Statement by

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Speech by Thierry Breton, French Minister for the Economy, Finance and Industry, to the Development Committee

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This Development Committee meeting is one of the last gatherings in 2005 devoted to development, along with next December's meeting in Hong Kong. In my view, the outcomes to date have been very positive. The international community has made very significant strides to increase its official development assistance. The European Union, in particular, has announced that it would devote 0.56% of its GNI to aid as of 2010, thus providing 70% of the projected additional effort. We launched an international finance facility for immunisation in London on September 9th. The cancellation of multilateral debt for the 38 heavily indebted poor countries will release resources for development amounting to $55 billion. On September 14th, 67 countries pledged their support to an ambitious declaration on the international solidarity levy. France and Chile have already announced that they will introduce this instrument in 2006.

These undertakings are tantamount to increased aid. They show that we have understood the terrible consequences of extreme poverty. The populations of the rich countries are ready to make an additional solidarity effort. This was already suggested by the manifestations of generosity following the tsunami that devastated Southern Asia. However, this solidarity has not been definitely secured, the financial effort involved is sustainable only if donors and recipients can show proof of the resources bearing fruit.

The recipient countries are the first to be aware of the importance of the quality of aid. During the 1990s the ODA, as a percentage of GDP, declined by half, at the time when the end of the Cold War set a term to some hidden geo-political motivation. The only way to maintain the IDA effort over the long term – and it is indeed a long-term effort that is required – is to show that it produces satisfactory social returns.

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The World Bank and the IMF joint report on Aid Financing and Aid Effectiveness outlines their strategy for aid to be effective and hence sustainable. As emphasized in this joint report, the international solidarity contribution levied on airline tickets not only provides for additional financial resources, but also ensures an effective, stable and predictable budgetary support. In fact, the implementation of this innovative source of financing would fully comply with the Objectives 7, 8 and 9 of the Paris declaration regarding predictability, untying and budgetary financing. This new levy is directly inspired by the principles we set on March 1st, 2005 in Paris.

This move towards greater predictability and harmonisation is necessary for the most innovative forms of aid as well as for traditional aid. In so doing, the French government pursued the reform launched last year to modernise its bilateral aid instruments aimed at making them more predictable, effective and transparent. In addition, we shall observe the objectives set out in the Paris declaration which we upheld at the New York Summit on September 14th.

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The resources provided by the international solidarity levy will be predictable and stable. Neither a new bureaucracy nor a new conditionality will result from its collection and allocation. Debt cancellation also contributes to reinforcing aid predictability. The resources that are no longer needed for debt service are thus freed up to be allocated according to country-owned priorities to fund poverty-related expenditures. The link between the PRSPs and the Heavily Indebted Poor Countries Initiative was at the core of the success of bilateral debt cancellations. The cancellation of multilateral debt proposed by the G8 further enhances the interest of the HIPC arrangements. We must nevertheless ensure that this decision does not impair the financial viability of the International Financial Institutions and their long-term involvement in the poor countries.

I have in mind, in particular, the capacity of the World Bank and the International Monetary Fund to intervene in Africa. The heavily indebted poor countries in Africa must be the primary beneficiaries of the initiative on multilateral debt cancellation. I note, however, that the reallocation mechanism we have agreed on might also have an adverse effect. The gross resources allocated to countries benefiting from the initiative will decline significantly. Therefore, if the multilateral debt cancellation is not fully additional, the upcoming increase in some countries’ debt service to the International Development Association could limit the World Bank operations in these countries. It could result in the Bank channeling its entire assistance in the form of debt cancellation. This would deprive some countries of new money and also of the Bank’s unique technical expertise.

It would be paradoxical, just when an Action Plan for Africa is approved, to find ourselves organising the withdrawal of IDA from this continent. This is why I am strongly attached to the principle of additionality of multilateral debt cancellation. France will be vigilant that the implementation of the initiative will abide by this principle.

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The lesson I draw from the Review of World Bank Conditionality is in fact the need to avoid unnecessary disruption in the operating framework of the International Financial Institutions. Following an intense reflection on ownership and design last year, the World Bank modified the conditions set for the use of its instrument to support institutional reform in poor countries. Time will be needed for this reform to bear fruit and to be assimilated by recipients and donors. The best practices set out in this review must contribute to the success of operational policies, and not delay their implementation. In our view, the choice of continuity made by the authors of the review is the right one.

Similarly, the decision to focus this exercise on development policy lending appears to be wise. The present framework for project lending is satisfactory, as evidenced by the increase in the volume of lending for infrastructure. The progress report on the implementation of the Bank’s action plan is also encouraging. The setting of a clear target for the Bank’s re-engagement in the infrastructure sector (40% of the portfolio) usefully complements this action plan. As in the case of official development assistance, the quantitative objective has to be accompanied by a qualitative commitment.

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In order to safeguard the quality of infrastructure projects, these have to be incorporated, like the rest of our aid, in the Poverty Reduction Strategy Papers (PRSPs). The 2005 review of the
Poverty Reduction Strategy Paper Approach shows that they are, and deserve to remain, the reference framework for intervention in the poor countries. France will naturally align its own partnership framework documents within the countries’ PRSPs.

Unfortunately, there exist tendencies to disperse official development assistance. The development of vertical thematic funds should not hinder the co-ordination of development efforts on the part of the international community. No doubt these vertical funds give greater visibility to efforts made by the international community, and facilitate donors’ resource mobilisation. However, these two advantages have to be reconciled with the need for consistency in development strategies and aid effectiveness. I would like to stress here that the resources provided by the international solidarity levy, as well as the IFFIm, will help to fund policies that are manifestly under-financed and are among the priorities for the recipient countries.

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Aid alone, no matter how effective, will not ensure the development of the poor countries. France therefore agrees with the priority attached by the World Bank to a swift conclusion of the Doha Round. We have to place the concerns of the poorest countries, notably in Africa, at the forefront of the objectives of this round. France is working in this direction in order to ensure the success of the WTO conference in Hong Kong.

We should not be deluded, trade liberalisation is not a panacea for the poorest countries. There is a risk that its impact on many low-income countries, notably in sub-Saharan Africa, will be very limited, possibly even negative. This is why the European Union in its "Everything but Arms" initiative is already offering quota- and duty-free access to all exports from the Least-Developed Countries. In 2002, 35.7% of the LDCs’ exports were absorbed by the European Union, the world’s largest importer of their products.

This arrangement could usefully be taken up by all developed countries and even by the emerging countries, since for the LDCs South-South trade is a decisive factor of integration into the world economy. In addition, the developed countries must engage themselves in simplifying and unifying their preferential rules of origin, as there are currently too many regimes in existence.

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The international community has steadily assembled a wide range of operating frameworks, notably Poverty Reduction Strategy Papers, the Paris declaration, results-based management. The recipient countries have been closely associated with these approaches, although the question of the participation of the developing countries in the decision-making of the international financial institutions remains yet to be answered and settled. We are now much more aware of how to help poor countries in an effective and legitimate way. In terms of aid volume, the year 2005 has made it possible to follow up on the commitments made at Monterrey by setting new objectives and has paved the way for concrete initiatives that allow for an enhanced financial mobilization.

We therefore have our roadmap for the period to 2015. This is not a time to change direction, to take new turnings or turn back. What we now need to do is follow the path we have collectively traced out for ourselves.