



DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)



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Statement by
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The year 2008 marks the midpoint point to the Millennium Development Goals (MDGs) deadline and urges us to scale up our efforts to support the development of poor countries. It also marks the start of a new cycle of negotiations on the United Nations Framework Convention on Climate Change which has been launched a few months ago in Bali and has clearly shown the links between the challenges of development and the climate change agenda.

The World Bank, as a key instrument of the international community for development assistance and financing, must make its contribution to this agenda. The Bank should set the example for stepping up our efforts to achieve the MDGs, especially in Sub-Saharan Africa, where the delays incurred give us cause for concern. The Bank should also mainstream climate change issues in the development strategies that it builds with its clients.

The Bank also needs to make more rapid progress on internal reform, as part of the strategic review initiated by the President at the latest annual meetings. In addition to its efforts to define a comprehensive and coherent strategic framework, the Bank should address two other priorities: the reform of its governance and the management of its capital.

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As the *Global Monitoring Report* drafted by the World Bank and the IMF stresses, significant progress has been made on achieving the MDGs. The first MDG, which is to halve the number of people living in extreme poverty, is on its way to being achieved at the global level. The proportion of the world population living on less than one dollar a day is projected to fall from 29% in 1990 to 12% in 2015. This is a very important result that we should be proud of and it encourages us to continue our efforts.

However, the situation is uneven, not only in terms of the MDGs, but especially from a geographic standpoint. Africa lags far behind other regions and is the only continent where none of the MDGs can be achieved if the current pace of development holds steady. **The specific situation of the African continent calls for greater mobilisation by the international community and the Bank in particular.**

The outcome of the negotiations on the replenishment of the International Development Association, which were concluded last December, sends a positive signal in this respect. IDA's resources have been increased by 30% compared to the previous replenishment, primarily through the mobilisation of donors, who increased their collective contributions by more than 40%, but also because of the World Bank Group's contribution. IDA's total commitment capacity over the next three years will stand at USD 41 billion, at a time when our mobilisation can make a real difference. Most importantly, Africa's share of these resources should grow, in line with France's wishes, rising from 49% under IDA14 to 52%, or even 54%, under IDA15. In grant terms, including debt cancellation and financing for arrears clearance, Africa's share could even rise to nearly 60%.

The international community's mobilisation for Africa can also be seen in the replenishment of the African Development Fund (ADF), which was completed at the same time. ADF's resources were increased by 52%, which was much larger than the increase in IDA resources, and the African Development Fund is now larger than the Asian Development Fund for the first time, with a commitment capacity of more than USD 8.5 billion.

But this priority on Africa should not be limited to IDA. It should be extended to the entire World Bank Group and, more especially, to the International Finance Corporation (IFC), since private sector development provides the necessary foundation for sustainable growth. As a matter of fact, the IFC has already significantly enhanced its presence in Africa in recent years. Its commitments rose from USD 140 million in 2003 to USD 1.4 billion in 2007, and should stand at USD 1 billion this year. Furthermore these investments have become more diversified, as can be seen in recent infrastructure investments and the plan for a health-care sector investment fund, which is to be endowed with USD 100 million. Of course this movement needs to be sustained – by paying closer attention to the additionality of its operations and the geographical diversification of its portfolio (especially in French-speaking Africa where only 11% of 2007 commitments to Africa were directed) – but the global trend is encouraging. The creation of a new vice presidency for Sub-Saharan Africa which will come into effect at July 1st 2008 is also a positive signal.

France is strongly committed to supporting development of Africa's private sector. It has long played an active role in this area through professional associations, its contribution to the European Development Fund, or, more specifically, the action of the Agence Française de Développement (AFD) and Proparco, its subsidiary dedicated to private sector financing.

President Nicolas Sarkozy gave fresh impetus to this commitment by announcing the Initiative to Support Africa's Growth during his visit to South Africa last February. This Initiative, based on an initial capital endowment of €800 million, will take three types of action: increasing Proparco's capital and, thereby, its risk-bearing capacity, with a target of €2 billion in commitments in five years; launching an investment fund (fund of funds) with an initial endowment of €250 million, which should act as a catalyst for raising €1 billion in venture capital for Africa; and establishing a guarantee fund with an endowment of €250 million to support financial intermediaries, especially micro-finance institutions so that they can make financing available to small entrepreneurs. All in all, France will commit €2.5 billion for the development of the African private sector through this Initiative.

By seeking to achieve maximum leverage through its operations, this Initiative should benefit some 2,000 African businesses. It is testimony to our confidence in Africa's economic renewal and reflects our desire to support private sector in Africa which is the only way to achieve sustainable growth and create jobs. I know that the Bank's management share this vision and I hope that this Initiative provides an opportunity for the AFD and the IFC to strengthen their cooperation.

Side by side with this long-term action, we have to pay attention to urgent needs and emergency situations in Africa. I refer in particular to the surge in food and commodity prices which undermines growth prospects of some countries and most importantly affect the daily life of people, especially the most vulnerable. The Bank's reengagement in agriculture is a positive move but international financial institutions like the IMF or the World Bank need also to improve their responsiveness and develop more flexible instruments to address such shocks. For the Bank, the current situation clearly raises the issue of the rigidity of IDA's allocation system.

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The challenges posed by climate change must also be taken into consideration in the Bank's development agenda. Climate change will lead to a loss of welfare for the entire planet, with the poorest also being the most vulnerable. The risk of jeopardizing the progress made towards achieving the Millennium Development Goals is very real and we need to establish a strong link between development and the fight against climate change.

The World Bank is already a key player in this area. It has played a driving role in developing the Clean Energy for Development Investment Framework, which links the multilateral development banks and has developed strong expertise in the matter. It also manages more than ten carbon funds with assets of more than USD 2 billion and launched two new initiatives on the sidelines of the Bali conference last December (the Carbon Partnership Facility and the Forest Carbon Partnership Facility), which should help more effective mobilization of carbon markets by extending their scope of intervention to fighting deforestation. The IFC has also increased its investment in access to renewable energy sources and projects that include an energy savings component. These investments reached nearly USD 500 million in 2007. However, these various initiatives still lack coherence and need to be articulated around an overall vision. Work has started on drafting a climate change strategy for the World Bank group and should continue and be completed in time for the annual meetings. This strategy should mainstream the consideration for climate change issues in all of the Bank's operations and in across all sectors, and not just those in the energy sector.

Even though climate change is a challenge for all, each country still has to deal with its own challenges. Consequently, the responses of the Bank and, more generally, the international community, need to be differentiated. We will need a wide range of tools to be implemented in integrated strategies, associating all partners, backed up by national policies and measures in order to meet the needs. Therefore, the Bank needs to strike the right balance between dealing with adaptation, which has become critical, and mitigation, which is key to protecting the future, not to mention sustainable management of forests.

Even though climate change is a key issue for development, **the climate change agenda must not override the Bank's primary objectives, which are to promote growth and fight poverty.** In this regard, the least developed countries, especially in Africa, must remain central to the Bank's concerns. Their infrastructure, energy and transport needs are huge and must not be overlooked. The Bank must try to minimise the carbon footprint of its activities but it shall not upset the order of its priorities. In the short term, this means adhering to high environmental standards, and making its projects "climate-proof" projects, and, in the long term, it entails the development and dissemination of "clean" technology.

Ultimately, to cope with climate change, which is the major challenge of the twenty-first century, we need to have a coherent overall framework to ensure optimum coordination among players. This is true within the World Bank Group, but, more importantly, it is true between the World Bank and regional development banks. The Clean Energy for Development Investment Framework helped to initiate such coordination, but its scope is restricted to the energy sector only. More generally speaking, better articulation is needed with UN process and in particular with the central financial instrument on climate change and protection of the environment: the Global Environment Facility. This is absolutely essential when numerous new initiatives are proposed and may blur responsibilities. It is also important to include incentives for beneficiary countries to fully engage in their greenhouse gas emissions reduction. The private sector also needs to be associated in this agenda, as 80% of the financing needed to reduce greenhouse gas emissions will come from private sources.

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The year 2008 should also be used by the Bank to continue the Strategic Review launched by President Zoellick at the last annual meetings. The six themes unveiled to the Development Committee and which are being elaborated since then warrant further work and should be translated into a comprehensive strategic framework that will enable all players to identify the Bank's priorities and steer the institution in coming years, including from an operational and budgetary point of view. In my opinion, there are two other priorities: the management of IBRD's capital, which relates to the Bank's efficiency, and the reform of its governance, which pertains to the institution's legitimacy. These two priorities are closely related.

The IBRD is facing a deterioration of its medium term financial outlook and a downward trend in its net income. Some remedial measures have already been taken, such as the extension of the duration of its equity . The plan for a USD 3 billion long-term investment portfolio, is another welcome initiative, provided that the guarantees agreed on with respect to the balance of the portfolio, the delegation of management and the investment strategy are adhered to.

However, the solution cannot rest solely on enhancing the management of its capital and its investment policies. The World Bank is a bank first and foremost and needs to restore the profitability of its lending activity. Investment revenues accounts for a growing share of the Bank's net income and the IBRD's banking activity per se does not cover its budget. The challenge, therefore, is to restore the Bank's attractiveness and to increase its lending: the Bank's equity to loans ratio, which rose from 26% to 36% between 2003 and 2007, clearly shows that the Bank has a comfortable capital buffer and that it can increase its risk exposure significantly. The growing demand from client countries for innovative products (sub-sovereign and local-currency financing, loans, provision of financial engineering services and hedging products, etc) could be better addressed in this respect.

The decline of the Bank's net income is partly attributable to the falling interest rates but has clearly been compounded by measures taken last year to lower the pricing of IBRD loans. In principle, of course, these measures are expected to stimulate the lending volumes, but their effects have yet to be felt. In view of the alarming decline in the Bank's income, we should address structural issues, starting with the products attractiveness and innovation or a reduction in transaction costs stemming from cumbersome procedures, slow response times, the imposition of the Bank's own standards, inappropriate conditionality, etc. These costs are usually estimated at 100 basis points.

Lastly, in order to restore the centrality of banking activity to the Bank's business model, clear management principles seem to be necessary. The Bank could aim at covering its administrative budget out of the gross margin on its loans. This would help disseminate the dual objectives of enhancing income and promoting budget restraint. At the same time, while the profitability of the Bank has declined in recent years (the overall return on capital slipped from 9.9 percent in 2003 to 7.4 percent in 2007), the objective of obtaining a return on assets should apply equally to all the various profit centres (return on lending, return on cash holdings, cutting costs). This management principle is critical if the Bank is to restore lending as the centrepiece of its business model.

Ultimately, the Bank can no longer delay the reform of its governance. Now that the IMF has reached an agreement, we should build on this positive momentum and set an ambitious agenda to achieve some preliminary results by the next annual meetings.

The various options have already been identified and debated on several occasions at meetings of the Board of Executive Directors and the Development Committee in recent years. A consensus has been reached on some measures, such as enhancing the diversity of the Bank's Senior Management, improving the Board's effectiveness, and strengthening the capacities of chairs representing the poorest countries, especially the two African chairs. In my view, there are two priorities, however: increasing basic voting

rights, which would remedy the dilution of low-income countries in the voting rights, and the structure of the Board of Executive Directors, which should give these countries, especially African countries, a bigger say in the institution's decision-making process. France is in favour of tripling the basic voting rights, while maintaining their relative weight in global voting powers over time. Regarding the issue of Board membership, the Bank cannot do less than the IMF and should rapidly create an additional position of Alternate Executive Director for each of the two African chairs.

The question of the distribution of the IBRD's capital is also an important one. The new balance struck at the IMF provides a helpful guide for running simulations and identifying cases of under-representation. More generally, since 58% of the IBRD's capital is owned by industrialised countries (called "Part I" countries) and 42% is owned by developing countries ("Part II" countries), we need to discuss how much capital is to be transferred from Part I countries to Part II countries, as was done at the IMF.

But this does not mean that governance at the World Bank should be patterned after the IMF. The Fund's quota reform can be a helpful guide, but it is not a model to be replicated. First of all, shares in the IBRD, unlike IMF quotas, do not determine access to the Bank's resources. This means that, whereas reform of the IMF was logically aimed at achieving a better representation of the new balance in the world economy, reform of the World Bank should not aim at this objective exclusively. In fact, the Bank's shares are a potential liability rather than a drawing right because of the existence of a callable capital. Increasing developing countries' shares needs therefore to be reconciled with the imperative of ensuring the Bank's financial soundness. Furthermore, the Bank and the Fund have different missions which call for the use of specific criteria when considering capital distribution, which go beyond shareholder weight in the world economy. Contributions to IDA and trust funds, could also be taken into consideration.

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The international community as a whole, and the World Bank in particular, face major challenges which we will have to address in the next two to three years. If we are to make a difference, we must mobilise now to negotiate the United Nations Framework Convention on Climate Change, to commit the IDA15 resources and to accelerate progress towards the MDGs. Reform of the Bank needs to be carried out at the same time, or at an even faster pace, so that it is ready to make its full contribution to this agenda.