



**POSITION PAPER OF THE GROUP OF 77 AND CHINA ON THE REFORM OF THE INTERNATIONAL AND FINANCIAL ECONOMIC SYSTEM: VOICE AND PARTICIPATION OF DEVELOPING COUNTRIES IN THE BRETTON WOODS INSTITUTIONS, PRESENTED BY MR. KHALED HUSSEIN ALYEMANY, MINISTER PLENIPOTENTIARY, PERMANENT MISSION OF YEMEN ON BEHALF OF THE GROUP OF 77 AND CHINA, AT THE AD HOC OPEN-ENDED WORKING GROUP OF THE GENERAL ASSEMBLY 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, 27 May 2010)**

## **Introduction**

1. There is a need to reform the international financial system and architecture, including issues related to mandate, representation, scope, governance, responsibility, responsiveness and development orientation of the International Financial Institutions (IFIs) such as the World Bank Group and the International Monetary Fund.
2. The Outcome Document stresses the need for further reform of the governance of Bretton Woods Institutions (BWIs), on the basis of a fair and equitable representation of developing countries; it calls for an expeditious completion of the reform process of the World Bank's governance underway; it recognizes that it is imperative to undertake, as a matter of priority, a fast-tracked reform of IMF; it recognizes the importance of strengthening regional development banks; it states that the heads and senior management of IFIs, particularly in the BWIs, should be appointed through open, transparent, and merit-based selection process, with due regard to gender equality and geographical and regional representation; it reaffirms the need to address the concern at the extent of representation of developing countries in the major standard-setting bodies; and it encourages continued and increasing cooperation, coordination, coherence and exchanges between the United Nations and the IFIs.

## **Voice, Representation, and Voting Power of Developing Countries**

3. The G77 and China stresses the vital need for ambitious and expeditious reform of the Bretton Woods Institutions, particularly their governance structures, based on full and fair representation of developing countries, in order to address the democratic deficit in these institutions and improve their legitimacy. These reforms must reflect current realities and ensure full voice and participation of developing countries. As a first step, the reforms should achieve, at least parity of voting power for developing countries as a group in the decision making process within the BWIs.
4. Reform of global economic governance issues, is essential for many other changes in the international financial architecture. International financial institutions need democratic, responsive and accountable governance reflecting the realities of the twenty-first century. We have noted the recent decision to shift the voting in the International Bank for Reconstruction and Development to developing and transition countries (DTC), bringing their total voting power to 47.19 percent, and a shift in International Finance Corporation voting power to DTCs, bringing their total voting power to 39.48 percent. We have also noted that this process will be reviewed in 2015. The G77 and China maintains that said increases should be higher than what has been agreed upon thus far. The G77 and China reiterates that the reform process should keep on moving in successive steps towards,

at least, parity, and towards the objective of providing developing countries full and fair representation.

5. The G77 and China fully acknowledges the fact that more voice and representation will result in an increased participation of developing countries in the multilateral system and the global economic and financial decision making process. It is noteworthy that, at present, developing countries bear a significant part of contributions to the BWIs financial capacity, despite holding minority rights.

### **The Reform of the International Monetary Fund**

6. The G-77 and China believes that two critical actions must be pursued. First, there is a need for fundamental reforms in the IMF governance structure to be implemented. Second, the IMF must provide more comprehensive, evenhanded and flexible financial responses to the needs of member countries, without imposing procyclical conditionalities, respecting their need for policy space and helping them overcome the crisis.

7. IMF should retain its principal and primary mandate which is helping out countries with difficulties in their balance of payments. IMF policies should not undermine the development priorities and strategies of developing countries.

8. The G77 and China notes with grave concern that the International Monetary Fund is still prescribing pro-cyclical policies in developing countries which can unnecessarily exacerbate economic downturns, underscores that such policies are in violation of the international consensus to undertake a concerted effort to stimulate global demand, emphasizes that conditionalities still require Members States to pursue pro cyclical policies or adopt monetary and regulatory policies that exacerbate the impacts of the current crisis, thus placing developing countries at a disadvantage relative to developed countries, and are a disincentive for developing countries to seek support funding, and in this regard, calls on the Bretton Woods institutions to refrain from imposing pro-cyclical polices and conditionalities.

9. Progress made on strengthening the resource base of the Fund and improvements on its lending toolkit to address the global crisis is constricted by slow progress in longer-term reforms of the Fund. The IMF needs a more representative, responsive and accountable governance, reflecting the realities of the twenty-first century. The reform of IMF governance is therefore essential for all other changes involving the role for the Fund.

10. The G77 and China deems quota shares to be the defining governance problem at the Fund. In this regard, a key initial step is to recognize that only modest progress has been achieved so far. The changes in voting power have been insufficient compared with the changes that have occurred in the global economy. The 2008 quota and voice reform will basically lead to a realignment of existing shares, primarily through a redistribution among the group of emerging market and developing countries.

11. The G77 and China calls for quota realignments in both IMF and the World Bank to result in an equitable voting power distribution between developed and developing countries without diluting the quotas and shares of individual developing countries. The existing quota formula, biased against developing countries has to be improved before it is used again. The next realignment of quotas in favour of developing countries should go far beyond the initial modest outcome achieved during the 2008 spring meetings.

12. The G77 and China believes that decision-making rules should be changed in order to strengthen voice and participation of developing countries.

13. The Group also underlines the need to promote SDRs for development purposes. While acknowledging the recent general allocation of SDRs, the G77 and China considers it insufficient. The Group urgently calls for a new and significant, general SDR allocation, in the current basic period, to meet liquidity needs and promote development. Thereon regular allocations of SDRs should also be undertaken.

14. The G77 and China considers that it is important to maintain the present quota voting system under review. The present governance structure indirectly impairs the Fund's capacity to undertake objective and even-handed surveillance over the economies of its major stakeholders.

15. The latest manifestations of the crisis show that the IMF has not performed any significant reform in its business model yet. Furthermore it has shown that the IMF is still tilted towards the interests of a particular group of countries, and that it has not performed any significant reform so as to assist developing countries who are constantly struggling with development problems and liquidity crisis. The G77 and China believes that advocating procyclical policies or including conditionalities which may compromise policy space, safety nets and policies to protect the most vulnerable members of the community in times of crisis, are counterproductive, and increase the costs of the crisis.

16. The G77 and China reiterates the call of the Outcome Document for an open, transparent and merit-based selection process, without regard to nationality, of middle and senior management and Heads of BWIs which needs to be urgently and vigorously pursued.

### **The Reform of the World Bank and Regional Development Banks (RDBs)**

17. The G77 and China calls for an expeditious completion, as soon as possible, of a much more ambitious reform process of the World Bank's governance structure and of an accelerated road map for further reforms on voice, participation and enhanced voting power of developing countries based on an approach that truly reflects its development mandate and with the involvement of all shareholders in an equitable, transparent, consultative and inclusive process.

18. The G77 and China deems important to strengthen the concepts of ownership and policy space. In that respect, it must be borne in mind that client countries are the owners of their development policies and that selectivity in World Bank's strategy and actions must be guided, first and foremost by developing countries' priorities and preferences.

19. The Group of 77 and China recognizes with concern that conditionalities are still attached to World Bank projects which are not based on and justifiable by technical considerations. The Group, therefore, considers ensuring on time and predictable delivery of projects without unwarranted conditionalities and solely based on needs and priorities of Member States as necessary for a reformed World Bank.

20. The G77 and China recognizes the importance of strengthening the role of all regional development banks in the search for solutions 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, such as measures to increase the financial and lending capacity of all regional development banks, including the African Development Bank, the Asian Development Bank, the Caribbean Development Bank and the Interamerican Development Bank. Furthermore,



we recognize the importance of other regional, interregional and sub regional initiatives and arrangements aimed at promoting development, cooperation and solidarity among their members, such as, inter alia, the Bank of the South, the Bank of ALBA, the Andean Development Corporation.

21. The G77 and China calls for an early assessment of the adequacy of the capital increases recently agreed upon by the RDBs' shareholders in light of potential strong demand for financing from developing countries as a result of the current crisis.

### **The Role of the United Nations**

22. The G77 and China reaffirms that the United Nations is the organization with the central role and legitimacy to deal with development and related issues.

23. The G77 and China reiterates that the UN is the appropriate venue to discuss the economic and financial affairs and decide on the best follow-up and alternatives to meet the needs and challenges of the 21st Century.

24. The Group calls for strengthening of the UN role in international economic and financial affairs, including its coordinating role in global economic governance. Likewise it's important to promote greater cooperation between the UN and the international financial institutions, including the early review of the implementation of the cooperation agreement between the UN and BWIs.

25. The Group of 77 and China calls for a fundamental role for the United Nations in the reform process of the global governance structure of the BWI.