

DEBATE

Jean-Claude Trichet, President of the Académie des sciences morales et politiques, former President of the European Central Bank, Honorary Governor of the Banque de France

We have a lot of concepts and certainly a lot of questions, so I give the floor to the Minister, you have the floor.

Aminata Touré, former Prime Minister of Senegal

Thank you very much, I am going to ask a very simple question, I was a finance-educated person actually but I want to break it down in a very simple manner, as a former decision maker person. My question is what do you mean by economic efficiency? The word came often times, but for me economic efficiency is to be able to be on the market and finance my product. What I understood is money is not going to flow, so my question is do you think as a person who I intend, but I used to deliver for the people who elected me, do you have more chance to go to China and raise money than coming to Europe to do so? Considering the fact that I might be in the continent that is wealthy, that you can borrow against the wealth that is there, providing that you manage it well and you fight corruption and what have you. How do you see the China/Europe relationship or even balance to that regard, because that is the question that is posed to us in Africa. In addition, what do you think or how do you see some alternative funding mechanism for infrastructure financing, as I said, for countries who have wealth? That is really my question as a client.

Jean-Claude Trichet

That is a very good question indeed, and perhaps Masood could start to respond?

Masood Ahmed, President of the Center for Global Development, former Director of the Middle East and Central Asia Department of the IMF

Well, I would just say one thing in response now, which is that I think at the moment it is actually quite hard to get money out of China. If you look at the numbers for Chinese lending, particularly to Africa, they have gone down quite dramatically. I do not know the numbers in my head, but it is a very dramatic decline in the financing. The second thing I would say is that some of the emerging markets are still able to access financial markets, but it depends on how robust their own finances are. Anybody who has relatively high debt or has high repayments in the next year is having difficulty accessing the markets. Maybe Jean-Claude will have more market information on this.

Jean-Claude Trichet

Let me only mention myself that it is not China vis à vis Europe as far as I understand, it is China on the one hand vis à vis all other I would say continents, including the US, Europe. There are two aspects in what we have observed, one is that China has a real problem and creates a real problem when they refuse to take into account that they over-indebted some



countries and they do not participate in the system which permits to alleviate the debt, so it is a real issue. They are having some problems with the Silk Road, Belt Road Initiative that are associated with this.

In addition of course you still have the African Development Bank, the World Bank, I mean the system, the multilateral system is still there, and of course what Masood was saying in permitting the system to take more risk, capture more, have leverage with the private sector and have more money for Senegal and for the other African countries is something that would strongly recommend.

Bertrand Badré, Managing Partner and Founder of Blue like an Orange Sustainable Capital, former Managing Director and Chief Financial Officer of the World Bank Group

Because with some people round the table I have skin in the game, I am trying to invest in this country and your question is absolutely legitimate. One of the issues we are facing, and again we were discussing with Jean-Michel, and I am sure you will add something to this, over lunch, as Masood said one of the big issues we are facing is that the public system is not up to the expectations, full stop. That is a massive issue, you mentioned risk aversion, I think this is a crux of the problem. Again I do not want to enter into horror stories, but I have been personally involved in three or four reports on blended finance, I am tired of doing reports on blended finance, I mean we know everything which is working, we know all the instruments that should be put at risk, we should just do it and it is not happening. Again there are many reasons for that. I fully support the idea that we need to shake the tree and look, there are instruments, there are resources, I mean we do not need to invent the wheel, I mean that is not the problem. The problem is just to find a way to get there.

Jean-Claude Trichet

The question for all of us is who blocks? We will respond afterwards because I have five questions.

Yann Coatanlem, CEO of DataCore Innovations LLC, President of Club Praxis

So since you decline the request of the Prime Minister I am going to go back by the window and maybe ask the same question under a different angle. I am going to start with a very obvious statement but it is good to make it, if you have one Euro, one Dollar to invest it is much better to invest it in India to fight climate change than it is in Denmark, right? That being said, and going back to what Masood and Pierre said, clearly there is risk context which is that there is an increasing perception that debt is going to be risky and so a suggestion may be for regulators in the context of Basel III and SEKA and the equivalent in Europe will be the sort of ringfence these kind of investments separate from the usual EM debt and recognize the fact that it is such a benefit globally that you could reduce the risk of that investment almost to zero from a SEKA perspective, right? Of course under the proper monitoring, so that that return is understood and the risk is seen as acceptable by the rest of the world.

Jean-Claude Trichet

Okay, we take this question and you reflect on the response, I am sorry I go through the successive questions now, Jean-Claude you were the first to respond.

Qiao Yide, Vice Chairman and Secretary General of Shanghai Development Research Foundation

I have a question following the one the Prime Minister raised regarding the investments in infrastructure. Actually my question is for Masood. Masood you mentioned multilateral



development banks, MDBs, are required to mobilize the public opinion to make investments in infrastructure, but it seems to me by nature the private opinion is more risk averse relative to MDB, so another way private business is not a good identity to make investments in infrastructure, so it seems to me it is kind of a contradiction, so I want to listen to your comment on that.

Jean-Claude Trichet

Thank you for this very good question, please, you asked for the floor?

Gabriel Felbermayr, Director of the Austrian Institute of Economic Research (WIFO), former President of the Kiel Institute for the World Economy (IfW)

Yes, thank you, so one issue that worries me is that the levels of debt around the world are high, higher than for the last 200 years, *The Economist* is running a story on this right now, I think very relevant. The big question behind that is how do we think that interest rates and growth rates will compare to each other over the next decade or so? We had this discussion R versus G , and the, until two years or so people were converging the view that R^* , the equilibrium interest rate declining, falling below the growth rates that we can sustain and so the high debt levels are not an issue. However I think the three Cs that John mentioned, all of them drive up interest rates, drive down growth rates, so how do we deal with these enormous debt levels in a world where the R may be higher than the G for longer time periods? In addition what do we do with debt crises in emerging markets first maybe and then later also in the more mature ones?

Jean-Claude Trichet

Yes, I will say the Central Bank are not doing what they did in the first oil shock and second oil shock, they have been practicing benign neglect vis à vis inflation and then being obliged to catch up dramatically with interest rates at the level of 20% at the beginning of the 80s and not at five or four as is the case in the US and Europe. Therefore fortunately part of the explanation that we do not have these dramatic rises that we had with the Latin American crisis of this period is perhaps that we have wiser central banks, but I stop there. Jean-Michel? Sorry Prime Minister, you too have the floor, in the order that you would prefer.

Jean-Michel Severino, President of Investisseurs & Partenaires

Thank you very much. I would like to answer Prime Minister Touré and make a comment on trade. Actually it is the second year or the third year in a row I think that Africa is experiencing negative net flows to China, which is an unprecedented event for the past 20 years. It is going to last, it is going to last because China is very slow at restructuring its debt and it is downsizing dramatically the Belt and Road Initiative for internal domestic fiscal reasons and also the overall debt situation and interest rate situation. Therefore it is highly unlikely that in the coming five years there will be as open access to Chinese money as it has been in the past let us say 20 years.

Of course it is very unfortunate because this is taking place at a moment when, because of everything that has been said here about interest rates, etc., markets are shifting, basically we have come to a moment where it is nearly impossible to raise equity for investments in emerging markets and especially for Africa and debt flows have shifted back towards OECD countries, in a nutshell. We are back to a situation where public flows are really the key concern and you can, as Masood already mentioned, we have to really focus on debt restructuring, debt consolidation and here China is the leader, nothing will be done without their leadership and their acceptance of terms, given what Bertrand said about their pre-eminence in debt stocks.



Second, of course public institutions, bilateral or multilateral, are at the forefront of providing additional money for liquidity concerns for investments. Yet, and I will stop there on that because we could spend a lot of time on this issue, there is still room open for specific private investments in infrastructure because if you go on a case-by-case basis and if you are able to provide exciting investments with high returns, because of the overall liquidity situation you could attract, one could attract specific investors in specific PPPs, which require a lot of preparation and framework from governments to make those PPPs credible. However this window is still, in my mind, opened on the private side.

And a very short comment on trade, I am participating, I am involved in several very capital intensive multinationals, what is very striking for those corporations and in their strategies is that beyond everything that Mr. Lipsky mentioned and which are completely, fully correct, there is now a very different beacon in terms of choosing locations of production. This used to be mainly labor cost, which has driven the manufacturing sector and especially heavy manufacturing sector in Asia. However now the cost of energy and access to competitive clean energy has become the new beacon because labor costs are not playing the same role as they were before for technological reasons, robotization is lowering in relative terms the role of labor costs but having clean energy is really what matters for those heavy industries. This is, by the way, one of the opportunities for emerging economies including Africa and the thinking about heavy industry has completely changed and has opened new opportunities for countries which have this type of access and building a competitive advantage which was absolutely not there 20 or even 10 years ago.

Jean-Claude Trichet

Very interesting, and I am sorry because we have the first batch of questions, so we stick to the five questions that we have and see how it will respond and then you will be the first to ask the next question, but Jean-Claude is the first to address the part of the questions that he wanted to comment on.

Jean-Claude Meyer, Vice Chairman International of Rothschild & Co.

I just wanted to come back to the question of the former Prime Minister of Senegal insofar as Chinese financing, the problem is not the availability only it is of quality. When we look at the Chinese financing we see for instance there has been a financing of a highway in Montenegro, the cost of a road was absolutely outrageous and of course they offered to Montenegro 30 years financing, but that is terrible for Montenegro, they do not know how to sort out this story, not to mention copper mines in RDC of course and overfinancing in Africa. Therefore I would very modestly be a little blunt, but warn you on Chinese financing.

Jean-Claude Trichet

Okay, thank you very much indeed. The remark which was made on China now exporting, importing money out of Africa, I must confess I did not know that, of course it means that they are repayments on the one hand and new money on the other hand. However the algebraic computation would give a negative flow coming from Africa to China, I did not know that, it has to be checked because it is a little bit surprising, but thank you very much. Now we have to respond to all the questions which were asked to the speakers, so could you raise your hands, a lot of questions on trade, John, you respond?

John Lipsky, Senior Fellow of the Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies

I was going to say a few words on the debt issues. Debt issues are high, but of course the issue of how much is too much depends on how much does debt cost and then, in this

context, I think it is critical whether the central banks are successful in reducing inflation because, if so, it will reduce long-term interest rates. As I put it in the US context for the first time in my memory, in my lifetime, individuals, households have structured their own financial affairs with the assumption of sustained low inflation and low interest rates. That is why I think it will be very interesting. I assume that there is in fact rather broad public support for getting inflation back down again and interest rates. If that is the case then the challenge with regard to debt levels will be muted relative to what they would be otherwise.

With regard to sovereign debt, of course before the global financial crisis the Paris Club provided a working process for restructuring sovereign debt and that obviously, if there is a working system, a smoothly working system, that encourages, that makes it easier for countries to borrow. The system is broken right now for reasons that we all understand and the G20 established something called the Common Framework for Debt Treatments that has not been anywhere near as successful as anticipated.

What is happening now, it is low profile, the IMF and World Bank have jointly established something called the Global Sovereign Debt Round Table that has brought together in a confidential way, not completely confidential there is a public report of their discussions, both lenders, borrowers, both private and public and hopefully there is enough pressure on all sides to make some arrangements that will at least make this process much easier.

Just one other thing, when we talk about why has more money not gone into things like climate change, public goods, we are working on this at the Bretton Woods Committee and think of it in terms of two gaps, a public sector gap and a private sector gap. What is specifically holding back of debt flows? For the private sector there is a lack of price discovery mechanisms for things like lending for climate-related projects. There is a lack at present of adequate instruments which you could express that investment and a lack of enforcement mechanisms, reliable enforcement mechanisms that mean if you invest in a project how do you know it is really going to produce the results that were expected? There was a session on this earlier today that was very interesting I thought.

For the public sector what are the problems? There is lack of any governance, clear governance structure on financing, it is each institution doing its own thing. There is lack of governance on implementation for these kinds of projects, there is no standardization and similarly there is no independent ex-post assessment, similarly for the private sector that you can count on what you did, what you lent actually had the effect that was claimed. It seems to us that until those specific gaps are filled we are not going to have any substantial increase in flows, these are preconditions for success.

Jean-Claude Trichet

You mentioned absence of coordination between the bilateral donors, is that right? Yes, because the multilateral institutions are functioning more or less. Thank you very much indeed. Masood has the floor.

Masood Ahmed

I just want to say one thing about the private investment that Yide asked, and Jean-Michel gave part of the answer to that. I would say that we have to be clear and more realistic about where we expect private flows to go. We are more likely to get private flows into emerging markets and better managed middle-income countries than we are in fragile states. Therefore, to me it makes less sense to put a lot of official money, grants, to try and subsidize private sector to attract them to fragile states because you will use a lot of grants to get limited amount of private money, whereas if you use grants to incentivize private flows in middle-

income countries you can get more. Therefore, I think we must be a bit more clear-eyed about that.

The other thing is instruments that the MDBs use. If you look at the World Bank, if they use guarantees they mobilize four times as much private money than they do with the loan. However, the internal incentives for doing guarantees is that it does not help the staff to do a guarantee, so they like to do loans rather than guarantees. Here is something you can change that would have an impact.

The second thing I wanted to respond to was debt. There are a lot of countries that the IMF has been saying for four years are at high risk of debt distress, but there are very few countries that have actually defaulted. If you look at the number of countries that have not defaulted, that is not because they are not under pressure, it is because the cost of defaulting in the system is really high for a finance minister. We did some work looking at what happens to their spending and what happens is that they keep paying their debt service, which is rising, sometimes 50%, 70% of their revenues, but they cut back on education, they cut back on health, and they cut back on future investments. In effect they are defaulting on the next generation rather than to their external creditors because the cost of doing the latter is very high.

In addition, linked to that I would just say the system is unlikely improve substantially for a year or 18 months, despite the efforts of the Sovereign Debt Round Table. The current process is slow and it is messy. There will be small, incremental improvements but. I personally do not think that 18 months from now we will have a radically better system. Therefore the question to me in this situation is how to help the countries that are under the greatest financial liquidity pressures today rather than hoping that somehow the system is going to get fixed,? The idea of a grand new design, another HIPC if you will, does not make sense for the current structure of creditors and there is no political basis on which the Chinese and the Paris Club creditors will come together in a HIPC-like format now. Therefore, we should be focusing our energies on what helps the countries the most rather than on some grand design which is unlikely to come about with the politics being what they are.

Jean-Claude Trichet

Thank you very much indeed Masood, as a former President of Paris Club I will say a word, but after we have heard all the responses. Do we have other speakers? Bertrand.

Bertrand Badré

Thank you Jean-Claude. I wanted to react to Yann's proposition. I think what strikes me today is that on the hand we continue to say that there is an emergency but we do not act as if it was a real emergency. We talk about this being urgent, we talk about we need to change things and the reality is that it is more of the same. Therefore instead of putting one billion you put two billion and the two billion does not move anyway, and so I think we, I mean we have addressed all the issues of the gaps etc., and again no need to come back on that. However I think to face this sense of emergency we should really work on two things, learning to be a little bit more generous, and I think generosity is not necessarily a word that matches well with finance. However I think we need, I think these were the words of President Macron in Paris, what he means by that I am not sure, but he said we need a shock of concessional finance, we need real grant money. I mean we do not have, we were discussing you can ask the World Bank to lend more but this will add to the debt, so it is a vicious circle. Therefore I think we need to be generous in one way or another. We have been capable in a number of countries to subsidize gasoline during the rise of prices, and 50 billion in France, I mean we could have used this money in a different manner, of course it raised political questions, etc., so



generosity and our genuine interest is to go in that direction. I think this is important. The second thing, coming back to Yann's point, I think we have to be a little bit more innovative in the way we apprehend things, I think we will die of doing more of the same forever.

Yann Coatanlem

In the regulatory framework itself, yes.

Bertrand Badré

Of course, coming back to Senegal, I mean depending on whether you are an OECD country or non-OECD country with the same rating, the cost of capital for an investment is double, with the same rating. I mean the long list of things is like this. We know that and we know it is urgent. I mean I do not want to enter into the discussion on how to finance gas in Senegal, this is a very interesting topic, but you have all these issues everywhere and we circle around and so I strongly support this type of approach. We need to, I am not sure if this is the right one, but at least to address this we have a global issue which needs to be addressed locally and we need to find the instrument which connects the local and the global to go there and we are capable of doing that.

Jean-Claude Trichet

Okay, so if we want to be a little bit practical could we say that first of all we need China onboard? Goes without saying, because it is an anomaly which is very great and we should exert maximum pressure on Chinese friends for them to join the international community in a domain where it is in their own interest because it is not their interest to be freelance in this domain, no?

Bertrand Badré

Yes, I agree with you, of course we need to have as many people on board as possible, including obviously China. However-

Jean-Claude Trichet

China is the first creditor, so it aberrant the others should not do anything because they would work for, no, I think it is a matter of understanding exactly how the problem, I discussed with Chinese friends they have a difficulty to understand exactly what is at stake because they have not their own procedure to risk schedule and they prefer to deliver new money and get the payment, but anyway, so-

Bertrand Badré

Let me just, of course we need to have China, but it should not be an excuse for the EU or the US not to do anything. I mean we have said at the G7-

Jean-Claude Trichet

Who says that they do nothing?

Bertrand Badré

We do things but we could do way more. I mean we have said at the G7 in Germany last year in Elmau that the G7 will commit \$600 billion to emerging the developing economies. I remember I was with President Macron in Africa and one of, there was some people from civil society saying, 'President Macron, this is great, where is the money?' It is a fair question.

**Jean-Claude Trichet**

Of course, of course, but if you take the case of France, France is broke so it is not a very good example. Frankly speaking we have magnificent promises but it is a little bit more complicated to get the money out of the budget. however, yes, please sir.

Qiao Yide

I guess many people mention the debt developing countries have in China, I guess some factor we should keep in mind, yes, China is one of the largest official debt countries, but if you look at the whole debt situation actually private credit occupy most debt owned by developing countries. Having said that I am not going to defend what the Chinese Government, from what I heard from some Chinese officials, what they worry about is if Chinese Government involves some debt restructuring they worry about the money they give out that the other country will pay back to private creditors, that is something they are concerned about. Therefore as someone said we should get it together, to have some comprehensive debt restructure.

Jean-Claude Trichet

It is the right concept, you are absolutely right. The right concept is that there is balance of efforts made by all creditors on the one hand, and it should be emulated by the same balance of creditors on the other hand and the idea was always we understand that it is very difficult for the private sector but then the private sector can compensate with new money. I mean there was always balance. If it is not balanced you are absolutely right, nobody will be happy, neither the private nor the public in any of the countries concerned. Therefore we have to reconstruct something which would work, the public sector in my opinion is up and running but one country is not participating. The private sector, that is another story and the work that you are doing in the Bretton Woods and the institution concerned that you mentioned is very important. John?

John Lipsky

I would say just one word, the idea of the Sovereign Debt Round Table is exactly get everybody around the table, the situation is everybody is going to have to do something. I think the trigger is going to be the debtor countries and, as Masood has pointed out, who have been basically starving themselves in a way or on a severe diet to avoid trying to restructure because the system is so broken. I think they have to put pressure on the lending countries in saying enough is enough, you guys have got to get together. Hopefully that Round Table will be a confidential context in which they can say we all have to participate. I hope it is faster than Masood's timetable, though.

Yann Coatanlem

Jean-Claude, very quickly, I am very skeptical in that China will join the Paris Club for the simple reason, they own two thirds, more than 60% actually of country to country debt and they are very strong covenants, I mean very strong bilateral agreements, why would they mutualize the risk?

Jean-Claude Trichet

Because it was the case of all the other creditors at the very beginning there was no such agreement, and then progressively all public creditors discovered that if they wanted to get out of the difficulties and help the countries concerned they had to discuss together to be sure that everybody would make the same efforts, whatever the covenant and so forth. However, again

it is easy to speak of a government which is not there, very easy. However I had exactly the same problem in my time with some emerging economies that were a creditor of and we had arrangements, we could solve the problem, it is solvable. Now another problem which is solvable Masood is to change the culture inside the MDBs and the World Bank.

Masood Ahmed

Yes, in principle.

Jean-Claude Trichet

Because if a significant part of the risk can be taken by public institutions then we are leveraging the private sector, please madam?

Aminata Touré

Yes, the countries you are talking about, I mean I am part of one of them, so actually I think sometimes it is a dialogue that we do not understand ourselves. First of all there is no ideology involved in the financing of our economy, wherever the money can come from we are looking for it. It has to be very clear, Europeans should not see it as Africans being pro-Chinese, we could be pro-whomever as long as the money comes. That has to be very clear, because it is taking up political some time turn into it.

What we are looking forward, and Masood, thank you for saying that we are the best payers when it comes to our debt, we just pay to the last penny, so that needs to be said, it is not like gifts that are just delivered. We starve ourselves sometimes to do so because we know the cost, if you do not do that, you do not pay your civil servants you are out as a government because you have the streets that will take you out, so we do pay.

However what we are looking forward to is money sitting on the market and we have great plans of developing our industry. For instance in Senegal we do not even manufacture needles, we import them and that is where the support is expected on a win-win situation because I do believe it is going to be business to business development so I think that there is money for that, everybody can make money on it, so why is it not happening? So that is my question.

In addition you go back to some type of ideology, because I am like is there a willingness collectively to support those countries to get out of their current situation? You end up doubting it, I do not know, because the money is there, so if we can sit down and have really a reasonable discussion then we can make it together, because I think Europe needs that.

Jean-Claude Trichet

You were speaking of public money or private money for the needles?

Aminata Touré

You will always have the public supporting the business-to-business contract, I mean by creating the right environment, making sure that justice comes along, corruption is contained and things like that. Therefore that is why I think we do not understand each other most of the time because every time I have this kind of discussion with bankers they have a hard time understanding where we are coming from.

Why I raised the China issue, if you look into the period, the 15 years of collaboration of some countries with China, they have never been able to raise money to develop the minimum of their infrastructure, that is why when China came in that you saw the boom and that is the

truth, that is what we have seen, that is the real truth. Therefore in between we had 500-year relationship with Europe and it did not happen and then you have a 20 or 15 years with China it does, so see where the logic is. That is really, I mean I am talking to you very bluntly because that is how we discuss it among ourselves.

Jean-Claude Trichet

We are here to have this exchange of views, of course.

Aminata Touré

So please look into it, I am saying that because Senegal is going to be a gas country, we have one of the huge we think reserve of gas, so the question is going to be right there. However it will be necessary to have a change in the thinking coming from the banking sector in Europe precisely otherwise we will do business with whoever, because we need that business to-

Jean-Claude Trichet

But Mrs. Minister we were not saying that China was giving too much money to the countries concerned, on the contrary we were realizing perhaps that the flow is in the other direction which is not necessarily the case for your own idea and your own investment. However clearly the problem was to have all the countries of the world in order to try to solve the problems, the public credit, I am only speaking of public credit, the private credit are in the hands of this concept that you are trying to crystallize.

However we have specialists of ODA here and I would like very much to hear Masood and Jean-Michel perhaps, how would you comment on what the Minister of Senegal said? Would you say that if we change the culture of the MDBs then we will find the money, including by leveraging the private money for doing what the Minister is asking for?

Masood Ahmed

No, I think that will certainly help, but I would say there is a bigger problem, which is if you look at our ODA, I think somebody made the point earlier that we are at 200 billion roughly, give or take, of ODA. It has gone up in the last four years, but all the increase is accounted for by the extra money that we spent on refugees in our own countries here, so the largest recipient of Swedish ODA today is Sweden, the largest recipient of UK ODA is the UK. That does not help. Secondly, it is the money we are putting into Ukraine, and so if you look at ODA to Africa it has actually gone down.

Secondly, the donors want to use the same ODA for doing climate finance in middle income countries to incentivize the middle income countries, like Indonesia for example, to borrow for decommissioning of coal. Now, one source of this concessional money is IDA, which is the World Bank window that is really focused on poor countries, low income countries, along with the African Bank. Some people are saying to the World Bank, 'Can you find ways to reallocate some IDA to middle income countries?' However half of our ODA actually goes to middle income countries and we should be looking first at how to reallocate that funding to deal with the important challenge of climate change.

The final thing I would just say is that in all of our conversations on development financing we need to be straight forward and frank about what we can do and what we cannot do, about what is feasible and what is not feasible. It would be a lot better if we were to give the money for refugees and cut back on ODA and not pretend that it was ODA. It is better to say to partner developing countries we cannot do as much ODA as we thought because we have to take care of refugees who have come into our country, but it is another to say, look at our



ODA numbers that have gone up and you have to dig and find that actually it is not real. Therefore, I do feel that part of the problem we have now is this trust issue which comes from not having a frank and clear dialogue.

Jean-Claude Trichet

Very clear. Jean-Michel?

Jean-Michel Severino

Yes, very quickly, I think we are experiencing quite a negative time for financing Africa and external imbalances. We have talked about ODA and it is correct to say that in the past-three-year ODA in absolute volumes has declined. Remittances have declined because of the overall macroeconomic situation in Europe, in Canada, in the US, etc. China has reduced massively its lending for the reasons that we have already mentioned and on top of it Africa has now experienced also increased balance of payment problems, I mean commercial deficits problems, overall the continent has increased its commercial deficit, therefore it is a complicated period.

There is a need for a big change if one wants to see that changing, of course this is a broad assessment about the continent, country by country it is different, not all countries are in the same situation and obviously the ones that are in the most difficult situations are the ones which are owing most money to China. I mean this is the big oil and mineral producers, because it is there that the Chinese money is concentrated, actually Chinese money is not at all distributed evenly across Africa but massively concentrated on around five or six countries that have this specificity. Therefore we have to address that.

As far as the MDB, but also the bilateral ODA, is concerned we have a major issue to solve on both sides, which is the issue of conditionality, this is the one which has been the most contentious. How is it run? What is it under conditionality? Macro? Micro? This is the poison in the ODA pill which is preventing money to flow faster and to reach the basic needs of the countries and everybody has a problem there but the MDBs particularly.

Jean-Claude Trichet

Okay, fine, the Prime Minister has the floor, please? You will have the floor immediately after sir.

Lionel Zinsou, former Prime Minister of Benin, Chairman of SouthBridge

Thank you Chair. First I think it was important that, and creates a bit of emotion on the situation of Africa and other emerging markets, but I concur with Jean-Michel, I mean Africa is in a credit crunch, it is in credit crunch which is in a sense worse than what happened in 2009 for instance, it is a real major crisis. With the sort of pandemics situation where when you have default of a country it has an effect on countries absolutely in a deeply different situation. Therefore the fact that Ghana is in default has a paradoxical immediate impact on the Ivory Coast and so on and so forth, even if the situations are very different.

However to be constructive maybe one or two comments, to attract the private sector we can easily put a few tools on the table. We know how to insure the risk, we know how to buy and sell the risk, I mean it is not technically that difficult. In the World Bank Group Bertrand, MIGA can be, it is quite an easy decision, sort of more efficient tool, an essential tool. We know how to develop the Guarantee Funds, I mean it is not rocket science, we have a lot of experience. Therefore I think that addressing the risks professionally is really quite simple.



Second, Bertrand said something very real, apart from the funding of climate change or social goals and development, I mean we have a problem of being able to absorb what has been collected in terms of funds. Bertrand is right when he says it is very difficult for the emerging countries and the developing countries to be able to easily, professionally absorb, take the forestry for instance, forestry you can find business models to invest there, to get the carbon credits and to have a very positive impact on the planet. However we have not the tax environment, we have not the concession legal system efficient in every country. If you take the Congo river system you have an immense potential and a very little number of projects, so even when we have and if we were able to attract more private finance with the proper risk and insurance environment we have to support the absorption of those funds.

Jean-Claude Trichet

Yes, but is it the domestic legislation that you put into question?

Lionel Zinsou

I mean the countries are in equal positions, I mean you could say that Gabon is a bit more advanced or Ivory Coast or South Africa, but we can improve that quite easily. Look at what is done in terms of extractive industries contracts, the support by the World Bank, by the African Development Bank, in order to optimize or normalize that. We can do that. Look at the facility to be financing for legal professionalism, the grounds by the African Development Bank, we have made huge progress in terms of due diligence and execution and contractual systems for the governments through grants. I mean we can easily, technically support, and it is cheap, ways for the environment, the business environment to progress because as of today it is maybe the worst sort of obstacle. When Bertrand says blended finance is very difficult to implement and make efficient, I mean it is a daily experience for the private sector to have no efficient and professional interface. However it is cheap and simple, and look at the privatization, it was a huge transfer of asset ownership, huge, historical, in Africa in the last 90s, it has been supported by the World Bank Group in terms of professional support, grants and financing for the processes to be efficient. It is cheap to improve the systems, but the processes are quite important, I mean the actual real processes and on that we can make fast progress.

Jean-Claude Trichet

Clear enough, thank you very much because you introduce an element of dynamism in capacity to get out of the difficulties, thank you very much. Please, you have the floor, it might be the last question and then we will have a wrap-up with the speakers, please sir.

Nicolas Piau, Co-Founder and CEO of Tilt Capital

Thank you, so Nicolas Piau, I am an investor in private equity and have been an investor in energy for 23 years basically. I will expand on Madam Prime Minister's question and just maybe a quick addition to Mr. Meyer's point on Montenegro because I think it is actually quite important. Not only is it expensive but what we need to understand are the provisions in the loan agreement granted by the Chinese. It prevents Montenegro to go to another debt provider, typically Europe, because they are forbidden to actually reimburse that loan because in this case if they default there is a provision by which the Chinese can actually grab a piece of land of Montenegro and in that matter it is the Port of, I do not remember if it is Kotor or Bijela, but I think we need to really understand for having worked with CIC for quite some time, they know their contracts upside down and there is now clause that is made at random. I think the example you are mentioning is super important because it was true of the Gaborone Coal Plant in Botswana, it was true of a number of infrastructures in the world and I think we

need to understand that this does not come cheap, it may seem cheap on the pricing issue but it certainly does not come cheap with the structures that you have mentioned.

The point that I would like to expand on and the question which is maybe a bit provocative is that I am wondering in the end if our financial system is not very obsolete, because I think the point that Madam Prime Minister is raising is capital allocation. You were talking about the US stock market which is actually holding pretty well today, well the reality is out of the 3.4 trillion that were added by the MSCI in 2023 four trillion comes from the magnificent seven, so the Amazons, the Microsofts, the NVIDIAs, etc., which means that all the rest has actually destroyed value on the stock market, so seven stocks added four trillion for a stock market that added 3.4 trillion. I see that in my own world and I think it goes back to the Prime Minister's issue. Today it is very easy to raise 200 million on a pre-seed round on AI, 200 million for pre-product, pre-revenue, pre-idea. It is very hard to finance projects in developing countries, for one reason it is because the risk aversion, and I fully agree with Mr. Ahmed, it is not only the public sector, it is the private sector and the private sector far prefers adding another round of financing of ChatGPT or OpenAI or whatever rather than investing in the real stuff that we should be investing in because externalities are not priced in our financial system.

Jean-Claude Trichet

Very good remark of course, and to think that there is no risk associated with investing massively in startups is also a fantasy. The system has to be fixed in many, many respects, that is clear.

It was a very stimulating and interesting exchange of views, the Government of China was not there so we, but thank you very much for all your remarks, it was very well done. Can I ask the speakers whether they have a last remark? I think we had positives and negatives, not only negatives in the exchange of views and we know that we can perhaps, and particularly I have to say in the MDBs institution and the public ODA framework, taking more risk and leveraging much more private capital, that is certainly one positive coming out of our discussion. However the world remains extremely demanding, that is clear. I go in the reverse order, Jean-Claude?

Jean-Claude Meyer, Vice Chairman International of Rothschild & Co.

Thank you Jean-Claude. I hope that your rates will go down because it is absolutely obscene to have rates of 10% for Ivory Coast or for Senegal right now, it is obscene, it is impossible, we cannot advise a government to raise Eurobonds with 10% interest rates. We are exporting from the developed countries our diseases, covid, inflation, high interest rates.

Jean-Claude Trichet

Higher interest rates, but these higher interest rates will permit us to get back to price stability, which is good for everybody, so I mention that in passing. André?

André Lévy-Lang, Founder and Chairman of the Louis Bachelier Institute, former CEO of Banque Parisbas

I think all the investors are focusing on so-called ESG performance of companies, I think they should rather look at what they do for developing countries and what they do for Africa and to do meaningful things rather than worry about ESG.

Jean-Claude Trichet



You do not like ESG? Really? My neighbors are very shocked. Akinari?

Akinari Horii, Special Advisor and member of the Board of Directors of the Canon Institute for Global Studies

Well, I am not an expert on development finance but just one word about the Paris Club. Do not forget that there was a process called London Club as well along with the Paris Club. As far as private debt rescheduling is concerned, Bill Rhodes was Chairman of the London Club and negotiations usually took place in New York but it is labelled London Club. Anyway, along with the public debt rescheduling under the auspices of the Paris Club, where Jean-Claude was Chairman three decades ago I think. The London Club approach happened and usually at the winks and arm twisting by the central banks of the Paris Club member countries, who had them go along with Paris Club offshore debt rescheduling, although that happened actually many years ago. Therefore, the Chinese concern about the possibility that as a result of public money bailout, money would be going to the private sector, that did not happen that way because of the London Club approach.

Jean-Claude Trichet

Thank you, it was easier at the time because we had banks and not bonds Masood?

Masood Ahmed

If you look at the contracts, we actually at CGD, did a detailed study of looking at the contracts that were done for individual loans that were made by Chinese banks. It is true that some of them actually had exactly the kinds of constraint, but I think you will see now a learning process over time. Therefore, I do feel that the more recent loans that were being made were more aligned with what are the international norms, because it is a learning process that I think all creditors went through.

Jean-Claude Trichet

Thank you very much indeed. Bertrand?

Bertrand Badré

Thank you, I would just refer to the summit I mentioned which happened in Paris in June, we can discuss whether it was a success or not but I think the intuition was right, what we need is to find the terms of a new global financing pact, not just a new Bretton Woods but a new way to address these issues. I remember I asked Thomas Buberl who is the CEO of AXA to come on stage and what he said struck me, he said what we need to bring into the conversation is the word together. Just simply together, because everybody is in his lane, everybody is saying I am right, I know what I want to do, I know what I need, etc., but we do not talk to each other, we do not really work together. I mean we see that at every level. I think this new pact which I expect, it might take a number of years, will not be decided by one country, one institution, etc., and it is difficult because as we have discussed there are a lot of centrifugal forces that basically break the together approach. For me this is critical, we need to find ways to work together.

Jean-Claude Trichet

Thank you. Pierre?

Pierre Jacquet, Professor of Economics at the *École nationale des ponts et chaussées* (ENPC), member of the *Cercle des Économistes*

So we can agree with, it shows that development finance is at the core of today's problems and I agree with Masood that there is a short-term urgency. However I hope that we will not stop at the short-term because we are going to have a succession of short-term urgencies in the future, as we did in the recent past as well.

I would also agree that it is a coordination problem, doing it together. Indeed and it is not only a public problem, I think the Paris Club was extraordinarily successful for the public side but it took years to join forces with the private sector and I hope that the Round Table will be able to actually associate all this and that it will be more than a crisis management mechanism, that it can be actually a framework for future debt contract as well. In addition what worries me is that we are still thinking in terms of crisis management while there is a major pathology of the finance system that needs to be addressed.

One word on risk aversion, I think it is built in and I was struck when I was at the AFD that we were spending so much time trying to actually decrease the risk of our investments while development finance is about risk-taking and there is no alternative because you cannot go to our parliament with taxpayers' money and, 'Oh, this is what we did with your money, we took risks'. No, you have to go to them, 'We make sure that what we finance is riskless', because if not you will not get any money for future ODA. Therefore it is a big contradiction there, one, there are ways to think about it to create a set-aside fund, to take risks for example, and it is openly mentioned as that, but it is something that requires innovation and discussion.

One final word on efficiency, and I think it may be provocative, but I think the way we define efficiency, including now does not take into account all the discussions about externalities, climate change, environment and so on. I am not sure that trade is efficient in many cases where transport costs are undervalued and that the price of transport does not reflect the social cost for example. Therefore it will be careful about mentioning efficiency without redefining what we mean it because we are in a situation in which we need to better understand when things are efficient, not only from sheer economic perspective, but including all the climate externalities.

Jean-Claude Trichet

Externalities, yes, because I think the price system in which the market economy functions. John?

John Lipsky

I guess I get the penultimate word, the final word will be of the Chairman, but let me try to end on a more upbeat note. The consensus is that global growth is going to be sustained, and a year and a half ago the consensus was we were headed for a recession and it looks like we have avoided a recession. We are bringing inflation down and not that long ago there was concern that this process was also going to involve a financial crisis when Credit Suisse and the Silicon Valley Bank failed and it looks like that is not happening. Therefore if that is the case and we can look forward to 2024 and beyond sustained growth, back to low inflation and greater confidence in the stability of the financial sector despite risks, that is not a bad outcome. That is probably a positive environment for starting to think constructively about addressing these kind of big problems.

Jean-Claude Trichet

Thank you very much indeed John. Therefore I conclude first of all in thanking all the speakers, because they stick to what had been the rule, concentrate on the few issues. I know that we had no speaker and no discussion on the next financial crisis which is looming, on the contrary we could see that we could cope with this start of difficulty in Credit Suisse and in the

US regional bank. I do not exclude frankly speaking that we could have big problems in the non-bank financial intermediation and anything can still happen, particularly if interest rates remain at a high level obviously. It is exactly what the central banks are telling us, longer, high for longer or higher for longer. Even if, in my opinion, they succeeded extremely well in trying to regain control, but on the non-bank which is not I would say under the prudentials of the banks anything can still happen.

I am struck and very impressed by the fact we discussed development, development aid, financing with private funds the development fund, I have to thank the Minister because, Madam, you draw our attention to that and it had an echo which was overwhelming, we all discussed that. Thank you also for all the questioners.

I think that if I had to conclude with a few words I would say we are relatively confident at this stage, despite the abominable tensions that we have to cope with, geostrategic tensions, we know that a lot of surprises, unfortunate surprises can come and that we have to be prepared for everything. We proved that at least in the banking sector with what I just mentioned because the reaction of the authorities was extraordinarily rapid, both in the US and in Europe and Switzerland and rapidity of reaction is absolutely of the essence if we have new teasing come from here and there. However again I take the sentiment that we should guard ourselves of being too confident or too optimistic if I may. That being said, thank you so much for all you have done in participating actively in this workshop, thank you very much.