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Statement by the Hon. **CHRISTIAN NOYER**,
Governor of the Fund for **FRANCE**,
at the Joint Annual Discussion

**Statement by the Hon. Christian Noyer,
Governor of the Fund for France,
at the Plenary Session**

Mr. President, Governors, Delegates:

The reform of the Bretton Woods Institutions is progressing, reflecting many months of debate. Today, I would like to discuss briefly what I regard as the correct approach to ensuring that our efforts can endure and thereby allow the IMF and World Bank to continue standing together as the guarantors of sustainable growth, international financial stability, and poverty reduction. In my opinion, these reforms should focus on collectively strengthening the legitimacy, effectiveness, and universality of the Bretton Woods Institutions.

In strengthening the legitimacy of the Bretton Woods Institutions, our top priority should be to reform their governance to reflect more closely the realities of the world economy.

With particular reference to the IMF, a major watershed has recently been achieved with the quota increases for several emerging countries. As a result, member country representation now more closely reflects the change in global economic balances. Above and beyond this initial increase, however, further progress will be needed over the next two years: first, an increase in representation for poor countries, specifically through an enhancement of basic votes. This is a vital issue; and France—which was one of the countries behind this reform—will be especially vigilant in ensuring its timely implementation. The review of the quota calculation formula is next. We know that this exercise is technically and politically challenging, with no member caring to see its relative importance diminished under the new calculation formula. We must all work hard to achieve a result within the time allotted, in other words, by the fall of 2008.

All in all, the developing countries and emerging countries will be the main direct beneficiaries of this reform of IMF governance, and legitimately so. In our opinion, this reform is a prerequisite for ensuring the institution's credibility in the eyes of all its members. The results we have achieved should also prompt us to engage in the same kinds of discussions within the World Bank. Solutions appropriate for the IMF are, of course, not necessarily ideal for the World Bank, for the two institutions have their own cultures and perform distinct functions. However, World Bank stakeholders cannot ignore the reforms being undertaken at the IMF to ensure that poor countries have a greater voice.

Strengthened political governance for the Bretton Woods Institutions, in the case of the IMF, will also require changes to ensure that the BWI Governors, when they meet, adopt meaningful decisions on strategic issues, not mere guidelines.

Second priority: We must strengthen the effectiveness of the actions of the IMF and World Bank.

While strengthening the legitimacy of the IMF and World Bank, we must also strengthen the effectiveness of their instruments.

At the IMF, in the context of the strategic review, we should focus our efforts on two areas: the IMF's surveillance function and strengthening the insurance role of the Fund.

Ambitious reforms of the IMF's surveillance function are in progress. The effectiveness of Fund surveillance depends on the expertise of Fund staff and on the political legitimacy of the IMFC and the Executive Board. France would like to see the ongoing reforms quickly lead to more effective and efficient Fund surveillance through improved coordination between macroeconomic surveillance and financial surveillance, on the one hand, and between multilateral surveillance, regional surveillance, and bilateral surveillance, on the other hand, as well as through more careful consideration of the spillover effects of economic policies. It is also important for the discussions on the revision of the 1977 decision on exchange surveillance to continue and lead to the rapid implementation of a broader approach to policies conducive to external macroeconomic stability.

Furthermore, the IMF's role in the prevention of financial crises should be strengthened. The current international economic and financial context is a favorable one, and for that we should be grateful. Yet we should not jump to the conclusion that the danger of financial crises is permanently at bay. For this reason, France favors the development of tools to enable the Fund to take on a larger crisis prevention role vis-à-vis its members, some of whom seem to be currently pursuing self-insurance or regional insurance strategies. The IMF recently outlined the salient features of a new crisis prevention instrument; we fully support its implementation at the earliest opportunity, but no later than the 2007 Spring Meetings.

Beyond the short-term solutions found, we need to pay close attention to funding the IMF for the medium term. In that regard, I have every confidence that the committee chaired by A. Crockett will weigh all the options, without any prior agenda, including the idea of selling a portion of the Fund's gold stock, provided that the proceeds are reinvested in some other way. It is essential to safeguard the Fund's financial base to preserve the effectiveness of its actions.

Effectiveness has also become a key word for the World Bank. Although much has been accomplished, the Paris Declaration adopted in 2005 provides us with a very clear roadmap. France is very concerned that it be followed, in particular with regard to the coordination and harmonization of donors and lenders, as resources are too scarce for us to do otherwise. By making the most of synergies, the internal organization of the World Bank Group should contribute to that process.

Third priority: we must continue to defend the universal mission of the Bretton Woods Institutions.

I am thinking in particular of the IMF: universal in its membership, the IMF should also have universal policy instruments. In addition to the major advances made in 2005 with the creation of the Exogenous Shocks Facility (ESF) and the Policy Support Instrument (PSI), the implementation of the Multilateral Debt Relief Initiative (MDRI), and the decision to provide appropriate financing for the PRGF Trust for the period 2007-2011, we must recognize—as the Managing Director advocates—that Fund intervention in poor countries is needed to achieve the Millennium Development Goals. Indeed, the IMF has a vital role to play in managing the consequences of the debt cancellation initiative and the increase in aid flows to poor countries.

As for the World Bank, the universality of its missions seems self-evident. Created to help rebuild Europe after the Second World War, the Bank is today at work in over 140 countries, approves financing totaling nearly \$20 billion each year, and manages more than 100 regional offices. Nonetheless, the universality of the World Bank is not a given. It is a mission that requires maintenance on an ongoing basis by increasing the Bank's proximity to its customers and ensuring that it responds in the best way possible to their needs. The strategy presented yesterday to the Development Committee for strengthening the Bank's action in middle-income countries is but one example. The Bank must expand and renew the range of its products and it must help its customers tackle new challenges, such as combating climate change, sub-sovereign financing, and promoting clean energy sources. Like any bank or organization, the World Bank must be prepared to change, to maintain its competitive edge and attractiveness.

The requirement of universality must, of course, also be viewed in light of the constraints the Bank faces, especially when it is operating in difficult circumstances or is exposed to the risk of misappropriation or misuse of its resources. Indeed, proximity to its customers does not absolve the Bank of responsibility to its shareholders, who ultimately decide whether the best use has been made of its funds and whether expenditure has been effective. Therefore, the Bank must combat corruption more effectively, guided by a clear, consistent, and equitable strategy in support of development. This is the World Bank's priority, and the outcome could not be positive if the Bank's efforts left some countries out of the picture. All people are entitled to development. Reducing or eliminating the Bank's support for any of those who need it would not only be an injustice, it would be a clear contravention of the Bank's mission.

However, as our ministers emphasized yesterday, the World Bank is first and foremost a development bank whose priority must be to reduce poverty and promote growth in the developing countries. It is designed specifically to intervene in difficult, uncertain circumstances, and yet, despite this, it must never diminish its involvement. These objectives must guide the strategy that the World Bank has undertaken.

Ensuring these three conditions—legitimacy, effectiveness, and universality—will enable the Bretton Woods Institutions to accomplish their missions fully.