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FINANCING THE POST-2015 SUSTAINABLE DEVELOPMENT AGENDA: WHAT ARE THE ISSUES AND WHAT IS THE ROLE OF THE IMF?

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P R O C E E D I N G S

MR. DERVIŞ: Good afternoon, everyone. We have the great pleasure of having Christine Lagarde, the managing director of the IMF, with us and a panel that I will introduce in a few minutes. Thank you all for coming and, also, you just made it before the major storm, so I think that's excellent timing.

The topic today will be financing for development, financing for the post-2015 development agenda, and we'll stick to that because, otherwise, the world is so full of problems. (Laughter) Of course, Christine can talk about what she wants, but I think we should stick to that. It's a big enough, important enough topic.

Everybody knows, of course, Christine Lagarde, but let me just remind you that she also was, before her tenure as minister of trade and minister of finance in France, leading a major international law practice with Baker & McKenzie. At the Fund, I think what we've seen is the Fund, despite all the criticisms and all the debates, is crucial to the world economy and the world.

And at the same time the Fund has opened itself up much more. I know Christine Lagarde is very tough, but she also engages with everybody and discusses things and never is closed to reasonable debate. And I think that's so important in this field because, as we know, in economics there are many views, many perspectives, and not one is necessarily correct.

So I would like to thank her for being with us. Financing of the post-2015 Development Goals is a key issue. It goes together with the big summit that will take place in New York in September and, of course, the Climate Summit in Paris, but there has been huge progress in the world. There's no question about that, but not for everyone.

And even for those where there has been progress, I think expectations have exploded, also. Modern communications, modern closeness, in some sense, in the virtual space at least means that -- and that's good for the economy. Strong expectations means strong demands. Strong willingness to make a better life, but, at the same time, one has to deliver and delivery is the big issue, of course.

So, Christine, to you and then we'll have a panel and some discussion.

(Applause)

MS. LAGARDE: Well, good afternoon to all of you and thank you very much, Kemal, for hosting me and for those kind words of introduction. What I thought I would do because I know that some of you have other concerns on your minds other than Financing for Development, which is the key reason why most of us are here, I thought I would say a few words about Greece.

I don't know whether the New York Stock Exchange trading has resumed yet. I'm not going to comment on that, but I thought that on Greece I would say a few words because, clearly, significant and rapid developments and the IMF has been adopting a line of not silence, but we try to be mindful of developments and not be excessive in our positions. But I would like to say that if the IMF is involved in this situation it is because the IMF was asked by Greece to be involved in trying to resolve its economic issues.

Whenever the IMF is involved, it is certainly my view that the IMF has to follow its rules. It should not bend the rules and should always be evenhanded. There cannot be any special treatment.

Third point I would like to make is that our loans to countries experiencing difficulties are conditional upon various requirements, but all of them aim at restoring stability, restoring growth, and debt sustainability. Now, in the context of Greece, we have always advised that that program walk on two legs, if you will.

One leg is about significant reforms and fiscal consolidation, as we have advised in the case of Ireland, Portugal, Cyprus, and outside the euro zone, Latvia, Iceland, and it has worked. And the other leg is debt restructuring, which we believe is needed in the particular case of Greece for it to have debt sustainability. That analysis has not changed. It may well be that numbers will have to be revisited, but our analysis is not changed. What has changed is clearly that Greece is in a situation of acute crisis which needs to be addressed seriously and promptly.

Greece is now in arrears vis-à-vis the Fund, and the Greek people have rejected by their referendum response the latest proposal that was made by the institutions and the Europeans. So in that situation, clearly we remain fully engaged in order to help find a solution that will be most conducive to what I said is our mission, which is to try to help with restoring stability, growth, and debt sustainability. Those will continue to be the guiding principles of how we have to operate in order to help the country.

I think I'll leave it like that, though clearly developments that are ongoing -- today, tomorrow, and in the next few days -- we will be working as much as we can, and I will not take any other questions or concerns in relation to Greece. I think I've said as much as I could say and we're now going to move into the topic of today which is bringing everybody in the room, which is the Financing for Development.

And I would like to, Kemal, thank you and thank through you The Brookings Institution, and say how honored I am to be on a panel with Nancy Birdsall from the Center for Global Development, Michael Elliott from The ONE Campaign, and Homi Kharas from Brookings, as well. I would like to thank members of the IMF who are in the room, as well, and I know that we have some of our African EDs -- executive directors -- who are here with us and who will be, like some of us, in Addis Ababa in a few days to actually discuss, all together, the Financing for Development, which is, as you indicated, Kemal, one of the three key summits in 2015.

Back a few days ago, I gave a speech about inequality and about what I called "lifting the small boats." And at the end of that speech I mentioned to the audience that we might in 2015 have a once-in-a-generation occasion to actually change the music because we have the summit in Addis Ababa where we will focus on Financing for Development. We know that it's not a pledging summit; it's one where we have to collectively explore areas for financing.

Then there will the September General Assembly of the United Nations which will redefine the Sustainable Development Goals. And after that, in December, in Paris, will be the COP21 which will focus on climate change and how the international community can come together to address those issues. So these three combined can actually help us change the music.

Now, why do I say we have to change the music? Because there is an African saying, which says that -- and I don't want to make any mistakes -- it says, "When the music changes, so does the dance."

And I think that we have a chance to collectively take a new approach and it starts with next week in Addis Ababa, how we focus on different financing, how we allocate responsibilities amongst ourselves, and to grasp this window of opportunity which, as I say, is rare. We need to take those carefully, consider them, and then act.

What I would like to do this afternoon with you, in that spirit, is to explore in this very different and changing global landscape what actions developing countries need to take to support sustainable growth and how the international community, including the IMF, can contribute.

So let's turn first of all to that changing international landscape. How have circumstances changed since the Millennium Development Goals were adopted 15 years ago? You alluded to that, Kemal. What trends have emerged? For me, three trends that I will summarize for ease of memory, by the three V's.

My first "V" is velocity. Over the past 15 years, most systemically important emerging markets have prospered. Many developing countries have become more integrated and, as a result, there has been a rapid expansion of growth and trade, as well as capital flows.

I'll give you a few examples. Since 2009, developing country GDP and trade have expanded at an annual average rate of 10 percent. Since the early 2000s, capital flows to developing economies have increased threefold. Now, this is good news. What is not such good news is that it has not been shared equitably. And that's my second "V," for variance. So, velocity, it went about quite fast. You know, more than 10 percent for trade and growth, three times the capital inflows, but variance is my second "V."

What do I mean by that? Well, the better-performing economies, often underpinned by robust policies, have forged ahead. Sadly, the poorest and most fragile have been left behind. In fact, over the last 15 years, real per capita GDP in non-fragile, low-income countries has increased by almost 70 percent. In the fragile country that same increase has only been 15 percent.

Another important dimension of this variance is the high level of income inequality that we find within countries because, by the same token, there has been less inequality between countries and that's largely due to the emergence of some of the very large emerging economies, such as China. But within countries there has been a rise of inequality.

My third "V" is volatility. As well as the Great Recession itself, conflicts and natural disasters have also set many countries back. Climate change, for instance, represents an increasing problem, with poor countries hit especially hard. Since 1990, for example, almost three-quarters of all natural disasters have occurred in developing countries. Their geography, their reliance on agriculture, the low infrastructure, and often bottlenecks, can make the poorest countries particularly vulnerable.

Another factor with implications for volatility is, of course, demographics. Countries with aging populations face rising dependency ratios that could strain government finances and slow down growth. Equally, other countries, particularly in Sub-Saharan Africa, can have the benefit of fast-growing populations, with a large number of young people, if they can reap the benefits of that population called the demographic dividends, but there are conditions for that, of course.

So these three trends together -- velocity, variance, volatility -- have marked the last 15 years in the main. Some boats have built up speed, while others struggled to make headway. They all remain at risk of storms and the uncharted waters that lie ahead. Each trend has importance for global development and each of those trends should be taken in account when we actually look at how we deal with the challenges ahead of us.

Making the right choice in 2015 is also going to rely on collective commitment from all partners. And as I've often heard with some of our developing country members, it begins at home. And whenever we talk about domestic revenue mobilization, for instance, we are precisely pointing to that.

When we look back over the last 15 years, one lesson is that the countries that have performed best have generally been those that have assumed the greatest ownership of their policies. What does that entail? Well, coming from the IMF, you would be surprised if I did not mention macroeconomic stability. In our view this is a prerequisite to sustainable growth. It includes keeping inflation moderate, it includes keeping public debt sustainable, and it also means implementing policies that help maintain resilience in the face of external shocks. That often has to do with keeping buffers.

Think about Sub-Saharan Africa, for instance. The region demonstrated remarkable resilience in the face of the global financial crisis. Most countries did actually have buffers and used at least a portion of it. Actually, nearly two-thirds of Sub-Saharan countries have recorded 10 or more years of uninterrupted growth during that period. Those countries applied prudent policies and it paid off. Now, of course, strong macroeconomic policies will remain of paramount importance, especially as the region confronts new challenges and risks. And that is why at the IMF we place so much emphasis on the macroeconomic policies.

Why is that? Because stability helps people and generally helps the poor people most because instability victimizes the poor and most vulnerable first. High inflation, for instance, is deeply regressive and instability is the death-knell of large-scale private investment, which, as we know, is one of the key drivers of growth over time. So in our view, it is only with a stable foundation, watertight hull and an even keel, if you will, to use these nautical analogies, that we can raise the mast, hoist the sail, and chart our course toward inclusive and sustainable growth. So much for macroeconomic stability.

What are the priorities if those foundations are solid? I mentioned it briefly, mobilizing revenues is going to be a first order of priority. It’s an imperative. In about half of all developing countries, the tax ratios are below 15 percent. If you compare that the average OECD countries, 34 percent. The situation is even worse in fragile states, but it can be fixed. It has been demonstrated by some countries, by implementing a simple, broad-based, and fair tax system that situation can be turned around.

A recent IMF study examined 126 low- and middle-income countries between 1993 and 2013. And it found that Fund-supported programs with revenue conditionality helped implementing countries increase their tax revenues by 1 percentage point of GDP. If those same conditionalities having to do with increasing revenues under those programs were consistently applied for 3 consecutive years, tax revenues increased by 3-1/2 percentage points of GDP.

Is this something to be proud of? Well, it is important. It is important because revenue generated in that fashion can actually be spent on matters that will actually make a difference. It can be spent on health. It can be spent on education. It has to be spent on the right policies, of course.

And that's another salient point I would like to make. Those revenues raised must be spent efficiently and effectively in support of inclusive growth. Strong fiscal institutions and public financial management to that effect are essential. Another IMF research study has shown, for example, that well-managed public investment has a key role to play in improving infrastructure and supporting inclusive growth.

So, money raised in that simple, fair, broad-based system, well spent on the right policies can actually be a game-changer. That's not always the case and, unfortunately, we have found that around 30 percent of the potential gains from public investment are lost, lost due to inefficiencies in public investment processes. You can think of all sorts of things, but the bottom line is 30 percent of it is lost.

Were a country in the lowest efficiency quartile able to increase its efficiency to the level of the highest quartile, it would double the economic bang that it gets for its investment buck. So mobilizing revenues efficiency is key.

The third critical priority, in our view, is the development of the financial sector in a way that supports growth and tackles poverty. Not any financial sector, a financial sector that is targeted to those two imperatives. IMF staff estimated that the annual growth rate of developing economies with more efficient banking sectors exceeds that of economies with less open and developed banking sectors by about 1 percentage point. We also know that the percentage of people living on less than $1 or $2 a day can fall more rapidly with higher levels of financial development.

And government can play an integral role by setting the rules of the game at an early stage, applying supervision, protecting legal rights, and strengthening financial infrastructure. We've done some research on that basis because it was alleged for a period of time that having too much of that would actually impair the development of those financial services in the developing world. Not true. They can very well work in parallel and one can actually proceed the other. And obviously, having a strong financial sector that is well supervised and well managed is conducive to foreign direct investment, a more business-friendly environment that is eventually going to be conducive to growth, as well.

Now, that takes me to the next very important point: what kind of growth are we talking about? Talk about sustainable growth, yes. We're also talking about inclusive growth because for growth to be sustainable, it is essential that the fruits of growth be actually shared by promoting economic inclusion and environmental sustainability. And that includes providing access to finance, strengthening social protection, and empowering women and girls, including by giving them full access, unrestricted opportunities for both education and professional life. That's another study that we have conducted.

It is estimated that if women participated in the labor force in the same proportion as men, per capita income would rise by 27 percent in the Middle East and North Africa, 23 percent in South Asia, 17 percent in Latin America, 15 percent in East

Asia, 14 percent in Europe and Central Asia, and 12 percent in Sub-Saharan Africa. So, in short, empowering women and giving them the same access without restrictions -- and there are restrictions everywhere -- is an economic game-changer. I'm saying there are restrictions everywhere because we've also done a study on that and we've borrowed from excellent data provided by the World Bank, on which we've done some additional research, and there is clear evidence that those discriminations are not just a factor of the developing world, but they are just about everywhere.

More generally, IMF research shows that an increase in the income share of the bottom 20 percent is associated with higher GDP growth. We have also found that a 1 Gini point increase -- you know the Gini coefficient that measures inequality -- well, if inequality increases by 1 Gini point, it is associated with a 6 percentage point higher risk that a growth spell will come to an end in the coming year. Interesting. So growth that is more inclusive is also higher and more durable.

To put it another way, as I said that empowering women is good economics and a game-changer, fairness is also good economics. The bottom line? By implementing policies conducive to sustainable growth, developing countries can go a long way to support their own development. And they can do that alone, but as another African proverb says, if you travel -- somebody's going to help me here -- if you travel by yourself you go fast, but if you travel with others, you go far. Something along those lines. I know it better in French. (Laughter)

So they can do that by themselves, but if it's a collective effort and if the international community participates in that effort, it's going to go a lot further and for a lot longer. So we have to, together, do it.

And that's my third and final point. We share a common responsibility for our common fate. So how can international partners help create an environment that is more conducive to sustainable and inclusive development? In other words, how can we make sure that the “small boats” are lifted, too?

The challenge is multidimensional. It ranges from cooperation to combat tax evasion, which is not going to be done at the domestic level in one developing country. It’s going to require the cooperation of everyone. It includes constructing an even stronger multilateral trading system that benefits all. It includes raising aid levels in rich countries and reducing the cost of transferring remittances in poor countries. And it requires committed and long-lasting partnership.

And let me emphasize something. I don’t think that those partnerships are not just about governments. They also include civil society at large. The civil society organizations bring to the table a wealth of experience, sometimes money, and their unique perspective. Along with other networks of influence, civil society plays an essential part in what I have otherwise called this new multilateralism. And I make sure that we hear the voice of civil society representatives and I encourage the staff of the IMF to pay special attention to their voices and what they have to say.

Which takes me to the IMF. What can we do? Because to follow-up and to pick-up on something you said, Kemal, we are not promising, we are delivering. And that’s what I have tasked the teams. Do not promise me anything, deliver. And that’s what I want to be able to say to the membership at large, we are not promising, we are delivering.

So we have that global membership and the mandate to promote economic growth and stability, which makes us a committed partner for development. It doesn’t mean that we can finance infrastructure projects, this is not our task. The World Bank and other multilateral development banks and other institutions are in that domain. We’re not equipped for that, but we can still do things and we can deliver.

So we thought of areas where we can actually participate in the process. First and foremost, we give policy advice and we offer capacity building, so we're committed to strengthening that. So we will -- and I commit here before you -- we will help more countries mobilize domestic revenues and then repurpose these resources to tackle poverty and drive sustainable growth.

We plan to reallocate additional resources to this area, which already accounts for one-fifth of IMF capacity building. For example, you know that there is this whole debate about BEPS, base erosion and profit shift. You know that there is this project of automatic exchange of information. Well, that project is great and I think the OECD is doing a fantastic job at that, but there are voices that are not particularly well-represented and sometimes not heard at all. And that's an area where the IMF and the Bank, for that matter, have experience. So what we want to do is to carry those voices and to make sure that in whatever new scheme of things, whatever new treaties, whatever new OECD model, the interest, the concern, and the voices of the developing countries, and the most fragile ones and the most vulnerable ones amongst them, are heard, as well, and their interest taken into account.

We will also expand our support to increase the efficiency of public spending, such as by eliminating untargeted subsidies because those untargeted subsidies benefit everybody without any differentiation. We have done quite a bit of work already in that respect and we will continue to do that work in order to retarget to those who need it most and eliminate where it's not needed.

Second, we will support countries seeking to invest in infrastructure and, therefore, develop their economies. In particular, we will use a range of tools to assess public investment management capacity, identifying areas where technical assistance to strengthen domestic institutions is needed. That's to avoid that 30 percent loss that I referred to earlier. But we will not stop there. We will also summarize these assessments, and that may have to do with poor management, noncompliance with procurement rules, phony payments going here and there, special purpose vehicles that are not really particularly satisfactory. We will summarize those assessments and we put them in our Article IV.

Now, the Article IVs of the IMF are the sort of bill of health of each and every country that we conduct on an annual basis and which are public, totally public, on the website. And it's helpful to actually share knowledge in a most transparent fashion.

Third, we will deepen our engagement with countries on issues of rising concern: equity, inclusion, and climate change. This will include expanding our analytical work on inequality, gender, jobs, and financial inclusion. Now, some might argue that it's not directly related to the core mandate of the IMF and I contend that it is because it is macro-critical and because we've now demonstrated that if there is less inequality, if there is better access for all -- girls included, for instance -- there is better growth, more sustainable growth.

Now, we are fully alert to the challenges faced by fragile and conflict-affected states where development lags and, in many cases, terrorism breeds. We know that achieving results in fragile states requires engagement in the long haul, the hard slog of rebuilding key economic institutions, and the inevitable setbacks on the way. But we are in it for the long haul and will stay the course. After Addis Ababa we will travel to Monrovia and Liberia, where we have done exactly that over the course of the last few years.

Now, beyond that policy advice and capacity-building that I just referred to, I am also pleased to announce several changes in our financing facilities for developing countries. And they have been approved by the Executive Board of the IMF just a few days ago.

First, to better protect countries from external shocks we will expand access to all concessional facilities by a full 50 percent.

Second, we will target our concessional resources more on the poorest and the more vulnerable countries.

And third, we will maintain our interest rate on our Rapid Credit Facility loans, our loans to fragile states and countries hit by natural disasters, for instance. We will maintain that interest rate at zero over the longer term. So, 50 percent more access, focus on the poor and most vulnerable, and 0 interest rates for the longer term.

We believe that the IMF constitutes an important safety net for countries confronting external payment imbalances. The expanded safety net will provide an additional level of support to countries pursuing ambitious development. In these concrete ways, the IMF intends to create a more supportive environment for developing countries to prosper in the period ahead. So we will play our part with the means we have, with the mandate we've been given.

And I would like to finish with that African saying, which I mentioned already: If we want to go fast, we go alone. And that is going to be true in many instances. If we want to go far, we'll go together. I've mentioned it before, I'm saying it again.

There are many areas where countries can just go on their own, but think about those issues. Tax evasion, for instance, you can do anything you want on your own. If it's not a collective drive, it's not going to work. Climate change issues, which affect mostly the poor and most vulnerable countries, they can do a lot on their own. Removing subsidies, for instance, can have a great impact, but it's not going to have a massive impact if nobody else around does anything.

So it is that collective approach that we certainly want to support and encourage. As I said, it's a once-in-a-generation opportunity that we have. If we take it all seriously, if we all committed, and if each of us is in the business of delivering, we'll try to do that.

Thank you very much. (Applause)

MR. DERVIŞ: Thank you very much, Christine. I think this was very comprehensive and also with some real new substance in it, new things, such as the 50 percent increase of access for the poorest countries, the 0 percent interest rate for the most vulnerable over the medium term, and I thank you for that. I think that's what Addis needs, some real actions instead of just general talk.

For the sake of time, and we're very limited, I'm going to turn right to the panelists without introductions. The managing director actually helped me by introducing you at the very beginning and you're well-known anyway. But I'll start with Michael Elliott, the leader of The ONE Campaign.

You know, one thing that Christine emphasized, and I think you are embodying in your very successful leadership in civil society, is this partnership between the business sector, civil society, and government. Would you like to maybe say a few words on that and also ask the IMF how it sees that partnership?

MR. ELLIOTT: Absolutely. Well, thank you, Kemal, and thank you, Brookings, for having us all here. I just want to say following on from President Lagarde's or Christine's --

MS. LAGARDE: Christine is okay.

MR. ELLIOTT: -- extraordinary speech, I mean, just five points just to reiterate five things that were mentioned: the importance of fragile states, the importance of concentrating on fragile states; the importance of concentrating on inequality, the importance of concentrating on girls and women, and Christine has already used The ONE Campaign slogan, “Poverty is sexist,” in front of 100,000 people I’m pleased to say; the importance of finding a place at the table for CSOs which I’ll come on to in a second, Kemal; and then, of course, looking forward to Paris, as well.

Addis gives us an opportunity, as you say. Those five points this afternoon, Christine, really established for me sort of a comprehensive and coherent position that the IMF is taking on key issues for which I’m really, really grateful. I really can’t kind of stress my gratitude enough.

Addis gives us an opportunity, Kemal, as you imply, for a variety of actors to come together to really kind of set a roadmap for Financing for Development for the next 15 years. So it’s not just governments and it’s certainly not just northern governments. As we all know, the picture of Financing for Development has changed radically since Monterrey. It’s now not just a donor-led business. Domestic resource mobilization, as Christine pointed out, is absolutely critical, so governments from both sides, from both north and south, need to have skin in the game and need to produce something for Addis to be a success. And we and many others have put our proposals there.

But governments need to do one other thing with the private sector, and Christine really alluded to that. Donor governments need to put skin in the game at Addis. Developing country governments need to put skin in the game, particularly maybe pick up Homi’s idea of a social compact. But corporations and governments together need to do something about the fiscal framework. We need to be absolutely serious about wrapping whatever we do at Addis Ababa in a package that tackles corruption, that tackles illicit financial flows, that tackles international tax cooperation, that really makes sure that automatic cooperation works for those who need it most. And that can’t just be done by governments or by awkward civil society organizations like ours. It also requires a true commitment from the private sector and the corporate sector not just to do investment, that's great, but to look into themselves and recognize that there are real issues of illicit financial flows and corruption that they needs to help us tackle.

MR. DERVIŞ: Excellent. Christine, one thing you emphasized was this tax avoidance business, but also you put it in the context of the Article IV consultations. And following Michael's points, do you want to elaborate just one or two minutes on how you see the change in the Article IV? Because it's always been a powerful tool and the leadership is coming from above often, but sometimes the weight of the past and, of course, the constraints of time and all that make it that the actual product is more traditional than maybe some of these ideas that you're putting forward.

MS. LAGARDE: That's a lovely way to put it, Kemal. You're right. (Laughter)

I think where we have consensus and where you will see changes is in the area of project management, project financing assessment because that we are fully equipped, we have the tools to identify where, you know, there is loss along the way. And that's where we will be able to actually publish in Article IV a summary of our findings.

There are other areas where, you know, we have tools where we can do some work, but it's not yet sort of mainstream business, for instance, and I think we'll be working on the basis of pilot cases, voluntary participation of some member states. And in the area of, you know, equality for girls and better opportunity and their contributions to the economy, there are countries that have now volunteered to include that in the scope of what we are studying for them. A country like Japan, a country like India, for instance, have indicated clearly that they want to put that on the map and they welcome it.

MR. DERVIŞ: That's excellent.

MS. LAGARDE: So that's good. But on the tax front, I totally, totally support your view because it has to be -- as you say, it's not just the international partnership with all member states participating because, as we all know, there will be some member states that will take more time, that will have some reservations. It took some 25 years to come to the first OECD initial tax model, so it's going to take, despite all the efforts, a lot of time to get there. But if there is enough social conscience on the part of some of the corporate world to actually optimize their tax position with full respect of what and where they should leave taxation, I think that would be a major, major step.

MR. DERVIŞ: Thanks a lot. Nancy, you've been an impressive leader of development issues in Washington, around the world. How do you feel this Addis event and what Christine said, what would you like to add to it or also, if possible, ask a question to Christine?

MS. BIRDSALL: Okay, wow. So I wanted to do -- it was a wonderful speech. Thank you, Kemal, for giving us the opportunity to hear Madam Lagarde on these issues. And it was really wonderful Michael repeated some of the big themes in a way that give it energy. What I wanted to do is a little bit of a riff kind of the issue of domestic resource mobilization and who is responsible and accountable for what and to make some requests of the IMF.

On what the developing countries should do and how the IMF can help, to go back to this issue of inequality and inclusive growth, I think in the medium term it has to be about more than raising the VAT rate, the value-added tax. It has to be beginning with help from the IMF for developing countries to be investing in progressive tax systems, more progressive tax systems; property taxes, which will require time to work out because of cadastral surveys; income taxes.

So that's a big issue that you didn't specifically mention, you didn't go into. It's a little bit weedy in a way, but I think it's so fundamental. You know, in the donor system there's all this excitement about more domestic resource mobilization. And in Addis Ababa, it's important to keep in mind it can't amount to more consumption taxes, particularly on the poor and the incipient, struggling, not-yet-middle-class group, which is together they are by far the largest group in terms of the distribution of income. That's the bottom four quintiles in the developing world.

And one of the taxes, again, on domestic resource mobilization that you didn't mention, but has to do with energy subsidies, which are, of course, negative taxes, where there is an opportunity for more domestic resource mobilization and particularly in developing countries on tobacco. It's a sin tax. It's a tax on a bad thing. And in the medium term we know now from very good research it will not be regressive. It can feel regressive in the beginning, but because poor people die sooner, et cetera, because of cigarettes, you're giving people -- with sin taxes to the extent they smoke less, it's going to be a good thing, especially for the poor where there's so much asymmetry, as you said, in so many areas.

Now, the other sin tax, of course, is on energy. And here I wanted to say something about it's not only a collective action issue, but take the example of the U.S. I didn't look at the latest Article IV for the U.S., but as an American citizen and as a taxpayer, we have this embarrassment. First we have the embarrassment that the quota reform hasn't been passed in the Congress.

MS. LAGARDE: Thank you, Nancy. (Laughter)

MS. BIRDSALL: And we have to see that happen. We all want to keep working to find a way to make it happen.

But the other embarrassment is that since 1993, the gasoline tax here per gallon has been 18 cents. And under your leadership the IMF has had a string of incredible studies about energy subsidies and climate and the fiscal implications and the health implications, and it's really an impressive set of work. And I hope that in Addis there will be some discussion of domestic resource mobilization in the rich world, in the big markets where even if just the U.S. did it, this one example of we could go fast alone if one of the largest markets in the world took on an appropriate price on energy. And the first step, you know, that's politically out there would be the gasoline tax.

So now I'm going to look up the Article IV. (Laughter) And the next one, too, because some of these things they are talking about more than once.

MR. DERVIŞ: Christine, any comments? I mean, it comes from an American citizen, which makes it easier.

MS. LAGARDE: And who wants to pay more taxes.

MR. DERVIŞ: That's right. (Laughter) The right kind of taxes.

MS. LAGARDE: Yeah. But Nancy knows that it's an area where we have done an enormous amount of work. We've published recently and heavily. And there's one point you make which is completely right and it's one of the few areas where even if nobody else does it, to do it for your own country is actually going to serve you well.

But, you know, the latest study that was done by our Fiscal Affairs Department shows that, you know, there is north of $5 trillion on energy subsidies either directly or indirectly, collaterally, consequentially, however you want to describe it. Well, surprise, surprise, the largest countries are the largest contributors to that very sizable amount, China leading the charge, but U.S. not far behind. So you're completely right, there is this negative tax, if you will, or subsidies that is spent on energy and generally not the best energy either.

MS. BIRDSALL: Right.

MS. LAGARDE: So we have repeatedly recommended -- I don't know if we have done it in the last Article IV that was just approved because there was a huge emphasis on the financial markets and financial regulations and how, you know, the Dodd-Frank Act should be pursued and completed and delivered upon and what risks there were, but certainly last year we did recommend it and the year before. I'd have to check in the latest one, but we'll just go back at it.

MS. BIRDSALL: If I can add to the compliments on IMF work, I didn't say, but I think it's really been a breakthrough, including from yourself, Christine, on linking reduction in subsidies to cash transfers.

MS. LAGARDE: Yes.

MS. BIRDSALL: And finding ways -- I remember you gave the Iran example at one point, finding ways to make it possible to raise prices without hurting the poor more and reducing the inequality associated with subsidies since the rich use so much more energy.

MR. DERVIŞ: Thank you very much, Nancy. And, Homi, you were the executive secretary of the group working to advise General-Secretary Ban Ki-moon on the post-2015 agenda. And I have the great privilege working together with you. We managed the program together here.

But, Homi, we did write on this together. There seems to be actually quite a bit of savings and profits in the world, and interest rates are at almost secular lows in real terms and in nominal terms. So why isn't it easier to finance these huge needs for infrastructure in the developing countries and in some of the advanced countries even? Why does there seem to be a kind of chronic, I wouldn't use Larry Summers' secular stagnation word, but difficulty in getting the funds that actually exist to do their work? And anything else you want to say. (Laughter)

MR. KHARAS: Thank you, Kemal, and thank you, Madam Lagarde, for a very inspirational talk. I mean, I do think, you know, as one of the -- when the music changes, you have a different dance. I hope one of the different dances that comes out of Addis is this dance around infrastructure spending in developing countries. Because, you know, the Fund's research has shown that we've had a long period of time where the public capital stock, essentially infrastructure, has come down as a percent of GDP. In low-income countries it's come down by something like 40 percentage points over a 20-, 25-year period. So we've had this -- you know, it's not a short-run phenomenon that infrastructure and investment has been low. I think it's been a long-term phenomenon.

And we've tried to rely for a long time on the private sector, on private business to deliver a lot of the infrastructure. And I think now what we're realizing and what's, you know, really important to have this as an agenda item for Addis is that infrastructure in developing countries has to have both affordability and low carbon sustainability built into it right now. And those are two things that pure private sector infrastructure investments won't necessarily do, so there has to be a blending and a combination if we want to get infrastructure really moving.

And there are all kinds of reasons that people have talked about, about why it's so difficult. You know, different types of capital aren't exactly the same. You can't just say, well, there's lots of savings available and there are these investment needs and so let's put them together, because you need a different type of capital for project preparation, a different type of capital for the construction risk, a different type of capital for the operations. So all of those have to be blended, I think, in a much more innovative way than what we've done so far. And, you know, in a way, to be honest, which is we don't have even models in rich countries about how to do that well. And rich countries are finding it difficult to keep their infrastructure up to standard.

So, you know, this is an area which, I think, really does need to be developed. It'll take some time. There are lots of exciting new ideas that are out there. But one of the things I think we must recognize on infrastructure is that even though the private sector will contribute, it's still the case that most infrastructure projects are debt-financed.

And so inevitably, if you want to go in a major way into infrastructure investment there will be a build-up of debt and people are scared of debt. And so I was actually very heartened to hear that now there are new tools that are being developed to actually think from a micro perspective about what are the real benefits of public investment, to be able to weed out the inefficient, you know, infrastructures. And we know that there have been plenty of those that just simply add to debt, but don't do anything to the bottom line on growth, and to be must more fine-grained about understanding where we can have growth-inducing, inclusive, sustainable infrastructure and where it's just going to be more debt.

MR. DERVIŞ: Excellent. Christine, you emphasize the efficiency thing. It's also an issue of balance sheet and income statement. I mean, if you're spending and thereby strengthening your balance sheet, it should be okay.

MS. LAGARDE: It should be okay except that I'm not sure that state balance sheets and income statements are designed and recorded in the same fashion as in the private sector. I think if it was the same accounting principles as in the private sector it would be a lot easier actually and the weight of debt would not be accounted for in the same way. But I'm digressing. You know, I'm not giving an IMF view here. This is my own view. (Laughter)

But efficiency, I mean, aside from the accounting principles that are applied, I think the efficiency also, I think, comes -- if I may add to our two points, affordability, sustainability, I think efficiency has to be a part of it as well. Because there have been many countries, many projects that we have studied where there is a very large margin of inefficiency.

MR. DERVIŞ: Okay, very rapidly, Michael was wanting -- and then Nancy, but we have to be very, very quick.

MR. ELLIOTT: Real, real quick. I endorse everything that Homi says on infrastructure, but he did make another point tucked away in there which is really important. We go to Addis and the papers and the commentary are full of it's not about aid anymore, you know. It's about DRM, it's about the private sector, it's about remittances, it's about innovative financing, it's about all those things. Yes, but as Homi reminds us, simply because you see an enormous amount of private investment in the charts, it does not mean that every dollar of private investment is the same as every dollar of remittances, is the same as every dollar of aid or anything else. And it is worth remembering as we go to Addis that for the poorest countries that Christine started talking about and for social services like health, education, and sanitation, generosity, real generosity, on the part of northern donors remains absolutely vital.

MS. LAGARDE: Critical.

MR. DERVIŞ: Nancy, very quickly.

MS. BIRDSALL: Your point about the IMF looking more closely at investment management, I have two quick questions. Is it an implicit critique of the failure of the World Bank to do that or the other MDBs?

MS. LAGARDE: No, no.

MR. DERVIŞ: That was quick. (Laughter) No.

MS. BIRDSALL: And is it linked in what way to whatever view you might have from the IMF because of the issue that Homi outlined on better, new recapitalizations, not just the new Asia Infrastructure Bank, but recapitalizations in the future of let's call them the old MDBs?

MS. LAGARDE: Well, first of all, you know, maybe that's an aside and not directly a response to your question, maybe it reflects the fact that I'm not sure that I understand the question. But --

MS. BIRDSALL: They need more capital.

MR. DERVIŞ: Do MDBs need more capital?

MS. BIRDSALL: Do the MDBs --

MS. LAGARDE: Well, you know, my first answer was no, my second answer is yes, so that's simple.

MR. DERVIŞ: Yeah, okay.

MS. LAGARDE: You won't get it shorter.

MR. DERVIŞ: That's fine.

MS. BIRDSALL: It's on the record, good.

MR. DERVIŞ: So we should take two or three -- I know we're almost out of time completely, but we still want to take two or three audience questions. So I will first, the lady there who's -- but please, it has to be a question and quick. No long statements.

SPEAKER: *Merci,* but I (inaudible) French.

MS. LAGARDE: (Speaks in French), huh?

MR. DERVIŞ: (Speaks in French.)

SPEAKER: *Merci beaucoup, Christine. Merci beaucoup.* (Speaks in French)

MR. DERVIŞ: *D'accord.*

MS. LAGARDE: Okay. You know what, I'll translate very quickly for everyone else because otherwise it's unfair.

As an American citizen, but originally from the Democratic Republic of Congo, you'd like to know as a retired engineer how you can participate in the programs and be an active member and you've prepared a special file. All I can say is that please give me the file. I have a team here in the front row. They'll be able to take it and if you can participate, you know, from civil society in programs and the work we do we'll be very happy to reach out to you. Thank you.

MR. DERVIŞ: Okay, great.

SPEAKER: Thank you. Thank you very much.

MR. DERVIŞ: Thanks for the translation. All right. I think there was this gentleman there. Yes, yes.

MS. LAGARDE: *Merci, madame.*

MR. DERVIŞ: Very briefly say -- identify and then the question, okay?

MR. ZOCCALI: Yes. Guillermo Zoccali, former IMF ED. Managing Director, thank you very much for sharing your agenda and vision for an improved sustainable growth with inclusion prospects. In this regard, this current context of low growth, high debt, and financial market volatility make policy implementation challenging, to say the least, even with the IMF's new vision. You touched upon the Article IV assessments. And in this regard I see that basically the process of global adjustment of payments and balances has remained quite disorderly. This is certainly not helping the process of structural reform and adjustment and even ample financing in these conditions is likely to be insufficient.

Are you satisfied with the efficacy of the Fund's surveillance effort? And if not, what can be done to improve it? And here only one example, the European context, we have major countries that continue to exhibit current account surpluses, in excess of 8 and 10 percent of GDP. Is this something that worries you? Can something be done? Is symmetry a chimera? Thank you.

MR. DERVIŞ: Thank you. Okay, we have to be a little bit quicker and what I suggest, Christine, is we take two or three and then you say a few last words.

MS. LAGARDE: Okay.

MR. DERVIŞ: Yes, that gentleman with the glasses. Yes.

MR. KANELLOPOULOS: Yeah. Konstantinos Kanellopoulos from Johns Hopkins SAIS. I have two quick questions. Two what extent do you think that the failure of the Greek program we talked about, the arrears that Greece is with the IMF right now, to what extent has that undermined the IMF's credibility in developing countries and then potentially finding any alternatives to support themselves?

And to what extent is the Fund's report responsible for the result in the election on Sunday? Because according to many, the publication of the report on debt sustainability supported the "No" campaign because it was politicized by the government for the "No" result. Thank you.

MR. DERVIŞ: But we really should stick to the topic, although, you know, general credibility is an issue. And I should add that the Fund has always argued that the debt should be reorganized. But anyway, please stick to the topic because if Ms. Lagarde was gracious enough to give her view on Greece we could stay here another two hours and I would be very excited about it, but not today. (Laughter)

MS. BERNSTEIN: I think some people in the audience might advocate for that, but Leandra Bernstein, Sputnik International News. Just a quick question on Ukraine. Some have accused the IMF of giving preferential treatment to Ukrainian debt. Is it the case that that country is viewed by the Fund as essentially too geopolitically big to fail?

MR. DERVIŞ: Thank you. And maybe one last and then we'll end. Yes. You did it with such enthusiasm that there was no way I could not pick you.

MS. WITTE: Thank you so much. My name is Samantha Witte. I'm with the World Bank's Energy Division.

Madam Lagarde, you mentioned macro stability as one of the important foundations. My question is regarding fiscal spending in developing countries that is oftentimes very procyclical. How do you envision the IMF helping or maybe working together with the World Bank in strengthening institutions that are inherently political to make sure that spending is less procyclical and more strategic and more focused on the long term? Thank you.

MR. DERVIŞ: All right. I think that's it for today in terms of questions.

Christine, you try to --

MS. LAGARDE: Okay. Well, I'm going to focus on the last question --

MR. DERVIŞ: Okay.

MS. LAGARDE: -- which is clearly pointed to our topic because I very strongly believe, and I don't want to represent President Kim's view, he's big enough to do that by himself, but I think he shares my view, we have to cooperate and we do cooperate on the ground -- and we will have some announcement to make on Friday actually in that respect -- in order to help countries in the developing world with a special focus on the fragile, post-conflict, and most vulnerable ones to actually apply fiscal policies that will be conducive to growth.

We cannot -- well, we can do that in two different ways. Either we have a program with a country and, in that case, we can help and design and work together, or there is no program because the country doesn't need it, but at least we can give the policy advice that, you know, makes recommendations in that direction. And we can certainly work in very close cooperation with the Bank on those countries. And I look forward to continuing to do that and, you know, amplifying that cooperation. I think in Addis we'll be able to demonstrate that, as well.

On the other topics that are clearly unrelated to the particular matter that is of interest to the audience, but I'll just take one point because I think it's a misunderstanding that I would like to clarify. The reason we published our debt sustainability analysis on Thursday is that a debt sustainability analysis of two pages was put on the public website which the Greek citizens consulted in order to determine their position. Given that this was produced by the European institutions, and for those of you who belong to the IMF or know the IMF or have read a debt sustainability analysis, it has nothing to do with the typical work that we do in such circumstances. So we thought it would be honest and transparent to also publish ours so that everybody could have access to it.

As to its role, I can assure you that it has been used by one side and by the other side with equal talent and success. And we are very proud to see a debt sustainability analysis which is not the funniest, you know, propaganda document in the world being so exploited on both sides. (Laughter)

MR. DERVIŞ: It does wonders for economics. But anyway, thank you very much. We have so many things, of course, we could continue to discuss, but I do really salute the fact that the IMF and you personally are behind the Addis conference. Development remains a huge priority for the world community. I think they're going to -- (inaudible) always teaches me that there are going to be something like 4 billion Africans by the middle of this century. There are huge needs. And the fact that an organization like the IMF has extended its analysis and its ambition from stability and growth in a stable framework to inclusive growth, to institutional development, to the issue of gender and women, I think is something we should really be very, very happy about, very grateful.

I do hope, I have to add that, that when the IMF mission leader actually goes to their countries, all this remains a priority and doesn't somehow disappear and drift into the concluding footnote.

All right. Thank you very much and please be seated while Madame Lagarde exits. And then thank you all for coming. I have the feeling, although there's no way to see, that the rain has stopped. (Applause)

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