

Follow-up
International Conference on Financing for Development to
Review the Implementation of the Monterrey Consensus

Round Table 6

"Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development"

December 2, 2008, 10:00 a.m.-1:00 p.m.

Al Majli Auditorium.

Statement by H.E. Governor Adib Mayaleh, Chair of the G-24

1. Good morning, Excellencies, ladies and gentlemen. I am pleased to participate in this important discussion on systemic issues related to development, which will look into new challenges and emerging issues facing developing countries, as well as traditional issues which have witnessed limited progress since the Monterrey meeting and on which we need to remain fully engaged.

2. I would like to focus my remarks on two issues that were stressed in the Monterrey Consensus and that have been of particular concern to the G-24: namely, reforming the international financial architecture and enhancing the voice and representation of developing countries in the Bretton Woods institutions.

3. The Monterrey Consensus had highlighted a number of areas in the international financial architecture where collective actions and reform was deemed as critical to ensure that globalization of finance can contribute to rather than undermine development and poverty eradication. Regrettably, little progress has been achieved in addressing the main systemic issues that had been clearly recognized in 2002.

4. **First**, the Monterrey Consensus had stressed the importance of strong coordination of macroeconomic policies to ensure greater global stability and reduced exchange rate volatility. But as the buildup of large global imbalances since Monterrey shows, we have not achieved this objective. **Second**, the Monterrey Consensus called for the strengthening of surveillance activities of the International Monetary Fund (IMF) in *all* economies. Yet IMF surveillance has remained asymmetric in its focus on developing countries, and failed therefore to bring adequate attention to the build-up of vulnerabilities in the advanced countries. **Third**, the Monterrey Consensus underlined the need for adequate financial facilities and resources from the IMF to enable developing countries to withstand the impacts of financial instability and risk of contagion. Despite recent progress in this regard, more needs to be done, as I will explain in a few minutes. **Fourth**, the Monterrey Consensus welcomed consideration of an international debt workout mechanism to ensure fair burden sharing and minimize moral hazard. Despite extensive discussions after Monterrey, no agreement could be reached on a Sovereign Debt Restructuring Mechanism. The only area where there has been some progress is the greater focus on and use of international standards and codes to strengthen financial systems, although many of these efforts have been targeted to developing countries.

5. While there is therefore a large unfinished agenda on the reform of the international financial architecture, the deepening financial crisis that started in mature markets but has now encompassed the world, has highlighted the need for urgent cooperative actions, but also the need for fundamental reforms to redress the weaknesses that have been exposed by the crisis.

6. Although developing countries as a group have so far seen a modest impact in the face of the crisis, many of them are beginning to experience the spillovers of the ongoing global financial crisis. Concerns about financial contagion spreading to several emerging market economies in the form of reversals in capital inflows, increased funding costs, and shifts in investor sentiment unrelated to fundamentals are unfortunately materializing, with several countries resorting to the International Monetary Fund in the past few weeks to seek support in stabilizing their economies. Against this background, preventing macroeconomic volatility stemming from financial spillovers, and sustaining continuous growth are key priorities for developing countries.

7. This may also be an opportune time to look into two crucial factors: first is the access to financing, including through liquidity facilities and program support provided by International Financial Institutions, and second is the reform of the Bretton Woods institutions.

8. Let me start with access to financing and the role of International Financial Institutions, notably the International Monetary Fund (IMF).

9. It is important to help emerging and developing economies gain access to finance in the current difficult financial conditions, including through liquidity facilities and program support, to reduce their vulnerability to crises. In their October Communiqué, the G-24 Ministers highlighted the key role of the IMF in this regard. They called for an accelerated introduction of a liquidity facility, a substantial increase in the level of access to IMF resources, the streamlining of conditionality, and a review of financing terms in the use of IMF resources. In its November 15 meeting, the G-20 also made a welcome appeal on the

IMF to review its instruments and facilities. In this context, I see scope for the IMF Short Term Liquidity Facility to be reviewed to determine if there are any factors that could be inhibiting countries from resorting to its use.

10. While the reform of the IMF Exogenous Shocks Facility was applauded by G-24 Ministers, they called for further revisions of the facility with a view to increasing the level of access and streamlining conditionality.

11. Let me turn now to the reform of the Bretton Woods Institutions

12. The Monterrey Consensus had stressed the need for enhanced participation of all developing countries in the Bretton Woods institutions as a central element of the follow-up agenda. The current economic crisis points to the urgent need to reinvigorate the multilateral system and reflect the realities of the global economy in the economic governance of international institutions.

13. With regard to the World Bank ongoing reform process, the G-24 Ministers stressed the importance of two principles: (i) the voting shares in the Bank need to recognize the rising weight of developing and transition countries as a whole and dynamic economies in particular in the world economy; GDP at purchasing parity prices being the right metric to reflect these changing weights. (ii) voting shares and participation in decision-making more broadly need to reflect the Bank's development mission and primary focus on developing countries.

14. With regard to the reform of quota and voice at the IMF, you may recall that following extensive deliberations the IMF reached agreement on an initial package of

measures in October 2007, including a tripling of basic votes and a very modest increase in the quota shares of developing countries targeted to those countries whose shares in the world economy have increased most rapidly. While acknowledging these initial steps, G-24 Ministers have stressed that the shift in voting structure and quota shares to developing countries is insufficient. They stressed the importance of a firm commitment to a continued process, aimed at a meaningful further increase in the voting power of developing countries. To pave the way for such reforms, they called on the IMF to complete the necessary technical work to improve the measures of openness and variability and to reflect the revised variables in the quota formula.

15. I welcome the G-20 firm engagement on advancing the reform of International Financial Institutions so that they can more adequately reflect changing economic weights in the world economy, in order to increase their legitimacy and effectiveness. In this respect, the G-20 emphasized the importance for emerging and developing economies, including the poorest countries, to have greater voice and representation. What is also important is that the deliberations of the G-20 be broadened to include those that are not part of the group. The G-24 is fully prepared to be part of such a more inclusive participatory process.