

General Assembly
Ad Hoc Open-ended Working Group to follow up on the issues contained in the Outcome
of the Conference on the World Financial and Economic Crisis and Its Impact on
Development

Sixth meeting on
“Reform of the international financial and economic system, including voice and
participation of developing countries in the Bretton Woods institutions”
(New York, 26 May 2010)

Informal summary by the Secretariat

Overview. The meeting was co-chaired by H.E. Mr. Lazarous Kapambwe (Zambia) and H.E. Mr. Morten Wetland (Norway). The main issues addressed at the meeting were based in particular on paragraphs 43-50 of the Outcome document. The co-chairs had offered a number of questions for discussion at the meeting: (1) the contribution of recent reform in the World Bank to a fair and equitable representation of developing countries and to enhanced transparency and responsiveness; (2) the principles that should underlie quota and voice reforms in the IMF; (3) how the Bretton Woods institutions (BWIs) and the regional development banks helped developing countries weather the crisis; and (4) whether regional approaches need further attention. The two speakers, Mr. Amar Bhattacharya, Director of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G-24), and Mr. Yilmaz Akyuz, Special Economic Advisor, South Centre, ga

With respect to the Fund, Mr. Bhattacharya pointed out three main deficiencies in the existing quota formula. First, he argued that economic dynamism was insufficiently recognized. To elaborate, he referred to the evolving weight of emerging market developing countries in the world economy and pointed out that because of

focus on current account financing, a separation of drawing rights from governance shares and a regular and predictable SDR allocation.

In the area of governance, Mr. Akyuz argued that present voting rights in the IMF were not reflective of the relative importance of countries in the global economy. There was a need to change the formula and no single country should enjoy veto power over key policy decisions.

On the issue of development finance, Mr. Akyuz emphasized that financing by the BWIs depended heavily on aid and that dependence of the institutions on a few donors subverted their governance and undermined autonomy of the secretariat. He argued that aid should be taken out

to overcome the financial and economic crisis, as well as in the provision of medium- and long-term responses to the development needs of developing countries. In this regard, the speaker also stressed the importance of other regional, inter-regional and sub-regional initiatives and arrangements aimed at promoting development, cooperation and solidarity among their members.

The representative of the **European Union** reiterated EU support for an enhancement of voice and participation of developing countries in global institutions and global governance, including that of emerging powers, while protecting the representation for the poorest countries. He underscored what he saw as the main challenge: to strike the correct balance between legitimacy through representation and effectiveness.

In World Bank reform, he stated EU support for the shift in voting power to developing and transition countries in both IBRD and IFC. He saw this as a one-time change which did not set a precedent for future reviews. EU also supported decisions on operational reforms at the World Bank and was eager to see their effective implementation. He emphasized that the EU remained committed to further progress at the World Bank Group toward equitable voting power which would require arriving at a new voting formula by 2015, which would reflect economic weight and IDA contributions of member countries, and ensuring that selection of the President was merit-based.

The speaker reiterated that the review of IMF governance should be comprehensive and address all elements agreed in Istanbul and should be done at the October 2010 BWI meetings. IMF quotas should reflect the weight of member countries in the world economy and their capacity to support the work of IMF. The financial size of IMF should be determined by long-term needs of member countries for IMF financing. He stressed that the current quota review should achieve a shift of about 5 per cent of quota shares from over- to under-represented developing countries, while treating under-represented developed countries equally, based solely on the existing quota formula. The EU saw no merit in reopening the quota formula because of the risk of derailing the schedule of the quota and governance review. Nevertheless, voting shares of low-income countries should be protected, through ad hoc allocations where necessary. The EU saw the need for concurrent consideration of reform to strengthen the IMFC and debate on its competencies and authority as an integral part of governance reform. The speaker also proposed consideration of lowering the threshold for qualified majorities in IMF. The EU saw the importance of reform to enhance the effectiveness of the Executive Board while supporting its current size and noting the need to respect the fundamental right of constituency formation. It also supported an open, transparent and merit-based selection process of BWI leaders and senior officials, while maintaining a balanced diversity of staff with regard to gender, geography and education.

The speaker highlighted the role of the BWIs in helping developing and transition countries most impacted by the financial crisis. He welcomed the adaptation and streamlining of IMF lending facilities for low-income countries, the increase of the grant element in lending to these countries and the elimination of interest charges until the end of 2011. He called on other

the World Bank and the regional development banks which would support them in discharging their mandate. He underscored the need to ensure that the multilateral development banks (MDBs) had sufficient resources for their concessional arms and referred specifically to the hope for expeditious progress of IDA 16 replenishment talks based on fair burden-sharing.

The representative of **Switzerland** affirmed support for governance reform of the World Bank system but underscored that the outcome fell short of fair treatment of shareholders and fair burden-sharing which could have a negative impact on donors' willingness to provide resources. Implementation was the key to the results of operational reforms which addressed oversight, accountability, transparency and ownership rights and required a realistic timeline and prioritization. He saw the reform in quota subscriptions at the IMF as sufficient to meet members' needs in normal times. Borrowing facilities such as the New Arrangements to Borrow (NAB) could meet resource needs in exceptional times. He supported selective increases in quotas to enhance the voice of under-represented member countries. He posed a question to Mr. Battacharya on how G20 discussion of issues affected governance and decision-making in the IMF.

The representative of the **Russian Federation** underscored that the second stage of voice reform of the BWIs needed to perfect the quota formula. Reform of the World Bank was needed to achieve optimal efficiency in assistance for development. This process required realistic goals and effective implementation. He raised questions about the focus of reform efforts and what should be their priority. He also asked whether it was appropriate to consider the issue of using SDRs for financing development.

The representative of **Venezuela** underscored that a new global architecture, complemented by new regional arrangements, was needed for global employment and income growth. The international community needed to create a system based on the UN to counter credit monopoly by international financial centres and conditionalities. He called for a review of the statutes governing the founding of the BWIs, especially those regarding their independence from the UN system and their accountability to member states. He highlighted changes that should be made to the governance of the BWIs: (1) democratization of the governance structures; (2) a democratic, fair and equitable process of selection of the heads of the BWIs; (3) greater participation and transparency in the discussions in the Executive Board and in the tr-0029Tw(palr -1.15T)0 TD.1.1

In his reply, **Mr. Bhattacharya**