



Delegation of the European Union



Permanent Mission of Spain

**European Union Statement on  
"Reform of the international financial and economic system, including voice  
and participation of developing countries in the Bretton Woods institutions"**

**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 - New York, 26 May 2010**

**Overall:**

The EU has consistently supported an enhancement of the voice and participation of developing countries in global institutions. Our key concern is how to give an adequate role to developing countries and regions in global governance. This includes an enhanced role in global governance for new and emerging powers, while taking into consideration the responsibilities that come along, and while protecting the position of the poorest countries. The main challenge from the EU's viewpoint is how to strike the correct balance between the legitimacy (through representativeness) and the effectiveness of global institutions.

These questions are currently addressed in various fora: the G20, the G8, the International Financial Institutions (IFIs), OECD and of course the UN. From the EU's point of view, it is essential that governance reforms are decided upon, thoroughly implemented and be the object of a proper follow-up. We think that it is not only necessary, but also inevitable, that the world moves towards more representative and effective governance, and the EU intends to be at the forefront of driving the necessary reforms.

**World Bank governance reform:**

The EU welcomes the latest agreement on governance reform for the World Bank Group reached during the World Bank-IMF Spring Meetings in April 2010. We support the shift in voting power to Developing and Transition Countries (DTCs) in both the International Bank for Reconstruction and Development (IBRD) and the International Finance Cooperation (IFC). The total shift of voting power towards under-represented DTCs amounts to 3,13% in the IBRD (bringing the total to 47,19% and representing a total shift of 4,59% since 2008) and to 6,07% in the IFC (bringing the total to 39,48%). This step is a one-time mechanism which sets no precedent for future reviews.

We consider that reforms such as greater decentralization, changes in the organisational matrix, modernisation of services and improved human resources and IT management are also crucial to increasing the World Bank Group's efficiency, effectiveness, accountability and legitimacy. The EU considers that the voice and non-voice reforms agreed in April constitute

a significant step forward in this direction. We are now eager to see how the decisions reached by the Spring Meetings will be implemented in order to be effective.

The EU remains committed to the goal of moving over time towards even more equitable voting power in the World Bank Group. This requires, in particular, to finding, by 2015, an appropriate, permanent, transparent and rule-based voting formula that reflects economic weight and IDA contributions, and ensuring that the World Bank's President is selected on the basis of merit, regardless of gender and nationality.

### **IMF governance reform:**

Modernizing governance is a core element to improve the IMF's credibility, legitimacy, and effectiveness. The review of the IMF's governance should be comprehensive and address all elements agreed in Istanbul. The EU expects these issues to be addressed as a single and comprehensive package during the next annual meetings of the BWIs in October 2010.

Quotas should reflect the relative weight of IMF members in the world economy and their capacity to support the work of the IMF. They should be reviewed as part of a wider package of the full range of IMF governance elements. The reallocation of quotas will be facilitated by a quota increase but this should not be the primary determinant for the IMF's financial size. The main determinant for the financial size of the IMF should be the IMF's ability to meet member countries' long-term balance of payments needs, while preserving the IMF's character as a quota-based institution.

The current quota review should achieve a shift of above but close to 5% of quota shares from over- to under-represented countries. This shift will benefit predominantly under-represented emerging and developing countries, but under-represented developed countries should be treated equally. The EU sees no merit in re-opening the quota formula as this may risk derailing the timeline of the quota and governance review. The formula should serve as the sole basis to determine whether a country is over- or underrepresented.

Ad-hoc allocations will be necessary to protect the voting shares of low-income countries eligible for support of the Poverty Reduction and Growth Trust (PRGT) and may also be needed to address cases of significant out-of-lineness. The review should ensure that no country is more under-represented after the reform than it was before and that no over-represented country becomes under-represented.

The EU is keen to avoid a piecemeal reform. Most of the governance items are related to one another and cannot be seen in isolation. A strengthening of the IMF Committee (IMFC) merits further consideration, but a fundamental debate on the competences and authority of the IMFC is also needed. In this regard, we support a greater involvement of Governors in providing strategic direction to the IMF, a clearer delineation of responsibilities between Governors and Ministers, the Executive Board and IMF management, as well as increasing accountability of the Executive Board and management. We believe this should form part of the current discussion on IMF governance reform. We propose considering in more detail a lowering of the threshold for qualified majorities in the IMF.

While reforms to enhance the effectiveness of the Executive Board are important, the EU believes that the current size of the Executive Board strikes the right balance between, on the one hand inclusiveness and legitimacy, and on the other an effective functioning of the IMF. Instead of focusing the reform's attention on specific country groups, the fundamental right of

free constituency formation should be respected. We believe that heads and senior leadership of all international institutions should be appointed through an open, transparent and merit-based process, irrespective of nationality and gender. We restate that a balanced, distribution of IMF staff is desirable, in terms of geographical origin as well as professional and academic background.

### **Contribution of MDBs to weathering the crisis:**

IFIs have reacted swiftly to the crisis, helping developing countries to weather it. The IMF and Multilateral Development Banks (MDBs), including the World Bank, have increased their lending activities to support those developing and transition countries most hit by the current crisis.

We welcome that the IMF has streamlined and adapted its facilities for low-income countries. The grant element of IMF lending to low-income countries will be increased. Until the end of 2011, there will be no interest charges for most of the facilities and only a very limited increase is envisaged thereafter.

EU Member States have so far pledge over 4.4 billion Special Drawing Rights in new loan resources. Others, in particular major emerging economies, should follow our lead.

We have supported the requests for capital increase of major MDBs, while at the same time stressing the importance for MDBs to have a sustainable income model. The EU therefore welcomes the timely decision to increase the resources of the World Bank, the Asian Development Bank, the Inter-American Development Bank and the European Bank for Reconstruction and Development, and we look forward to the conclusion of the capital review of the African Development Bank. These decisions will allow the MDBs, including the World Bank, to continue assisting developing countries in conformity with their mandate.

We must now ensure that MDBs have enough resources for their concessional arms. Regarding specifically the International Development Association at the World Bank, we hope that IDA 16 replenishment talks advance swiftly and that there is a wide and fair burden-sharing. The EU also welcomes the \$1.6 billion pilot Crisis Response Window set up in December 2009 by the World Bank for the remainder of the IDA 15 period (January 2010-June 2011).