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Statement by the Hon. **THIERRY BRETON**,
Governor of the Bank and the Fund for **FRANCE**,
at the Joint Annual Discussion

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Mr. Chairman, Governors, Delegates:

As we conclude the strategic discussions on the future of the International Monetary Fund and the World Bank, begun more than a year ago, I would like to reaffirm what I see as a shared concern: the mandates of these two institutions must continue to be growth and financial stability on the one hand, and poverty reduction on the other.

These two missions must be carried out by the IMF and the World Bank, so as to take maximum advantage of the synergies available to the two institutions. I would like to stress this point: attempting to streamline the interventions of these two institutions should not lead us to waste useful synergies.

I would like today to concentrate on three priorities.

First, we must promote growth and financial stability.

This requires first of all better governance of the world oil market.

The international financial institutions have a role to play in the face of rising oil prices. The oil market is currently an unregulated market, which, because of the poor information available, suffers from many imperfections. The IMF and World Bank have the legitimacy to intervene in this area.

I applaud the increasing consideration of energy issues in the work of the Fund. More progress needs to be made, such as improvement of the conditions of oil investment and of the quality of the data disseminated by each country, through the adoption, as encouraged by the IMF, of international standards, or indeed greater integration of energy policies in country surveillance. Likewise the World Bank and the regional development banks must facilitate investment in order to increase refining capacity, which is lacking in all parts of the world, both in developed and developing countries alike

We must also deal with the consequences of the surge in oil prices, particularly for the countries most affected. The current economic environment calls for the urgent adoption, within the Poverty Reduction and Growth Facility, of a financing window for countries with serious balance of payments difficulties caused by an exogenous shock. We have delayed too long and it is now urgent that the necessary decisions be taken.

We must also strengthen international financial stability.

Financial stability is a public good, which benefits everyone and must be taken in hand by the international community. The IMF has the lead role in this task, but the World Bank must also make a contribution.

The Fund must develop its role as insurer, both to encourage countries to follow good policies and to protect them from the negative affects of contagion in financial crises. We are today seeing a strong demand for these insurance instruments among the emerging countries. We fully support this demand. The World Bank must also participate in this effort, particularly through its involvement in financial sector assessment programs and reports on the observance of standards and codes.

Second, we must act to achieve the Millennium Development Goals.

We must first implement the debt cancellation proposal.

The proposal of the G-8 to cancel 100 percent of the debt of the heavily indebted poor countries to IDA, the IMF and the African Development Fund has raised considerable and perfectly understandable expectations. The biggest expectation concerns the additionality of the resources released by the cancellation of these debts. This is a particular concern of my country. Like the IMF and the World Bank, we are taking care to ensure that this debt cancellation does not harm the financial intervention capacity of the IFIs in the poor countries.

We must then energetically implement the poverty reduction partnership.

Under impetus from the World Bank in particular, and I know that President Wolfowitz attaches great importance to this strategic approach, the international community has gradually adopted intervention frameworks: poverty reduction strategy contracts, the Paris declaration, performance-based management of aid, etc. The beneficiary countries have been closely involved in these actions. Today, while much remains to be done, we know better how to aid the poor countries effectively and legitimately. We have our road map for 2015, and the Bank's Plan for Africa will be one of its key elements.

Finally, we must henceforth unambiguously confirm the commitment of the IMF to the poor counters

The IMF must participate fully in the efforts to achieve the Millennium Development Objectives, as Rodrigo de Rato has underscored.

In particular, it is essential that the PRGF remain the preferred instrument for the IMF's involvement in the poor countries and that it be refinanced so as to cover the demand for future loans assessed by the IMF at SDR 1 billion per year.

I am convinced that the Fund must be wholeheartedly committed to the poor countries and join its efforts with those of the development banks.

Third, we need stronger governance for more legitimate institutions

I see the need today to reestablish the legitimacy of these two institutions, at a time when they seem to be challenged by some countries. Two aspects appear important to me.

First, strengthen their political governance. To that end, I suggest that the ministers, at their meeting, take concrete decisions on strategic issues instead of simply providing guidelines. And then it will be up to the Executive Board to implement them. In this regard, it is time for the IMF to establish the Council, the creation of which was decided in 1974 and included in its Articles of Agreement, but which, more than thirty years later, has yet to be established.

Finally, fair representation and full participation in the decision-making process for all members of these institutions are necessary. These objectives certainly call for an increase in the volume of quotas of the IMF and a change in their distribution. This discussion must be begun today with a view to the conclusion of the 13th review in 2008. I will not go into detail on the various proposals, but I would like to make two comments. First, we must base our actions on facts and not on preconceived ideas. Second, we must be able to find a solution that is favorable to all and not close the door on any option at this stage. No decision can be made if it is based on opposition among countries or entire zones.

Thank you