food crisis, by continuing to implement a reformed HR policy providing greater incentives and protection to the staff working in fragile countries and by concluding a fiduciary principles agreement with the United Nations, but it could be enhanced further to improve flexibility, speed and effectiveness. Mitigating the impact of high food and oil prices leads to complement existing financial instruments. In particular, we encourage the World Bank to work on two issues: first the creation of rapid response facilities providing budget support to poor countries facing exogenous shocks complementarily to the reform of the Exogenous Shocks Facility as already considered by the IMF; second the implementation of innovative lending instruments to reduce countries vulnerability : in this respect, a new lending policy could take into account the borrowing space opened by HIPC and MDRI initiatives and study the possibility of implementing concessional counter-cyclical loans.

Moreover, the efficiency of our institutions and their capability to tackle new challenges have to rely on renewed governance, as far as legitimacy is a key issue to strengthen our policies and decisions. The actual outcome of the quota reform has contributed to the enhancement of the IMF governance and provides for a relevant starting point for the World Bank, which has to maintain momentum after the important agreement reached yesterday. The agreed package represents a significant step forward to further increase the legitimacy, credibility, and effectiveness of the World Bank. Although a more ambitious reform package for Sub-Saharan Africa would have been preferred by the French authorities, the additional chair for Sub-Saharan Africa is welcome and will enhance the voice of the poorest countries at the board ; in addition, their voting power will significantly increase both in the IBRD and the IDA; and the selection process for the President of the World Bank Group, genuinely merit-based, transparent and open to candidates irrespective of nationalities, is a welcome step.

2. **Cooperation among international institutions and national authorities is key for restoring confidence and ensuring the proper functioning of the international monetary and financial system.**

Appropriate cooperation and coordination is key in period of turmoil in a global system in order to restore confidence while avoiding overlapping.

The IMF contribution to financial stability is essential thanks to its universal membership, its global vision allowing in-depth analysis on the interlinkages between real and market developments and the combination of multilateral and bilateral perspectives.

The implementation of the Financial Stability Forum's recommendations should help solve many of the failures that the turmoil has revealed in risk management, the functioning of financial markets and the supervisory framework. At the EU level, authorities are committed to fully and swiftly implement the FSF recommendations.

While implementing those recommendations is urgent, there is also a need to further develop coordination between financial institutions, notably between the IMF and other international financial institutions such as the FSF, through joint initiatives and continuous information sharing. As we agreed in our IMFC session, the Fund shall focus discussion, and enhance cooperation, with a wide range of perspectives with the FSF, the G-20, and others on this issue in an inclusive setting. It will need to start this initiative immediately and to report to at the latest at our next meeting. Likewise, based on the close interrelations of national financial markets at the global level, the IMF, along with the G20, is a very good place for associating all countries in implementing the recommendations that were issued on the international scene and targeted primarily to the more advanced countries.

As for the World Bank, we plead for a strategic review of the Bank Group's operations that would highlight its comparative advantages, but also areas where other development institutions should lead the international community.

Eventually, relations and coordination between the IMF and the World Bank are to be strengthened, especially as regards the lending policies to middle-income countries. Stronger coordination is a key issue for insuring a global and consistent response to crisis. This issue calls for a clear vision regarding the respective roles of the IMF and the World Bank. We have to address the question of the limit of their respective actions and the complementarities of their operations.

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To conclude in a few words, the role of the IMF and the World Bank is more essential than ever for ensuring international macroeconomic and financial stability. At the same time, the current conditions further underline the need for continuing implementing their reform agenda. The cooperation between the IMF and the World Bank has always been a core issue for France. I wish it will be strengthened in order to enable both institutions to further develop their legitimacy and their effectiveness. It will allow them to play a central role in building a sounder financial system.