



GS-18

FRANCE

Christine Lagarde, Governor

Mr. President of the Board of Governors,
Mr. Haruhiko Kuroda,
Honoured members of the Board of Governors,
Distinguished guests,

Before anything else, I wish to thank the Vietnamese authorities for such a warm welcome in this strikingly beautiful city of Ha Noi.

As you know, France will be holding the G20 presidency for a year. This is both an honour and a large responsibility. It is now up to us to ensure that prior commitments are met to maintain the credibility of the G20 as an effective decision-making forum.

But we and our partners are determined to do much more. We aim to align the G20 agenda in 2011 with the crucial issues confronting all of us today – in Asia, Europe and elsewhere – as a result of globalization and the historic shift in the balance between world economic powers currently under way. I am referring here to the monetary turmoil that places such a heavy burden on businesses and households, the volatile commodity prices that hurt our farmers and consumers, and the need we all sense to achieve more cohesive global governance.

Admittedly, this is an ambitious agenda, but it reflects the seriousness of the issues as well as the strong support we have from the international financial institutions.

I wish to extend my personal thanks to President Kuroda for bringing us together here to listen and to learn so that we can enrich the priorities of the French G20 presidency. If I may, I would like to (I) provide a mid-term review of our presidency (II) before discussing the Asian Development Bank.

I. France's priorities for the G20

Now that we are halfway through our term, what strikes me is how respectfully the members treat each other's views and how little disagreement there is on our choice of themes to be addressed. So far, we have succeeded in initiating a first, thorough-going discussion of our entire agenda, and we are confident that our operational deliverables will be set by the time of



the Cannes Summit.

These first results are encouraging, although we are aware that we still have a great deal of ground to cover.

[a. on the Framework for Strong, Sustainable and Balanced Growth]

In the area of macroeconomic policy cooperation, we have agreed on a methodology for identifying countries likely to show excessive imbalances. A thorough assessment of seven countries is being performed.

At this point, the challenge is to forge ahead so that we can present the heads of State and government assembled at the Cannes Summit with a complete action plan, including preventive and corrective measures for guaranteeing strong, sustainable and balanced growth.

[b. Reforming the international monetary system]

As participants in the discussion process, you know that we are also working to reform the international monetary system so that it can cope with increasing capital flows and the growing weight of emerging countries in the global economy. At the last meeting of G20 Finance Ministers and Central Bank Governors in Washington, we succeeded in identifying nine key areas of focus to help strengthen the system. The development of local capital markets and enhanced cooperation between regional financial arrangements and the IMF are two significant examples.

On the sensitive issue of capital flows, we should be completing our work as soon as we have gotten relevant feedback from a number of countries.

[c. Commodity price volatility]

We have also made progress on the issue of commodity price volatility. At the recent Washington meeting, for example, the G20 countries pledged to improve the timeliness, completeness and reliability of the JODI Oil database. We have also received IOSCO's initial recommendations on how to regulate and supervise commodity derivatives more effectively. And we are moving ahead with our work on risk management and tools for mitigating the impact of excessive commodity price volatility on food security. The upcoming meeting of G20 Agriculture Ministers will mark an important stage in that process.

[d. Financing climate change]

Last of all, because we are concerned with climate change, we have tasked the World Bank, working with Regional Development Banks, and the IMF to conduct an analysis on mobilizing sources of climate change financing, including innovative sources.

II. The Asian Development Bank

I know that climate change is a priority issue at the Asian Development Bank, especially since you approved Strategy 2020 and carried out your fifth capital increase.

Since then, your institution has initiated a large number of reforms. However, we need to make sure that quantity does not come at the expense of quality, and that more attention is paid to

how the many projects designed to address the crisis are selected, implemented and monitored. Indeed, the latest Development Effectiveness Review, covering operations financed by ADB, indicates continuous deterioration in ADB project quality and in delivering intended outcomes, most notably in the Asian Development Fund's programs for combating poverty. In this area, I expect ADB management to put forward specific measures to remedy the situation.

The recent capital increase and the need to meet the goals outlined in Strategy 2020 obviously made a certain increase in operating costs unavoidable. Even so, it should be possible to reverse those expenditures in preparation for capping ADB lending commitments and to achieve tangible economies of scale. Furthermore, a higher administrative budget is not sustainable unless the Bank also increases its lending rates. Without such a move, current expenses will whittle down the enlarged capital base achieved through the recent capital increase.

ADB is still the development bank that charges the lowest rates, even though most of its loans are to emerging economies with some of the world's highest growth rates. As I see it, competition should work to the advantage of the development banks with the most know-how and the best instruments – not those with the lowest bids.

Making the best use of the resources provided by the Bank's shareholders is what this is all about. It's also about solidarity with the least advanced countries. By charging higher rates, but still below going market rates, the Bank could earn more allocable net income, and thus maintain annual transfers to its concessional window, the Asian Development Fund.

We are all aware that the tenth ADF replenishment, scheduled to begin in September, will take place under less favourable conditions than the previous one. Yet the poorest countries and sub-regions in Asia-Pacific still have tremendous needs. Regional solidarity must therefore be strengthened. It is also part of a Regional Development Bank's role to promote and embody that solidarity, above all by mobilizing its internal resources for the benefit of the most vulnerable countries and population groups.

In fact, such a policy would be a continuation of the work done by ADB to foster regional integration and cooperation in Asia. The Bank's comparative advantage in education and infrastructure, especially transport infrastructure, as well as in energy, water supply and sanitation, make it an essential partner to helping countries in the region achieve the Millennium Development Goals. ADB's close cooperation with the Agence Française de Développement in these areas is a source of great satisfaction to me.

Finally, the most fitting way to conclude my remarks on solidarity is to extend my deepest sympathies to the Japanese people after the dramatic events they have just experienced.

Those events will have an extremely serious impact – not only in Japan, but in the region and around the world. They call for solidarity from the international community. I know I can count on ADB to incorporate the lessons of this disaster into its operations.

Thank you for your attention.