Statement by Mr. Dominique Strauss-Kahn
French Minister of the Economy, Finance and Industry
After two years marked by the financial crisis, improvement in the general situation now allows us to redouble our focus on the most pressing problems of the poorest countries.

The Cologne initiative on the debt of the poorest countries represents a major step forward, and France is proud to be the leading contributor in the world to financing the debt of the poorest countries: between 1990 and 1997 our aid for the development of the beneficiary countries reached nearly $20 billion, while France’s contribution to the initiative itself is over $5 billion, over and above Paris Club cancellations.

Overall the involvement of the IFI’s, notably the World Bank, in these countries must continue to be effective and realistic.

I. **WE MUST RAPIDLY DEAL WITH THE PROBLEMS OF HIGHLY INDEBTED POOR COUNTRIES**

The burden of debt in the poorest countries in and of itself constitutes a major obstacle to their development. When a country’s debt service is greater than its education or health budgets, it is simply impossible to envisage steady development progress. France has always fought the debt battle.

**a/ It will now be indispensable to go much farther to free the poorest countries from debt overhang**

According to the terms proposed by France with its G7 partners at the Cologne Summit, the debt sustainability of 41 countries will be reviewed. Most of these countries should benefit from debt relief, the total of which will equal about $62 billion euros within the enhanced HIPC initiative. This is an ambitious challenge which we must take up.

We must be watchful that this goal is achieved in full accordance with three fundamental principles which France has put forward from the outset:

- **solidarity** which should lead us to concede the most favorable possible treatment to the poorest countries

- **equity**, which is the basis of fair burden-sharing between all bilateral and multilateral creditors.
- **responsibility**, which justifies that these exceptional measures support the social sectors of countries with irreproachable public management.

**b/ This new impetus must be equitably financed.**

France has not stalled, waiting for others to pay in our place. France is definitively in the front ranks of funding the initiative. We are waiting for other developed countries to commit to a comparable effort.

Countries like France which make large bilateral efforts have a right to expect equal effort from the multilateral institutions and their shareholders. The credibility of our multilateral system depends on **equitable burden sharing**. It is indispensable that the **richest countries and those who don’t have to implement major bilateral debt cancellations take the prime responsibility for bridging the financing gap.**

Moreover, before defining the extent of supplemental contributions, we must examine all the internal financing opportunities open to the concerned institutions. Thus, we could set aside donors’ additional contributions to Banks which have insurmountable financing problems, such as the African Development Bank. For this reason, the IMF and the World Bank must mobilize a maximum of internal resources.

I warmly thank Michel Camdessus and James Wolfensohn for the efforts they have made to come to a solution. I know that it was not without sacrifice. It will allow us to take advantage of a global solution, which directs additional resources to the institutions whose situation is critical.

**c) Dealing with debt must lead to an effective fight against poverty.**

Debt cancellation should provide poor countries new breathing room in their quest for development. This dose of oxygen should, by priority, be targeted at the most vulnerable populations and should allow eligible countries to establish basic public services: education for all, access to health care, and the provision of basic infrastructure. For this, it will be up to the developing country governments to adopt economically and socially coherent development policies. The IFI’s and donors must accompany their efforts in a context of mutual confidence.

Budget transparency, regulator independence, parliamentary and civil society participation in defining priorities for public expenditure, and the quality of relations between countries and the donor community will best assure that the funds freed through debt cancellation will be used effectively in the fight against poverty.

We must resist every temptation to capture the funds freed in an off-budget structure aimed more at show than effectiveness. To my mind, going off-budget is in contradiction
with the principle of primary government responsibility, which is one of the cornerstones of the debt initiative.

d) **Our consistent action in support of development must also go forward**

France has unceasingly affirmed that in view of the constant reduction in public aid flows, simply dealing with debt and private investment flows in a few emerging countries will not alone suffice to resolve the problems of development.

Maintaining sufficient flows of public aid is vital. The concessional loan funds at the multilateral Banks must in fact receive the resources committed during the recent replenishments. IDA and the African Development Fund are key pillars in the development finance of poor countries.

At the moment when the WTO is opening a new cycle of commercial negotiations, it behooves each of our governments to reflect on how they will affect development in poor countries. As you know, France and Europe have long ago incorporated this dimension into their relations with the developing countries, notably through the Lomé convention.

The new cycle of negotiations should be an opportunity for us to reaffirm the importance of developing country access to developed countries’ markets. For economies this fragile, the offer of temporary protection is indispensable.

Regional integration is also a necessary step. What is true for Europe is all the more so for the developing world: integration is a source of political stability, of convergence, and of peer pressure between governments. Integration gives regional economies critical mass in the global one. It’s not a question of creating new regional fortresses, but of facilitating global integration. The experience of the CFA Franc Zone contains a wealth of information: I hope it will serve other regions of the world.

II – **The International Financial Institutions must increase their Development Effectiveness**

a) **Globalization must serve development**

France has chosen a market economy, but refuses a market society. Globalization must become a generator of growth, not the cause for increasing inequalities.

We must respond to instabilities of all kinds with strengthened surveillance, concerted action and renewed regulations.

While I do not support excessive regulation, which is a source of administrative rigidity, I do believe that building up a set of international rules is essential to adequately confront the global issues at stake: the UN conventions on the environment, the social
principles defined in Copenhagen, the work on international financial stability, the arrangements made by the international financial community to fight corruption or to gain oversight over off-shore centers --all are indispensable measures to be taken.

I expect our financial institutions, especially the World Bank, to actively participate in these deliberations, within the limits of their mandates.

b) **To make real development progress, we need effective Banks, whose activities are grounded in local reality.**

International regulations cannot, in and of themselves, change the course of events. They must be anchored in everyday reality. Our system and our institutions will be judged on their capacity to achieve concrete results.

The international community needs multilateral Banks to be present on the ground and effective in helping developing countries to integrate global preoccupations into their development.

**We have reason to be satisfied with certain of the results achieved.** Let me cite two very different examples.

The innovations of the Global Environment Fund, whose creation was proposed exactly 10 years ago by my predecessor Pierre Bérégovoy, has resulted in the progressive incorporation of environmental protection into development finance. Of course, there is still a long road ahead, and as the negotiations evolve they are pushing their boundaries toward mastery of greenhouse gas emissions, but the GEF has allowed us to profoundly change mindsets.

On a wider scale, after a difficult beginning, the international community has been able to take effective action on the Asian crisis. Our institutions must continue to assist these countries to implement long-term reforms.

**There are also numerous cases where our action is insufficient or ineffective.**

Our institutions are not always able to escape two traps: **abstraction and dispersion.** Abstraction, because global problems require an initial intellectual effort to define a general course of action; but, too often, they then fall in the trap of staying at that stage, unable to adapt specific solutions responding to real need on the ground. Dispersion, because there is a strong temptation to create a new and independent course of action for every new subject.

Multilateral Banks must be the mechanism through which the international community links global phenomena with local reality in the developing countries.
c) To confront the issues at stake, the World Bank Group has an essential role to play. It already has the financial means for this end.

To confront the global issues at stake, it is even more important to select priority work areas, at the risk of dealing with nothing well while touching on everything a little bit.

I expect the World Bank to concentrate its action in each country on the areas where it can bring real value-added to development and to the fight against poverty. The Bank must make this effort in partnership with the regional development banks and the appropriate actors. In a period of scarce resources, we must be careful to work for greater complementarity among all actors.

I note with interest that the World Bank Group intends to renew its approach to private sector development. This is an essential move. But, we must use market instruments, such as bond guarantees, with the greatest prudence, and work out a clear policy for the IFC vis à vis off-shore centers, along the lines on the proposals I have just presented.

I trust that President Wolfensohn will successfully create a more effective and rationally organized Bank, prepared for its role in the fight against poverty. Its budgetary and resource margins have been identified and are sufficient to achieve the desired goals.