Statement by

Ms. Christine Lagarde
Minister of the Economy, Industry and Employment
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This year’s Spring Meetings of the World Bank and the IMF are taking place at a critical juncture in the international response to the severe crisis affecting the global economy. The London Summit of the G-20 Heads of State and Government gave the Bretton Woods institutions a pivotal role in the global response to the challenges posed by this crisis, by agreeing to an unprecedented boost in IMF resources and calling on the World Bank to mobilize all of its resources. This agreement will enhance the ability of both institutions to effectively contain the global recession and prevent a reversal of the gains made in recent years in the area of poverty reduction, especially in Sub-Saharan Africa.

The new emerging international financial architecture also seeks to protect the most vulnerable populations suffering from this crisis. This requirement led the G-20 to give priority to development support and poverty reduction and forces all donors to face up to their responsibilities (1); In a context where they are urged to deploy all their resources, financial institutions must lead by example with respect to coordination and uncooperative jurisdictions (2); The crisis also requires that particular attention be paid to the issue of addressing indebtedness (3); and aid-for-trade (4); The World Bank must be at the very heart of this process by completing a far-reaching reform of its governance and its business model in order to sustain its capacity to intervene in crisis situations and address long-term development needs (5).

1. The current crisis reminds us of our responsibilities with respect to the challenge of poverty reduction and achievement of the Millennium Development Goals. Against this backdrop of turmoil, international solidarity is an intangible necessity. For this reason, France is reaffirming its official development assistance commitments, with a view to allocate to this effort 0.7 percent of its gross domestic product by 2015. Specifically, our goal—disclosed just over a year ago in a speech delivered by the French President in Cape Town—of doubling our commitments to Africa will bring our total commitments to the continent to EUR 10 billion over a five-year period.

At the same time, we encourage the World Bank to continue to accord the highest priority to poverty reduction, and thus deploy, first and foremost, its interventions for the benefit of the poorest. With President Zoellick at the helm, the World Bank, in 2008, demonstrated its remarkable capacity to respond to successive crises. We commend the staff for their dedication and urge them to marshal all of the World Bank’s resources to at least triple its commitments over the next three years. France will mobilize its bilateral cooperation tools to support these efforts. Proparco, a subsidiary of Agence française de développement for private sector financing, has pledged up to EUR 1 billion in cofinancing under the IFC’s Infrastructure Crisis Facility.

2. In a context where optimal use of public resources is imperative, international financial institutions must lead by example. Exemplarity, first in terms of coordination among themselves i.e. the coordination of their mandates and respective comparative advantages. The IMF must therefore play a key role in restoring financial stability and macroeconomic balances. Multilateral banks, for their part, have a legitimate primacy in long-term development and support to public services essential to poverty alleviation efforts, in particular social safety nets.
Exemplary behavior in terms of strengthening the financial system and taking actions against non-cooperative jurisdictions is then required. Indeed, pursuant to the recommendations adopted at the London G-20 summit on April 2, 2009, and without affecting the development projects that must be maintained to continue supporting the poorest populations, the World Bank and the other financial institutions must send a clear signal denouncing nontransparent financial optimization. We must, without delay, work together to explore ways to incorporate this essential approach into the new equilibria of the international financial system.

3. With respect to indebtedness of low-income countries, the unprecedented nature of the current crisis calls for a two-pronged message. First, a message of prudence. The current crisis, as has already been stated, requires urgent and major actions. This sense of urgency must not lead to losing sight of the long-term implications of our actions. We must do our utmost to avoid a new cycle of unsustainable borrowing in the poor countries, which would endanger the results of the debt-forgiveness efforts made over the last two decades. France believes in the need to coordinate and monitor new borrowing conditions of the most vulnerable countries. It supports the central role played by the IMF and the World Bank in promoting this coordination through, in particular, the Debt Sustainability Framework (DSF), which establishes the conditions for responsible financing of development in low-income countries.

However, and this is the second message, the unprecedented scope of the crisis and the need to mobilize significant resources must prompt examination of the flexibility of the DSF, in line with G-20 guidelines. This flexibility should combine two factors: first, the benefit of strengthening the use of the DSF, which has now been embraced by donors and beneficiary countries alike, as a benchmark for providing new financing and, second, the need to pay greater attention to the development impact of the financing under consideration.

Steps should be taken to ensure that the use of the DSF does not generate procyclical effects, given that the role of donors is precisely to offset the effects of this crisis on financing for the most vulnerable countries. Moreover, the development of countercyclical concessional lending instruments particularly tailored to countries that are especially vulnerable to exogenous shocks—in general, poor countries—should be encouraged.

4. Aid-for-trade has become central to economic development. Trade is a powerful engine of growth that will help vulnerable countries lift themselves out of poverty. The Bretton Woods institutions have an important role to play to ensure that open trade will benefit the poorest countries. We support the World Bank’s approach in making its trade assistance to developing countries encompass not only aid-for-trade, but also private sector support and trade finance in the form of guarantees and liquidity. In the current context, developing trade is vital, now more than ever, in order to check the temptation to fall back on protectionism. France’s aid-for-trade accounts for a major portion of its bilateral official development assistance, fueled by an ambitious effort to support the private sector, particularly in Africa. France will also contribute US$200 million to IFC’s trade finance initiatives, as part of the World Bank’s crisis response.

5. Lastly, the crisis has underscored the need for international governance reform. The response of the World Bank should be commensurate with the new challenges faced. In 2008, we jointly agreed to lay the foundation, at both the IMF and the World Bank, for the most ambitious reform since the founding of these institutions, with very significant gains accruing to the poorest countries. To maintain this momentum at the World Bank, strengthening the voice of developing countries, something for which we fervently hope, must be based on changes in the relative weight of the various countries in the global economy, as reflected by IMF’s actual quotas. We would also like this reform to take into account contributions made to the Group in particular to IDA, as stated in the last Development
Committee’s communiqué, which calls for adopting criteria consistent with the World Bank’s development mandate. Indeed, being a shareholder of the World Bank also implies having a responsibility to the institution. Moreover, we will pay close attention that the voice of the most vulnerable countries is better heard at the World Bank. This entails not only increased voting rights for these countries, but also their subscribing the shares to which they are entitled, particularly in IDA. In this regard, France stands ready to financially support countries that make an effort to subscribe their IDA shares, by depositing up to EUR 1 million in a trust fund established for this purpose.

If governance reform is to be far-reaching in both form and substance, we would like to see the rapid implementation of the decisions of October 2008 related to Voice, in particular the establishment of the third seat for Africa at the Board, and we appeal for an acceleration of the second phase of reform, as proposed by the G-20, to be completed by the 2010 Spring Meetings.

Beyond changes in ownership, the new governance framework should be founded upon a sustainable financial position, so that the World Bank can fully discharge the obligations associated with its poverty reduction mandate. The Group has substantial resources at its disposal to assist its members, resources that are far from being depleted. Consequently, the discussion of IBRD and IFC capital increases is premature. It should not serve as a distraction from making full use of current capital and from conducting a review of how to make optimal use of the World Bank’s budget and instruments. Given the financial crisis, which also puts a strain on its own financial model, the World Bank must strike a balance between two imperatives that are not mutually exclusive, but rather are mutually reinforcing: making maximum use of its resources with the dual objectives of fighting the crisis and ensuring long-term development, and maintaining a sustainable financial position that guarantees the ability to respond to potential future crises.