



ANNUAL MEETING OF THE BOARDS OF GOVERNORS

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**ADDRESS BY THE TEMPORARY ALTERNATE GOVERNOR FOR FRANCE
AT THE SECOND PLENARY SESSION**

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1. It is a great pleasure for us to gather once again in Brazil, three years after celebrating the fortieth anniversary of the founding of the Inter-American Development Bank here. Brazil inspired the establishment of the Bank, and is the country where the Agreement Establishing the Bank was concluded. At Fortaleza, we are also in an area of intense Bank activity. All of this augurs well for our meeting.

2. Since we met last year in Santiago, Chile, the Hemisphere has been shaken violently by crises of various kinds. In the United States, there have been attacks the political, economic, and certainly geostrategic impact of which is not yet fully known. Latin America, Central America, Mexico, and the Caribbean have experienced a serious economic blow associated with the slowdown in world growth precipitated by the events of September 11, which is affecting the region's countries in varying ways. Finally, particularly in Argentina, a number of severe shocks have struck this large economy in the region.

3. *First I should like to offer a few words, two in fact, that characterize France's view of the actions to be taken regarding the situation in Argentina.*

3.1. The first of these words, clearly, is **solidarity**. The people of France are well aware of the crisis in Argentina, a country close to us historically, culturally, and economically. We sympathize with the Argentine people. We wish to take part in the international effort that will enable the Argentinians to overcome these serious difficulties and will help that great country to give its people renewed hope. We must give ourselves the means to achieve this solidarity. Our international financial institutions, the International Monetary Fund, the Inter-American Development Bank, and the World Bank, must put that solidarity into action, as they have in recent months. The situation today gives us reason for hope because of these international institutions and the actions that we, collectively, have asked them to take.

3.2. Clearly we must go further in this solidarity. This effort requires dialogue among all the parties involved: the Argentine government, the other executive bodies of that country, the international financial institutions, and other partners that have helped finance the Argentine economy. This dialogue must make it possible, quickly, to find the difficult path that leads out of the present lack of understanding, in which the Argentine economy is deprived of the international financing that it was so successful in raising.

3.3. My second word regarding Argentina is **stability**. How can these obstacles be overcome without political and economic stability? **Political stability first**. I know that I speak for many when I stress the importance of democracy as a guarantee of stability. It is also a clear prerequisite for sustainable economic development. **Economic stability also**. This means that in the crisis resolution scenarios, we must find conditions that will enable Argentina to resume its long-term relationship with its economic partners, in the broad sense of the term.

3.4. What is at issue here is a complex economic relationship among the Argentinians, their government institutions, their businesses, their banks, their investors, and public and private international lenders. Clearly this means that Argentina's relationship with the international financial institutions must remain unchanged. It also means that the way in which the various partners are dealt with, in terms of the efforts that each is required to make, must be deemed acceptable by all. The first priority is to restore the credibility of the banking system, which the crisis has damaged.

3.5. The confidence of private international lenders, on which the economy is largely based, must be restored. This does not mean taking a hands-off approach. It means that each stakeholder must act in accordance with an appropriate schedule and in a credible manner. I am confident that, together, we will be able to find conditions to support this solidarity and stability. Nonetheless, each partner must play its part.

4. *The situation in other countries in the region today is more varied, but at times equally disquieting.*

4.1. It is reassuring that the Argentine crisis, thus far at least, has had a limited contagion effect on the rest of Latin America. Of course the MERCOSUR economies (Uruguay in particular) have suffered or continue to suffer the consequences of this crisis. Yet by holding the course with sound macroeconomic policies during this ordeal, the economies of Latin America on the whole have coped well with the impact of the various shocks that struck the Hemisphere in 2001. In Brazil, the economic outlook is taking a more encouraging turn. Chile and Mexico are held in increasingly high regard by international investors. Nevertheless, we must take care not to become overly optimistic: the risk of contagion has not subsided and must be controlled. Without our joint effort, other types of contagion may arise, resulting in a contraction of direct foreign investment flows to the Hemisphere or even to all emerging countries.

4.2. Then there are difficulties that affect certain countries in particular, which, although not systemic, are serious nonetheless. I am thinking specifically of the **Caribbean** region, which has been hit hard by the events of September 11. The countries of the subregion drew a substantial portion of their revenues from tourism, which has been disrupted. This situation is

evolving, to be sure, but will take time. Moreover, a return to stability will certainly entail an increase in the institutional capacity of some countries to address the laundering of drug money and transactions relating to the financing of terrorism. This is a priority for the French government, one that it is pursuing in all multilateral venues. This applies to security, as well, particularly at airports. A few weeks ago, France provided a specific financing package to the Bank that will allow concrete action to be taken on this front. In addition, the French Development Agency will have a similar line that it will manage in coordination with the Bank, specifically for countries that are not members of the Bank.

5. *Fortunately, the Bank has adopted new financing instruments that will enable it to respond more effectively to the needs of borrowing countries.*

5.1. In addition to the central role that the Bank has played this year in managing crises in the region, recent months have been marked by reform of the Bank's lending instruments. Last year we approved the principle of limited reform of program loans, because it was necessary to put an end to the Bank's ambiguous situation. I should like to thank the Chilean government, and Mr. Mario Marcel in particular, as well as the Management of the Bank for their diligence in carrying out this work.

5.2. I believe that we have reached a good solution-giving the Bank three types of instruments (crisis lending, program lending, and project lending) that enable it to respond to requests for substantial sums under sufficiently transparent conditions. We will thus avoid having to seek room for interpretation in our documents, as we have too often had to do in the past. Obviously this reform is an experiment for us, and within the context of this experiment I wish to underscore **three challenges**:

5.3. *The challenge of reducing poverty and inequality.* The effectiveness of this new set of lending instruments will be judged by its capacity to better mobilize resources that target the poor. This challenge arises during crises, because the weakest populations are hit hardest by them. We would like social spending to be largely protected in the course of crisis management. The challenge also arises with conventional financing. Program loans are not often used today for the social sectors. The Bank's new capacity in this area should allow it to take increasing action in this respect.

5.4. *The challenge of maintaining the Bank's financial equilibrium.* The current situation is tense. On the one hand, risk is heavily concentrated on the three largest borrowers. On the other hand, the Bank's capacity to intervene in crisis resolution "packages", while legally greater, remains financially constrained. In particular, we run the risk of quickly ending up in a situation in which the Bank would not be able to deal with a subsequent crisis. Of course the current situation is intrinsically very good because our institution is managed prudently. Nonetheless, the study to be conducted this year on capital adequacy and the Bank's capacity to intervene is vitally important.

5.5. *Finally, the challenge of ensuring better coordination among international financial institutions.* It is the view of France that intervention by international financial institutions in a country must be guided first by the choices and demands of that country. But in order to achieve long-term results in this respect, the services offered by the international financial institutions must be sufficiently coherent and readily accessible. Consequently, we

view the harmonization of procedures and mutual recognition of preintervention studies as practical and expedient. It is particularly inappropriate for each institution to conduct its own environmental impact studies and perform analyses of government spending patterns, etc., independently. Similarly, in my view an institution's country strategies should take the strategies of other organizations into account, although this certainly does not mean that country strategies must be common.

5.6. The evaluation of these new measures, the principle of which we have already adopted, will enlighten us as to their pertinence and the pertinence of their implementation.

6. *Beyond that, we must think constantly about what the future relationships between the Bank and the region's economies will be.*

6.1. I will not attempt to give an exhaustive response to this issue today. However, I should like to offer some initial reactions to the ideas that are circulating that lead me to believe that this meeting in Fortaleza is the starting point of strategic thinking which is essential for the region.

6.2. During discussions of the Committee of the Board of Governors, countries of the region proposed that the Bank establish new and more complex instruments. President Iglesias wisely decided to seek recommendations from an advisory group chaired by Mr. Ángel Gurría, which placed these concerns within a broader context. I am particularly grateful to President Iglesias for informing us of the group's main recommendations prior to our meeting in Fortaleza. I would like to note that France is open to such considerations. To approach this discussion, I would first like the President, in coordination with the new Chairman of the Board of Governors, to present proposals regarding our method. In view of what is at stake, we must take care not to react precipitously or to engage in endless debate.

6.3. With respect to the issues, I would like to emphasize our development assistance policy objectives. Changes at the Bank should take into account the global context within which they take place. I shall mention **four principles which, I believe, we all share:**

6.4. *Development effectiveness is a central factor in global development financing.* We are a few days away from the Monterrey Conference. The reciprocal commitments to be made there and formalized in the "Consensus of Monterrey" must guide the thinking of the Inter-American Development Bank on this issue. Specifically, the Bank must plan to help the countries of the region adopt domestic policies that are better suited to optimizing development financing flows. This certainly means greater capacity to promote reforms, and the tools needed to do so.

6.5. *Economic development must be designed with a view to sustainability.* From Monterrey, we move on to Johannesburg, 10 years after the Earth Summit in Rio de Janeiro. The Inter-American Development Bank now plays a major and recognized role in the environment sectors, and in the related water sector. It would be expedient for the Bank to forge further ahead on this issue, contributing to the development of "global public goods" in areas where its expertise makes the Bank a leading institution.

6.6. *We must set up mechanisms to deal more appropriately with the constant threats that weigh on developing countries.* Ideas concerning new approaches to sovereign debt

restructuring are of particular interest to us. France, which chairs the Paris Club, will provide its assistance and support. It would seem expedient for the Bank to participate as well.

6.7. I would also like to note in passing that one of the lessons in recent weeks, resulting particularly from the sometimes strong reactions of civil society to the phenomenon of globalization and from the collapse of the Enron group, is that good governance and transparency are essential for sustainable economic development. I should like to emphasize, in particular, ***that setting up complex mechanisms and efficient financial instruments that respond increasingly well to client needs constitutes progress only if appropriate regulations are in place***. This means, at a minimum, that the nature and implications of the new risks that are created must be clearly identified, directly or indirectly, by all partners involved. Moreover, the potential shocks to which these new mechanisms may be subjected must be studied in advance. We must also take such considerations into account as we modernize our international financial institutions.

7. In conclusion, on behalf of the Government of France, I would like to acknowledge the remarkable work that President Iglesias and his teams have accomplished over the past few months with the diligence and presence of mind that make the actions of international organizations effective.

8. Finally, as we approach the Monterrey Conference, I would like to emphasize how important it is that, at a time when private flows to developing countries are no longer rising, public flows become an even stronger factor in international solidarity. While seeking increased development effectiveness, we must also help bring about an increase in public aid flows. France, first among the donor countries of the Group of Seven in terms of relative effort, intends to set an example along these lines. Consequently, for the first time in many years, the French government plans to increase the country's contribution to global assistance by 20 percent between 2000 and 2002, from 0.32 percent to 0.36 percent of our national wealth. Together with the countries of the European Union, we encourage other donor countries to forge ahead in this regard.