

A Fireside Chat with Rémy Rioux of the AFD

Thursday, March 14, 2024

MASOOD AHMED:

Greetings and welcome to this session, where we have an opportunity to have a conversation with a colleague and a dear friend, Rémy Rioux, who is the chief executive of AFD, the French development agency, but also has other hats, including having been the chair of the IDFC, the International Development Finance Club. We'll find out a little bit more about what that is, as well as bringing together of a lot of public development banks in the Finance in Common initiative. So, today we have an opportunity to delve a little bit into what these different ways of advancing the development finance agenda imply, and how they can all come together in support of both the Sustainable Development Goals and the Paris Agreement. So, Rémy, welcome back to CGD. It's always a pleasure to have you here.

RÉMY RIOUX:

Thanks for the invitation. Pleasure.

MASOOD AHMED:

And there are many topics we can talk about but I wanted to start a little bit with AFD and then we broaden out the lens, if you like. And I know that middle of last year, France launched its new strategy and for international development cooperation and AFD is of course part of that, is six months into the implementation. Maybe just to start with, how would you say that this strategy differs from what was happening in the past? What are the main elements of it that for you stand out and that your colleagues in AFD have now got to internalized?

RÉMY RIOUX:

It took us a bit of time to come back as France and to replenish, reconstitute our forces as a development player. So, you know, for I don't know, for a decade, somehow we disappeared from view and after COP21, so the driver was climate.

MASOOD AHMED:

Right.

RÉMY RIOUX:

President Macron arrived and I would say added more classic development issues, interventions to the mix. And we somehow doubled our capacity, financial capacity, the

policy itself and AFD as part of it and came back at 0.5, I would say, of GDP, which is like UK and the others. So we came back here and, of course, to do that, we use the classic....

MASOOD AHMED:
Instruments.

RÉMY RIOUX:
Instruments and narrative. And I think now that we're back, yes, time had arrived for France to propose something new in order not to slow down, but maybe to surpass existing limits for international cooperation. So, the the main message came from this summit we organized in June. President Macron, this new financing pact, he proposed other leaders and this Paris pact 4P agenda, which is basically four messages, stop, opposing and reconcile, climate and development. Second, well, each country has its own trajectory, long time trajectory. We have to respect but also engage dialogue. Third, we need more concessional resources. We need a concessional shock. And fourth, we need to be serious about mobilization of private capital, other flows for global commons, I would say. So these four messages, which are somehow new, this is what AFD, of course, has the implementing agency is trying now to unlock and factor in its own mandate and strategy.

MASOOD AHMED:
So, now you're, as you say, factoring in these messages into your strategy. And one of them is this focus on global commons and looking at global challenges and global public goods much more as an integral part of the agenda going forward. And at one level, conceptually, of course, you know, we say, look, we shouldn't think of this as being in opposition to development. They're mutually reinforcing but on a day to day basis, the staff have to focus on how to do that. And after six months or so, what's your take on that? Do you find this comes up as an issue in the day to day operations? Are the people who are implementing that message finding it relatively straightforward or hard? Share a bit your perspective on it.

RÉMY RIOUX:
Probably this conceptualization, this new policy comes from our experience.

MASOOD AHMED:
Right.

RÉMY RIOUX:
So, I want to pay tribute to our dear friend Jean-Michel Severino. He was the first one back in, I think 2004 to say the fight against climate change goes hand in hand with the fight against poverty. And so, for reasons we had less grant resources probably and we were more into credit, we considered climate as on a par with poverty alleviation. And so it makes 20 years AFD teams are trying to mix the two. So, there's a lot of experience within

this agency to share, of course, this is what we're doing and stop opposing both dimensions. And actually the driver is the climate. And we rediscovered or reinvested into social and economic because of climate when other agencies are doing...

MASOOD AHMED:

The other way round.

RÉMY RIOUX:

The other way round.

MASOOD AHMED:

Yes.

RÉMY RIOUX:

So, I would say that it's now mainstreamed within the agency for each sector, which makes actually the next frontier, not only being Paris aligned. This is what we achieved from 2017 on but SDG aligned. That's really the what we will put in the new strategy soon.

MASOOD AHMED:

So, say a little bit about being 100% Paris aligned because I know your operations have been, and when I say that to colleagues sometimes they say, well, what I'm working in the education sector, what does it mean for me to be Paris aligned? And I think that's exactly the kind of thing that you have been grappling with.

RÉMY RIOUX:

So being Paris-aligned doesn't mean it all goes to climate.

MASOOD AHMED:

Exactly.

RÉMY RIOUX:

It's really take seriously what I was, one of the negotiators, we wrote down in the Paris Agreement, article two, which is about development policies incorporating climate. So being, for us, being Paris-aligned means two things first, yes, verify the consistency, the quality of the projects we are accompanying. So, we have now and we can share the data since for ten years now, it's the anniversary this year, an internal procedure called the Sustainable Development Opinion Analysis. And we grade all the projects.

MASOOD AHMED:

That you get on all of your projects

RÉMY RIOUX:

And if your projects have too poor grades, OK, we do not finance it. But it's a

comprehensive it's an SDG notation. So it's not only climate, it's the rest and we try to maximize the quality. So, that's one and now this is what we are selling to the market since now more than half of our funding, our issuance on the market follows a framework that is based on this sustainable development analysis. And this is a tool that I think every financial institution, public and private, can adopt and adapt, maybe, and....

MASOOD AHMED:

In their own way...

RÉMY RIOUX:

Could become some sort of standard, I think. This is the discussion we have with in IGFC and others. So that's one, the second element that is very important on Paris alignment is really to follow and support the trajectories of the country. So it's both micro and macro. So, and we are doing a lot and we are very happy to see now the CCDR all this exercise, the World Bank, because that was the missing piece in the Paris Agreement, have a say and have a dialogue on the long term, on the NDCs and the long terme trajectories of the country. So, it's both the quality of the countries by themselves but also are they consistent, are they accelerating the trajectory of the country? And could we make it more ambitious, actually, by international cooperation and dialogue.

MASOOD AHMED:

Which really brings us into this whole focus now on country platforms and using the country as a platform, having a strategy for the country, within which the support of all the partners is embedded in a way that is integrated and more coherent. And, you know, we've talked about this for a long time but I think there is genuinely now an impetus to move us in that direction, which I presume will come to. But your partnership conversations with the World Bank today, which is here in Washington, you have been all day, are all helping to move a bit in that direction.

RÉMY RIOUX:

Just on the country platforms, I think we should listen to what this summit in June said about relying on the countries themselves. So, I really see and maybe that's something that has to be corrected in the, for instance, the Just Energy Transition Schemes.

MASOOD AHMED:

Yeah.

RÉMY RIOUX:

We need to have the countries at the helm, at the helm of it. So, it's both the political commitment in the country platform of course, in the discussion with the partners, international partners. And I think the country platform is political but also financial and

technical. And here my point is, you cannot have a country platform that is led from an international external partner. So you need to have someone that has skin in this game. And it comes to this national public development banks that could partner with the World Bank and others but that should lead in the end. Just like the government is leading on the political side, the country commitments.

MASOOD AHMED:

Now, of course, I think that's absolutely right. It's easier to do in some countries where there are large, active public development banks and a little bit harder in others. But in every case, I think you have to find the core of what I take away from what you're saying is that in every context, trying to impose an externally designed and implemented led country platform is not a country platform. It's a platform of donors, partners, funders who try to coordinate...

RÉMY RIOUX:

As a Frenchman I would refuse it.

MASOOD AHMED:

Well, there is a, we are all coming from, you know...

RÉMY RIOUX:

First loan of the World Bank was to France as you know it. Yes.

MASOOD AHMED:

Now, let's go broaden out a little bit from the AFD. And I want to get your take on another issue, which right now, you know, there is a very big expectation that the official development finance institutions, MDB's public development banks, DFIs, will be catalysts for mobilizing very large amounts of private finance for climate and for development. But we also know that so far the experience has not been very encouraging. The numbers are for MDB's, I think is 0.6 for every dollar and in low-income countries it's even less and yet the expectations are that it would be multiples of a dollar. And I want to, and there's also a little bit of skepticism that is perhaps growing, that maybe this focus on this big increase in private financing is a way of taking the accountability away from the needed increase in public financing and, you know, so there's a little bit of questioning. I want to get your sense from both your AFD experience, including, you know, you have a private sector arm, Proparco, but also from your engagement through the IDFC.

What's your take, how should we be thinking about this issue? What should be our ambition level, if you like?

RÉMY RIOUX:

This question comes from the urgency of climate, actually, and it comes from Copenhagen

and the climate finance referential that includes, from the start, public and private money. And this is something that is very different from ODA, because ODA, there's never been any intention in ODA to mobilize private finance. It was pure public contribution out of solidarity. And as you know it we overburdened ODA for decades now with other objectives. And I value and respect the credibility, the methodology, the institutions that created ODA back in the 19, from 1969 on, my birth date, actually. So it dates back. So, so this is a....

MASOOD AHMED:

A young concept.

RÉMY RIOUX:

...transformation. But my point is it was helpful for a moment because somehow it helped push ODA to two hundred billion US dollar, and climate finance I think we have reached this 100 mark. But my feeling and my experience at AFD is it is becoming more and more difficult to convince with such a complex and twin, I would say referential. So, the proposal we made in a paper written by, with Thomas Melano and John David Naudé about two years ago, is to try to redefine these two public policies, development and climate, into two different public policies, one for the most vulnerable, meaning the poorest, plus those that are the most affected by climate change. So maybe it's a bit less than what we call ODA right now, but something that would be more credible, maybe with conditions attached, something a bit more serious, I would say, than the what we assembled within the ODA framework for such a long time so that and in the French system, we said that 50% of our budget resources will be guaranteed to the most vulnerable.

So that you create trust enough to discuss your point, which is how much are we allowed to allocate as concessional resources to finance global commons and to do that, embarking, mobilizing other flows and mostly so can be other public investment, domestic resource mobilization, budget and public investments and private of course by far. And this, the theory of this, the KPIs of this, the methodology of this has not completely crystallized. And the difficulty is that we are in this passage where we are in between ODA and we need to keep, I would say, the best of ODA and the resources of ODA. We don't want less resources and come to the new framework that would, in the end be bigger, of course, and be clearer also in the way we can convince our own taxpayers that this is valuable and there's an interest for them in financing these two public policies. So that's, and the what happened in France last year, first semester is we officially adopted this way of thinking since now. So we stopped saying, ODA, we are saying sustainable development investment as a new framework that has two components, this guarantee for the most vulnerable and that's very important.

And, my government is pushing me, and will ask me in my new contract with it to mobilize private finance. One to one for now. I remember President Banga, we discussed it this morning. He said one to five or even more in Paris.

MASOOD AHMED:

In Paris. Yes.

RÉMY RIOUX:

In Paris.

MASOOD AHMED:

Yes.

RÉMY RIOUX:

Really challenging.

MASOOD AHMED:

Maybe we get there, maybe we get there, but...

RÉMY RIOUX:

And the point is, from something that is overburdened, that has become a bit complex and unclear, have two new sets, two new referential that are more difficult maybe to attain, that are clearer, that are stronger so that we can demonstrate better results.

MASOOD AHMED:

So I think that that covers a lot of ground and seems to me that there is one conversation which is about how we think about development and how we think about public money that is spent outside our national borders to achieve either for solidarity or for dealing with global commons. Is it useful to continue with trying to find ways to fit it all into the concept of ODA as we've known it. Already a lot of ODA, almost every country the share going to climate, the share going to global commons is going up. So, there is already an erosion and that leads to issues of credibility, of trust. So I think there is that conversation. And as you know, we're actually working on this together right now and trying to find ways to see if we can come up with a clearer proposition. And to be legit, to be clear about it, there are people who have legitimate concerns about this road because they think...

RÉMY RIOUX:

It doesn't end there. It's passing from one to another.

MASOOD AHMED:

Worse, you know, outcome for all...

RÉMY RIOUX:

I agree.

MASOOD AHMED:

but worth thinking it through. There's a separate point which you've also made, which I think it would be worth just dwelling a little bit more, which is having set aside the objective of mobilizing private money. Is it just a question of using the grant financing that we set aside for that purpose, however we classify it. Or does it also require new instruments, a greater appetite for risk taking in the public system than we currently have? A willingness to work with the private sector as partners and engagement in co-creating investment opportunities. How do you see the change in mindset that will be needed to deliver that kind of scaling up? I mean, for you, even the one for one, I don't know how easy it is for you to get to one for one, but if you want to get to beyond that, how much of it is, I worry a little bit if we incentivize the private sector only through making it cheaper for them with grant funds, we obviously want to do much more than that. But how do you think about that issue?

RÉMY RIOUX:

So in the past we created institutions for that. It's called the DFIs within the public development banks.

MASOOD AHMED:

For you....

RÉMY RIOUX:

So for us it's a Proparco about 50 years ago because through that it was what AFD or LACÉS at that time was not able to do. And now we have this group, of course, with the IFC, the global level IBRD and the European side and the 15 European DFIs. Interesting they have counterparts in national systems at national level. So, this coalition of financial institutions that are specialized into attracting private investments and financing private firms is a treasure. And we have to push that, build from that, learn from their instruments. This is where we kept, for instance, the capacity to invest in capital and not only provide lending loans. This is where the guarantee schemes, which is more in the world of export credit agencies than in the world of public banks is growing. So, that's one part of the answer. And the one to one objective that was set for, AFD actually is set for Proparco. And then we have to explore, measure, define the methodology on what the the public, the mother father entities can also do for private.

And that's more unknown, I mean, there's more, well, actually for AFD we feel we are doing something that is helpful for for private especially.

MASOOD AHMED:

But...

RÉMY RIOUX:

But we are not, we're not able to, for now to clearly measure and put that as a KPI for our contract with the French government. So that that's an avenue that's something we will try to define. And of course, if we define it for AFD alone, it makes no sense. I mean, it has no interest. So, we need to have a broader discussion and I think from, from the discussion at the bank today, I think we are close to having the same question marks in our institutions.

MASOOD AHMED:

Because in a way, you could argue that historically we thought of the private sector mobilization as being a responsibility of the DFI arms.

RÉMY RIOUX:

Yeah.

MASOOD AHMED:

But in fact, the DFI arms alone, in my view, would never be able to do the job. It requires the sovereign lending institutions, the advisory institutions. So just take your analogy to since you had discussions today at the World Bank, it's not just IFC, but it's actually IBRD and MIGA and everyone collectively seeing this....

RÉMY RIOUX:

MIGA, IFC, IBRD private sector window of IDA....

MASOOD AHMED:

...as part of their objective.

RÉMY RIOUX:

This new livable Planet Fund, all this has to be leveraged.

MASOOD AHMED:

Yeah. So, let me just now turn a bit from that to finance in common. So, you know, we've talked about it but it's more than a summit.

RÉMY RIOUX:

It's a system.

MASOOD AHMED:

It's a system. I hadn't realized actually until recently that it's an organization in some sense. Right. It's got a, sort of, steering committee. So...

RÉMY RIOUX:

It's vibrant.

MASOOD AHMED:

So, as I understand it, you know, the purpose is to try and see if we can actually align a little bit the approaches and and frameworks of all of these different institutions within a, towards a common purpose. But of course, they're very different institutions working in different contexts. So, tell us a little bit about how you see that and what progress you think is feasible and what is it that is unrealistic.

RÉMY RIOUX:

Actually my own career, I switched from national duties. I was the chief of staff of the minister of finance to diplomacy and international action. So, I know about these banks and in France, as you know it, we have the two oldest ones. We have since 1816, after Napoleon stole it all, we have Caisse des dépôts et consignations, which is one of the biggest in the world, at the heart of our fabric. And we have, well, AFD, born in 1941, in London, a few years before the World Bank, that is the oldest doing international financing. And at the time I proposed to merge the two so that we have some sort of French café to do it and it came from 2015 actually. So the point is I was a negotiator of SDGs and Paris. And I think the financial architecture we inherited is not consistent with the ambition that was set by our leaders in 2015, because if we step, it's not about pure international cooperation, it's really about national transformation. And so we need the two to connect. And of course, the point is these institutions that are so diverse and this world of public development banks that was so fragmented for so long, sometimes bickering, sometime opposing... Now, they have the same mandate basically.

They received in 2015 this mandate to finance climate and development together to do the SDGs. And so this is the reason why they are now discussing all together. And yes, it took the form of a IDFC first. So, the group mixing a regional and national public and international partners like JICA, KIEV and AFD, and then it expanded into the first Finance in Common Summit.

MASOOD AHMED:

Yes, That's how it got introduced.

RÉMY RIOUX:

And hopefully turning into finance in common system work as a system, but maybe a wider, bigger system than the MDBs themselves. It's very important for the MDBs to do more and to work as a system, as President Banga and others are saying, and they're making a lot of good progress on this, but they need to stay open. And if we want to be at scale with the

ambition, also embark national investments because the bulk of it, as you know it, politically, financially, the bulk of it is at national level. I mean, the Caisse de dépôt is 20 times bigger than AFD. So if you want to have a real effect in the transformation and of France for SDGs and climate, you need to find a way to reach Caisse de dépôt. And they're willing to be reached. Actually, they got it. They understand the danger we are facing. Never met a CEO of a public development bank I do not agree with for the last eight years. So, it really gives a sense of a community. So, now this is what we have gathered in this finance in common system.

And I invite all of you, all auditors to try to build things within this system and think of it as a wide, large, architecture of public investment.

MASOOD AHMED:

Open architecture, it's open architecture.

RÉMY RIOUX:

Not against private, of course.

MASOOD AHMED:

No, no.

RÉMY RIOUX:

Come back to your previous question, of course, to mobilize and to protect the most vulnerable. This twin mandate could be applied to each and every public development bank everywhere.

MASOOD AHMED:

And there's no reason why finance in common should not include private financial institutions that accept, and in fact, it should encourage that, because there's a lot more going to be...

RÉMY RIOUX:

GFANZ is there, we have a lot of impact investors that all those that want to, yes, create some sort of co-benefit between public and private and working with us.

MASOOD AHMED:

So just to close then, because I know you've had a long day, which is, so you here today talking to the World Bank and it's about partnership with the World Bank. So, maybe, first just share a little bit what's the nature, you know, there's been partnership for a long time but how is this getting more articulated, more, more formalized and also, do you see this as part of your strategy to have partnerships more broadly with other financial institutions and development institutions?

RÉMY RIOUX:

So yes, I'm here to say that AFD has become the first partner of the World Bank in a number of projects co-financed. So, we did 30 billion USD for the last decade and 20 for the only five last years. So, we are speeding up...

MASOOD AHMED:

The pace has grown up.

RÉMY RIOUX:

Yeah, we are we are accelerating and I really want to thank all World Bank colleagues everywhere for this excellent work. Which demonstrates that if you go a bit further and work with national institutions like AFD, you can have very good results, agility, combination of tools. And I think this is what we discussed today with President Banga and with many World Bank staff this afternoon. I had the occasion to talk to all those willing to push for more partnerships so that's one. And of course, I see this partnership hopefully as an inspiration in this finance in common thing I'm trying to describe, because for me, the World Bank is, I would say the public bank of all public banks, it's our global platform. So, I got very clearly from President Banga his willingness to work within the finance in common framework and also his attention to be very operational to demonstrate that it is there's something coming from this type of cooperation. More results, more outcomes, more solidarity again, a wider system that is emerging.

So, I find it extremely promising and we will build from there. I'm also extremely interested in, of course, the way the bank is reforming this evolution framework and the structure of the bank itself. I mean, what will become from IDA with IDA 21.

MASOOD AHMED:

Right.

RÉMY RIOUX:

Again, this is the capacity to finance the most vulnerable, in my view, and embarking climate with development. And what will become again from IBRD, MIGA, IFC, as I said, private sector window of IDA. I mean, all the concessional resources that could leverage more international, national, public and private flows. So we're not far, my guess is we're not that far without changing it all. Because of course I know the political situation, headwinds everywhere. So I understand people saying we need to be satisfied with incremental changes, concrete decision, and I fully respect that. My guess is we need both. We need a vision, we need something that is a bit different from the framework we set back in the 1970s, I would say, and even different from that we framed in Copenhagen and then transform it into very concrete and positive decisions.

MASOOD AHMED:

I think we should, my personal view is that we should be ready to take whatever incremental changes and improvements we can make, but I don't think we can afford to be satisfied by that for the very reason that you have said, which is that on the current trajectory that we have...

RÉMY RIOUX:

It becomes very difficult.

MASOOD AHMED:

We are not going to get to the objectives that we have set for ourselves. And I think that, unless we keep reminding ourselves of the gap between the trajectory and the projections. If you look at the growth projections for middle income countries, low-income countries, if we look at the investment rates, they don't see the pickup that is necessary to deliver on these ambitions. So I'm with you that I think we need to build on every piece we can, but I think we have to keep our eye firmly on that.

RÉMY RIOUX:

We're reaching limits. I think with the existing framework.

MASOOD AHMED:

And firm point, you know, we are going to have to get out of our framework.

RÉMY RIOUX:

And the timeline is interesting because we have 2024 that is, well, half the population is going to election. So, only probably incremental changes can be achieved this year, maybe NCQG in Baku or whatever. And then we have 2025 when the political scene will be clarified. And, of course, the 10th anniversary of 2015. So there will be a lot of expectation pressure on. And we have the Addis Plus summit in Spain next July and COP30 in Belém. So I think we should work seriously, technically, probably within the finance track this year...

MASOOD AHMED:

To build for that. Yes, agree.

RÉMY RIOUX:

...so that we have something to propose our leaders again when the question will come, what have you done since 2015.

MASOOD AHMED:

And when it's extremely likely that the results that we have on either development or actually, if you look at what's happening to climate change, they're not going to be anything that will make us complacent. So, I agree.

RÉMY RIOUX:

And with public opinion that are more and more difficult to convince. So, we need something to change.

MASOOD AHMED:

So there is clearly a job to be done. I want to thank you for taking the time to come and talk with us. And as all of you have been listening to this conversation, will realize that this is something that we need to continue to work on, talk about and begin to show better results on. And I think that's the message that I want to leave us with. Thank you.

RÉMY RIOUX:

Thanks to you and all CGdev colleagues. Thank you.