



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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Minister of the Economy, Industry and Employment
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These Annual Meetings of the World Bank and IMF are taking place against a difficult backdrop for the global economy. In keeping with its tradition, France is strongly advocating a multilateral approach to manage this crisis, and the Bretton Woods institutions would naturally be the cornerstone of the response recommended by us. This is even more the case when it comes to intervening in developing countries, where the IMF and World Bank remain the only multilateral instruments with the adequate financial expertise, resources, and global presence to help those countries face the difficulties ahead.

In order to be relevant to the developing countries, however, our Institutions need primarily to work out a response that is truly in line with realities on the ground (i). They must also enhance their legitimacy by carrying out an ambitious governance reform program (ii) and develop a strategic vision, based on a sustainable business plan (iii). Finally, the challenge today is to anticipate the crises that will be affecting the poorest countries tomorrow (iv).

- (i) The Bretton Woods Institutions will be the cornerstone for any adequate response to the impact of the crisis in the developing countries.**

Industrialized countries have to support the efforts of the Bretton Woods institutions to fight the consequences of the different crises in food, oil and finance, which are hurting developing countries most. The financial crisis is indeed becoming a challenge for developing countries. Two transmission channels have to be particularly monitored. The first is the direct impact of the global slowdown on their exports. The second is related to the credit crunch and the drying-up of financial markets, which sharply curtail their already limited access to international capital markets. In both cases, the best response is to restore the stability of the global financial system. This is what we will all together work on today, as highlighted in the action plan endorsed by the G7 and the IMFC.

In this context, it is essential for such a response to be coordinated across the international financial community. In my view, the IMF should play a central role in this coordination effort to address the crisis and help restore the macro-economic and financial stability; an intervention of the IMF indeed guarantees a consistent, effective response from all actors. Such an approach will leave ample room for development banks to intervene in crises. Whether by providing project aid or budget support, they can help finance the reforms required to restore sound economic conditions in countries with only limited access to other sources of funding such as capital markets.

In this respect, the engagement of the World Bank is important to support poverty reduction strategies and I would like to commend President Zoellick for his proactive stance demonstrated by reallocating USD 1.2 billion to those countries most vulnerable to rising food prices. I especially appreciate the creation of the global food crisis facility, including contributions from the Bank's own income, as I called for last April. Commodity prices have recently started to ease off, but in a large number of countries, the food crisis is still a dramatic issue. To this end, creating a global food security partnership, covering the political, scientific and financial aspects of the problem, as called for by President Sarkozy, must continue to be a leading priority for the international community.

(ii) To remain relevant, the Bretton Woods Institutions must strengthen their legitimacy by carrying out an ambitious governance reform.

The successful reform of IMF quota shares last April should be a source of satisfaction to all of us. It is now time for the World Bank to maintain the momentum to successfully complete governance reform. Today, the Governors will discuss a comprehensive package that, if agreed, would enable the Bank to make substantial and immediate progress in that direction. Although I have continuously advocated for a more ambitious reform, I believe that this package represents a significant step forward to further increase the legitimacy, credibility, and effectiveness of the World Bank. The additional chair for Sub-Saharan Africa will enhance the voice of the poorest countries at the board. The reform significantly strengthens the voting power of the poorest countries in both the IBRD and the IDA. In addition, we fully support the more transparent selection process of the President, which will be open to all candidates irrespective of nationalities. Our regret is that the OECD countries will be shouldering the burden of this reform alone, whereas certain emerging or transition countries that are over-represented will not contribute.

All in all, France finds that this proposal is acceptable, as it provides for a second stage that would make it possible to address the issue of realigning voting power based on equitable representation. However sensitive the issue may be, such a discussion is a necessity. To simplify the process ahead, we should use the actual outcome of the IMF negotiations to reflect the evolving relative position of members in the world economy and the contributions to IDA to take into account the specific mandate of the Bank.

(iii) A formal strategic vision, based on a business plan approved by all, should underpin the World Bank's efforts in developing countries.

A year ago, President Zoellick set forth his strategic vision for the World Bank to the Development Committee, with inclusive and sustainable globalization as the overarching concept. This strategy is still valid today, but it needs to be formalized, refined and weighed against the vision of the Bank's main partners, first and foremost its shareholders. It is important for this discussion to lead to clear, well-argued, written strategic orientations. The Bank cannot handle everything or be everywhere; it needs to focus its efforts to achieve maximum impact where it has a proven value-added. That impact should also be more precisely measured and better highlighted. This strategic document may therefore be seen as an opportunity to set for the Bank precise targets in terms of development impact, along with a clear framework for measuring and analyzing outcomes.

Last of all, this strategy should be supported by a sustainable business plan for the institution. It should be recalled that the Bank's financial situation is ambivalent. While its prudential ratios, backed by substantial reserves, are still quite comfortable, the Bank's activity runs with a structural deficit, since lending spreads fall below operating costs. Based on work done by Staff, the shareholders will have to devote careful study to the necessary trade-offs between lending rates, operating expenses and revenues generated by the Bank's capital. The institution needs to achieve a sustainable situation to be able to fulfill its mandate of reducing global poverty. My view is that this discussion, which should reach beyond the sole issue of capital adequacy, should be addressed at the next Development Committee meeting.

(iv) Finally, the challenge today is to anticipate the crises that could affect poor countries.

Beyond short-term mobilization, the Bretton Woods institutions must work on adapting their instruments to better tackle vulnerability to shocks. Both the creation of a World Bank rapid-response facility to address the food crisis and the discussion on lending instruments in the IMF highlight the need for innovative lending instruments to help shield debtor countries from exogenous shocks, while

preserving debt sustainability. For this reason, France and Europe have strongly supported the reform of the Exogenous Shocks Facility, which has just been decided at the IMF. For the same reason we see a particular interest in using the Poverty Reduction and Growth Facility, considering its flexibility. In the same spirit, France recommends the introduction, by the next Spring meetings, of lending and hedging instruments at the IMF and at the World Bank, similar to the highly concessional counter-cyclical loan developed by the French Development Agency.

Lastly, there is a major challenge for the century, which could generate a deep crisis for developing countries: climate change. The World Bank has been involved with the issue for several years and is still stepping up its involvement . I welcome the World Bank group's strategic framework for combating climate change that is adopted today.

This initiative deserves to be supported and encouraged. In this area, the World Bank will have a major role to play, working in coordination with the Global Environment Facility and other relevant institutions. The strategy put forward is the result of long, patient consultation, and it is completely in line with four priorities identified by France in the fight against climate change. (i) Our efforts must be seen as part of an overall program to promote growth and reduce poverty. (ii) The countries involved should take charge of the process themselves (ownership). (iii) Special emphasis should be placed on Adaptation, which can hardly be dissociated from Development, in close connection with the Adaptation Fund of the Kyoto Protocol. Last but not least, (iv) clean technology must be deployed.

Without funding, however, none of this would have been possible. For that reason, France welcomes the creation of two interim funds that allow for immediate action without having to wait for the international climate change framework expected to start in 2012. The money raised—roughly 6.1 billion dollars—will make it possible to support the Bank's efforts and assist the developing countries in pursuing their own clean development and emission-reduction strategies. It is in this spirit that France has contributed US\$ 500 million to this initiative.

Lastly, I would like to stress that together, we have a large responsibility to ensure the emergence of a consistent, comprehensive global framework to combat climate change. We already have instruments to provide the foundations for this future architecture. In particular, the Global Environment Facility has a vital role to play, and should in fact be reformed so that it can even more effectively take on future challenges. All of this points to the need to spell out the key principles underlying such an international framework: effectiveness in reducing global emissions, efficiency in meeting those targets at the lowest possible cost, and equity in dividing the necessary effort.

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Crisis periods generate even higher expectations than usual in relation to the Bretton Woods institutions. However, those institutions are equal to the task: they have the means to enhance their legitimacy and demonstrate their efficiency, provided that they continue to change as the world changes around them. The shareholders need to put their full weight behind that process—a process in which France firmly intends to take its part.