

FOREWORD BY THE MINISTER OF THE ECONOMY, FINANCE AND INDUSTRY

It is my pleasure, on behalf of the Government, to forward the fifth report to Parliament on the activities of the International Monetary Fund and the World Bank for the period from July 2002 to June 2003.

This report continues to present France's positions on each subject, evidencing the concern to constantly improve the quality of information on the running and activities of these two institutions – and our action within them. This is an important element of the democratic supervision of the Bretton Woods institutions. In an open and globalised economy, the IMF and the World Bank are select instruments for multilateral action to promote growth, a stable and controlled international financial system, and development.

The objectives of the French G7/G8 Chair have naturally guided our action in these institutions and, more generally, French financial diplomacy from July 2002 to June 2003. In keeping with the priorities that the President of the French Republic defined for the Evian Summit, I have prioritised dialogue and multilateral co-operation to serve our growth support goal in ongoing dialogue with our partners, especially our European partners with whom co-ordination has been improved, and civil society.

International co-operation is the essence of the G7/G8 and the brief of the multilateral institutions. It is the crux of the response to the challenges of globalisation. What would be the point of having a unilateral vision of a world that is structured by trade, where interdependent economies make everyone's decisions mutually dependent and growth in the North and development in the South inter-reliant?

What we want from co-operation is concerted action for growth. Global growth is essential for development and poverty reduction – as shown by the performances of the leading emerging countries such as China and India. We have always said that the shared responsibility of the industrialised countries is to spur growth in our respective economies to help strengthen the global economy. Our economies need to evolve to increase their growth prospects, especially in the face of the demographic challenge. Structural reforms are essential. Here again, France is committed to fashioning a more stable, innovative, responsible and also secure economy. Growth cannot be decreed. It is created from the work of men and women, businesses (companies) and administrations. The Government's task is to create the conditions that free up energy by boosting confidence.

Today, growth goes hand in hand with an ethical imperative and responsibility, which France promoted at the Evian Summit. **The concept of a responsible market economy is expected to improve market structures and corporate governance, promote financial stability, and improve transparency and the fight against corruption.** This is what we are aiming for in our work at the IMF, in the G7 and with the Financial Stability Forum to improve the general rules governing business activity, such as rating agencies and accounting standards. In addition, we have entered a new phase in combating money laundering and financial crime in general with the revision of the 40 FATF recommendations.

We also have a collective duty to work together for development. This is of paramount importance for the developed countries. My personal commitment and belief led me to place this challenge at the top of the agenda at the G7 Finance Ministers Meeting. France has shown the way and set an example with its work on our collective commitment to achieve the

Millennium Goals by increasing its official development assistance, its contribution to the Global Fund to Fight AIDS, its action for Africa with the support provided to NEPAD, and its support for the British proposal for an international financial facility for development (IFF). At the World Bank and the IMF, we have also supported the reforms to give the poor and developing countries more say.

Last but not least, when I presented the 2001/2002 report, I emphasised the need to give Europe more weight in the international financial institutions. This year has been a landmark year: the draft European Constitution makes it possible – but not compulsory – to unify European representation in the Bretton Woods institutions. Although there is a way to go, we now have the foundations to promote Europe's collective values on the international financial scene.

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As French Chair of the G7/G8, we made progress with our ideas and convictions, encouraged dialogue and promoted a more responsive, responsible and social economy. This action will bear its fruit in the long term, with the support and guidance of Parliament.

Francis Mer

Introduction

The period from July 2002 to June 2003 saw an environment marked by great uncertainty due to geopolitical and global economic developments. The persistence of the terrorist threat, a long period of international tension and doubt surrounding the war in Iraq, and uncertainty over an upturn in global growth – including following the conflict in Iraq – weighed heavily on global activity. These elements undermined the stability of the international financial and monetary system which, against this backdrop, showed its capacity for resistance generated mainly by the reforms made since 1997/1998.

Three goals – to promote growth, work together for development and continue to respond to the challenges of international security – were at the heart of international community action in 2002/2003, as evidenced by the Evian Summit.

The guidelines set down by the French Chair of the G8 in preparation for the Evian Summit – solidarity, responsibility, democracy and security – illustrated this ambition and determination to share the benefits of globalisation with all. The emphasis again placed on economic imperatives showed the will to refocus the G8 on its “core vocation” as a complementary movement to the opening up to developing countries as part of the mobilisation for better governance of globalisation. This was illustrated by the “enlarged dialogue”. From an economic and financial point of view, the Summit provided an opportunity to restate that the G8’s legitimacy derives first and foremost from its ability to demonstrate its action for human, economic and social development.

The IMF and World Bank therefore naturally worked along the same lines to propose comprehensive solutions in each area based on co-ordinated international community action to:

- Restore market and household confidence in order to restart growth by improving the stability of the international financial system, establishing a more responsible market economy and contributing to the boom in world trade (see paragraph 1.1.2);
- Develop solidarity in the action for sustainable development, first and foremost in Sub-Saharan Africa, with the success of NEPAD remaining a G8 priority (see paragraph 1.2);
- Guarantee the improvement of international security (see paragraph 1.3).

Restoring confidence to quickly restart growth

The Heads of State and Government placed restoring confidence at the heart of efforts to underpin recovery, with a commitment to structural reforms and the promotion of an improved running of the financial markets.

• **The economic perspective**

The French Chair put financial and economic growth issues back on the top of the G7/G8 agenda in a return to the original purpose of these meetings.

The Heads of State hence discussed macroeconomic issues and necessary structural reforms, with an emphasis on the importance of the quality of growth (stability and the responsibility of all players).

Drawing on the work of the G8 Finance Ministers Meeting in Deauville on 16 and 17 May, the Heads of State at the Evian Summit sent a strong message of economic policy co-ordination and commitment to structural reforms. The Chair's summary echoed this and sent a message of confidence in economic recovery.

The Heads of State also unanimously recognised the importance of trade to growth, with the action plan on trade featuring a commitment to ensuring the success of the WTO ministerial meeting in Cancun in September.

- **Guaranteeing the stability of the international financial system**

The IMF and World Bank annual meetings in September 2002 underscored the importance of IFIs action for financial market stability.

The emphasis was placed on the need to be ready to handle sudden imbalances, especially those created by sharp fluctuations in oil prices, initially by leaving it up to automatic stabilisers to operate and then by adopting medium-term policies to improve growth prospects.

In view of the fact that performances in the developing countries have been unsettled by commodity price fluctuations and the global context, the IFIs insisted on the need for the international community to continue with and step up its poverty reduction action.

The Heads of State and Government meeting at the Evian Summit also emphasised the need for increased financial stability, calling for continued work on the improvement of financial crisis prevention and resolution. The Heads of State and Government hence welcomed the approach suggested by the Finance

Ministers in Deauville (called the "Evian Approach") to address the unsustainable debt burdens of non-HIPC low and middle income countries.

- **Establishing a responsible market economy**

The Heads of State gave major political impetus to this issue with their statement in favour of growth and a responsible market economy. This joint reference to the social and environmental responsibility of economic players is a significant advance, since these topics had never been addressed before by a G8 summit in such a comprehensive way.

<input type="checkbox"/>	Developing solidarity for development and poverty reduction
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The first eight months of 2002 saw the major international conferences of Monterrey and Johannesburg and the G8 Summit in Kananaskis, at which the international community restated its commitment to fight poverty, especially in Africa.

The challenge for 2003 was to translate these commitments into concrete action and maintain this renewed development assistance momentum. France adopted this line throughout the G7/G8 meetings and promoted it in the IFIs.

Achieving, by 2015, the Millennium Goals approved by the United Nations in agreement with the IMF, the World Bank and the G7/G8 remains the most important challenge of the next ten years. All eyes are on these goals, which comprise in particular the eradication of extreme poverty, the reduction of child mortality by two-thirds, education for all, and the reduction by half of the number of people

without access to drinking water and sanitation.

Achieving them will require first and foremost a sharp increase in the financial resources available to the developing countries to successfully conduct their poverty reduction policies. A large share of these resources should come from official development assistance. France announced that it would fully participate in this challenge by raising its level of assistance to 0.7% of GDP by 2012. It also worked to mobilise development resources and campaigned for greater efficiency in the use of these resources.

The IFIs hence continued to develop their poverty reduction tools over the period in question:

- Priority placed on Africa, the continent the most at risk of not achieving the Millennium Goals;
- Particular attention paid to access to water and sanitation, in the background of the Kyoto Forum in March 2003;
- Revision and improvement of the institutions' sector-based strategies;
- Co-operation with public and private creditors in debt reduction actions;
- Implementation of enhanced monitoring procedures for countries under programs, taking into account the share of spending on welfare and essentials for the poorest populations;
- Monitoring of the Northern and Southern countries' policies in the implementation of the Monterrey Consensus.

As regards Sub-Saharan Africa, discussions with the presidents of South Africa, Algeria, Nigeria and Senegal, members of the NEPAD Steering Committee, showed the common resolve to contribute to Africa's development. The Heads of State and Government approved the report prepared by their personal representatives for Africa at Evian.

- **Sustainable development**

At Evian, the Heads of State focused on the implementation of the Millennium Development and Johannesburg Goals accepted at international level for the environment, health, HIPC debt, famine prevention, financing development, water and research for sustainable development.

They empowered their Finance ministers to promptly address a number of points:

- The methodology for calculating additional debt relief ("topping up") at HIPC initiative completion point;
- The implications of the UK proposal to create an International Financial Facility to increase official development assistance to achieve the Millennium Goals.

Action plans were also adopted:

- Food security for vulnerable countries;
- Mandate given to the IFIs to propose ways of combating the vulnerability of poor countries to fluctuations in commodity prices (see paragraph 4.1.1);
- Renewed investment in the water sector with a mandate given to the World Bank to make proposals for the implementation of the Camdessus Report;
- Development of research co-operation procedures.

<input type="checkbox"/> Increasing security
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- **Combating financial crime and the financing of terrorism**

The persistent threat of terrorism has strengthened the need for the relevant international institutions and forums to

maintain their efforts to effectively respond to the risks associated with financial crime and reduce the possibilities of terrorist action.

Combating money laundering hence remained an international community action priority again this year to develop the integrity of the financial system and contribute to action to combat organised crime. The revision of the 40 FATF recommendations – and the continued mobilisation against non-cooperative countries and territories – represented a major step forward in the stepping up of international efforts in this area.

Combating the financing of terrorism is one of the core tracks of global action to fight terrorism. Blocking the assets of terrorists and terrorist organisations, improving the transparency of international financial flows and fund collection mechanisms such as charity organisations, setting up mechanisms to detect suspicious flows and extending international co-operation all contribute to this effort to supplement justice ministry and intelligence service action.

The creation of a nuclear safety group confirmed the continuation of action against the proliferation of weapons of mass destruction.

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In addition to these actions associated with France's goals for the G7/G8, work by the Bretton Woods institutions in their traditional areas of expertise was marked:

- For the IMF:
 - o By the promotion of improved international financial stability, in particular by enhancing the macroeconomic and financial surveillance mechanism;

- o By the commitment to greater transparency in its reports to member countries and greater involvement by the developing countries in the decision-making process.
- For the World Bank:
 - o By the continued development and implementation of its poverty reduction strategies;
 - o By the implementation of its development projects in poor countries.

Last but not least, the two institutions continued to help leading emerging countries and post-conflict countries (these activities are described as regards the main programmes in the appendix).