DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)

DC2007-0013
April 13, 2007

G-24 COMMUNIQUÉ

The attached Communiqué of the Ministers of the Intergovernmental Group of Twenty-Four, held in Washington, D.C., on April 13, 2007, is circulated for the information of the Development Committee at the request of their Chairman, Ms. Felisa Miceli, Minister of Economy and Production of Argentina.

* * *

INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS AND DEVELOPMENT

COMMUNIQUÉ
APRIL 13, 2007

1. Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development held their seventy-seventh meeting in Washington, D.C., on April 13, 2007. Ms. Felisa Miceli, Minister of Economy and Production of Argentina, was in the Chair, with Mr. Mawakani Samba, Advisor to the Governor of the Central Bank of the Democratic Republic of Congo as First Vice-Chairman, and Mr. A. Shakour Shaalan, Executive Director at the IMF representing Syria as Second Vice-Chairman.

2. To improve the effectiveness of the meeting, Ministers agreed to focus their discussions on issues that are of particular concern.

I. VOICE AND REPRESENTATION

3. Ministers stressed that the adoption of a package of reforms aimed at increasing the voice and representation of developing countries remains of utmost importance for the legitimacy and effectiveness of the Bretton Woods Institutions (BWIs). All members have a stake in the BWIs being able to play their legitimate role; but this can only be achieved if there is meaningful action to address under-representation. Ministers noted that developing countries account for over half of global GDP measured in terms of purchasing power parity, hold most of the world's international reserves, represent eighty percent of the world's population, constitute more than three-quarters of the BWI membership and are today the sole potential borrowers of resources from the BWIs.

4. In order to reflect this reality in the governance structure of the BWIs, so as to enhance their legitimacy and effectiveness, the voting power of developing countries as a group needs to be significantly increased. Ministers acknowledged that in the reform of Quotas and Voice launched in the IMF in September 2006, there was a need to increase the voting share of those countries whose weight and role in the world economy had increased most. However, Ministers emphasized that this should not come at the expense of other developing countries.

5. Ministers reiterated the need for a meaningful reform in the BWIs to address the democratic deficit. They welcomed the agreement to amend the Articles of Agreement of the IMF so that basic votes remain a constant share of total voting power following the second round of ad-hoc quota increases. They noted, however, that such provision may still not preclude the erosion of the relative voting power of low-income countries. They therefore stressed that any package of reforms should include a substantial increase in basic votes and prevent erosion in its share thereafter. Ministers also underscored the need to implement measures to effectively enhance the participation of chairs with the largest constituencies in the decision-making and management structure of the BWIs.

6. Ministers reaffirmed their position that a new quota formula under discussion in the IMF must reflect the relative economic size of countries in the world economy. GDP, measured at purchasing power parity, should be the principal measure to determine a country's economic weight. Moreover, quota calculations should be based on up-to-date data given the rapidly changing role of developing countries in the world economy. Ministers noted that openness is neither a good proxy for the ability to contribute nor of potential need for Fund resources. Moreover, whereas GDP is measured on a value-added basis, openness is measured on a gross basis, leading to double counting. Ministers also reiterated that the inclusion of trade within a single currency union was a major distortion in the measurement of the openness of an economy. Ministers noted that the use of openness in the quota formula goes against the objective of improving the legitimacy and effectiveness of the IMF as it increases the current overweight of advanced economies in its governance structure. For all these reasons, Ministers agreed that the role of openness needs to be substantially reduced and that it should be corrected to exclude intra-currency union trade. Ministers also noted that reserves are a useful indicator, as they proxy for both members' need for precautionary balances and their ability to contribute to the Fund.

7. In this respect, Ministers stressed that it was necessary to ensure that the new quota formula gives potential borrowers adequate weight. This would help reduce the need for self-insurance and enhance the acceptability of Fund conditionality. To reflect the potential demand from borrowers accurately, the current measure of variability must be modified to correctly assess countries' vulnerabilities to commodity price fluctuations, capital flows and other exogenous shocks. In addition, Ministers noted that the inclusion of a compression factor in a new quota formula could help reduce the current overweight of advanced economies in the Fund's decision making process, thereby delivering a more equitable distribution of quotas.

8. Ministers observed that a comprehensive package of reform must include all of these elements, and agreed to work together to ensure that the next phase of adjustments makes meaningful progress towards the objective of increasing the voice and representation of developing countries. Ministers noted that whereas the Fund and the World Bank should follow separate processes informed by their own specificities, reform at the World Bank Group (WBG), where the aggregate share of developing countries and the voice of low-income chairs in the Board also need to be increased, needs to be expedited. Ministers emphasized that beyond these immediate steps, the BWIs must put into place a system for regular review and future adjustments, based on dynamic changes and the goal of a more democratic governance structure.

II. Review of the 1977 Decision on Surveillance

9. Ministers are committed to support the Fund's ability to strengthen the effectiveness and independence of its surveillance in a changing global environment. Nevertheless, they remain doubtful that the revision of the 1977 Decision on Surveillance over Exchange Rate Policies is necessary to pursue the objective of more focused and effective surveillance. They noted that if the IMF has not been more effective in its surveillance (as the case of persistent global imbalances suggest), it is mainly because systemically important economies have not felt the need to follow the Fund's policy advice. Ministers therefore welcomed the recent

round of multilateral consultations under the aegis of the IMF, and feel encouraged by the willingness of participants to make policy pledges that would help to reduce global imbalances and promote global growth.

10. Ministers would like to count on the IMF as a trusted confidential advisor, and emphasized therefore that a revised Decision should not shift towards a compliance-based relationship. Ministers were especially concerned that expanding the principles for the guidance of members in the Decision would blur the distinction between surveillance over exchange rate policies and over domestic policies. Ministers also believe that there is a need to better link bilateral and multilateral surveillance so as to take into consideration spillover effects or systemic implications of fiscal and monetary policies.

11. Ministers therefore endorsed the principles agreed by the Executive Board to guide any revision of the 1977 Decision, namely: (a) there should be no new obligations, and dialogue and persuasion should remain key pillars of surveillance; (b) the Decision should pay due regard to country circumstances and emphasize evenhandedness; and (c) it should remain flexible, to allow surveillance to continue evolving. They agreed to work together to ensure that any revision of the Decision respects these principles.

III. Scaling Up of Aid

12. Ministers expressed disappointment that almost seven years after the adoption of the Millennium Development Goals, five years after agreement on the Monterrey consensus, and almost two years after the commitment by the G8 to scale up aid, progress on the increased delivery of aid resources is stalled. The latest *Global Monitoring Report* presents evidence that official development assistance (ODA) fell in real terms in 2006 and is projected to remain flat in 2007. Ministers noted that much of the increase in the previous four years was accounted for by debt relief (which overstates the transfer of resources and was intended to be additional), technical cooperation, emergency assistance and overheads. Moreover, the increase in net ODA has been concentrated on a few special cases. Net aid resources that can be utilized to support projects and programs to accelerate progress on international development goals have increased only modestly, and in a number of cases declined.

13. Ministers pointed out that in contrast, there has been a marked improvement in the underlying conditions in low-income developing countries to utilize aid effectively. This has been the result of sustained efforts to ensure macroeconomic stability as well as structural reforms to improve domestic revenue mobilization, public expenditure management, and the environment for private sector-led investment and growth. Ministers reiterated their commitment to meet their side of the Monterrey agreement by pressing ahead with further policy and governance reforms.

14. Ministers welcomed progress in the implementation of the World Bank Group's Africa Action Plan. But they noted that as the Report prepared for the Development Committee makes clear, despite progress on shared growth, capacity building and results focus, the region is still not on track to meet the poverty goal and most of the human development goals. Ministers observed that this trend can only be reversed through more meaningful progress in delivering the commitments on aid and trade.

15. Ministers called therefore for a rapid and frontloaded increase in official development assistance to meet the MDGs and ensure an improved distribution of the gains from global prosperity. They called upon all donors to meet the UN target of 0.7 percent of gross national income and the commitment by the G8 in Gleneagles to double aid to sub-Saharan Africa by 2010. Ministers noted that while there has been some progress on innovative financing modalities, there is need for more vigorous efforts to tap the potential of such proposals to increase the scale and predictability of aid resources. There is also a need to increase the share of ODA provided in the form of grants to enhance debt sustainability. Ministers welcomed the growing role and contribution of non-traditional donors, including several from within the G-24 Group, and of private foundations in supporting investment and priority social goals in low-income countries.

16. Ministers expressed concern at the weakening of the multilateral pillar of aid, reflected in the declining share of multilateral aid in total aid. Ministers observed that IDA has been one of the most effective instruments in supporting past development efforts. While welcoming the Multilateral Debt Relief Initiative (MDRI), Ministers stressed the need for adequate additional financing for both Heavily Indebted Poor Country Initiative (HIPC) and the MDRI and emphasized that developed countries should honor their commitment to fully compensate IDA. Ministers called on all IDA donors to raise the ambitions for IDA-15 well beyond IDA-14 and in line with projected overall aid commitments. In view of the increasing fragmentation and earmarking of aid instruments, Ministers called upon all donors to translate the commitments made in the Paris Declaration on aid effectiveness into tangible results on harmonization and alignment on the ground including through greater use of country systems, and to ensure adequate financing for institutions such as IDA that play a major role in horizontal financing.

IV. OTHER ISSUES

17. **New IMF Liquidity Instrument**. Ministers reiterated their request to the IMF for a new liquidity instrument that would provide meaningful, reliable and affordable financial support to face capital account volatility for current and prospective emerging market countries. Ministers noted that some progress has been made; however, they observed that the proposal that was recently put forward at the Board falls short of these objectives. Ministers expressed the view that such an instrument should ensure automatic access to countries that are in need of, and qualify for support, that qualification should not be unnecessarily restrictive and should be based on objective criteria that allow for sufficient predictability, and that the monitoring arrangements should not undermine the incentives to use this instrument. In their view access levels should be set within a range of 300–500 percent of quota, and access should be provided in a single tranche to render the instrument more relevant in mitigating capital account-induced crises. Moreover, charges and maturities must be set at sufficiently favorable terms to create demand for the instrument. Ministers noted that the proposed charges and maturities may act as a deterrent to the demand for this instrument. Ministers encourage efforts to solicit further views of both potential users and market participants to refine the desired features for a new facility.

18. **Clean Energy and Climate Change**. Ministers welcomed the update on the World Bank Group Action Plan on Clean Energy for Development. Ministers pointed to the

overwhelming evidence that climate change and variability is a serious concern with disproportionately adverse impact on the developing world. In this regard, they underscored the importance of the principle of common but differentiated responsibilities in any international regulatory framework. Ministers agreed with the main pillars of the proposed approach, namely: a strong overall WBG energy program; scaling up support to help countries address the lack of access to energy, especially in sub-Saharan Africa; supporting emerging markets' and other developing countries transition to a low carbon economy; enhanced support on adaptation to climate variability and change; and improved financial products. Ministers noted that the success of the proposed approach would depend on the access of developing countries to low-cost technologies; and the willingness of the international community to mobilize very large amounts of financial resources on appropriate terms to meet the challenge of access to energy and climate change. Ministers recognized that success of this approach would also require promoting technology and research to help make all existing energy sources cleaner, more efficient, and more cost effective.

19. **Governance and Anti-Corruption.** Ministers stressed that good governance and the fight against corruption are of the utmost importance to their countries. They expressed appreciation for the revised paper on *Strengthening Bank Group Engagement on Governance and Anticorruption*, and agreed with the guiding principles to underpin the Bank's engagement in line with its mandate. Ministers believe that the Bank needs to give more attention to the supply side of corruption and the private sector's role at both the country and global levels. Ministers noted that the success and credibility of the proposed strategy will depend on the spirit and consistency of its implementation. They called for a close involvement of the Bank Board in the discussion and endorsement of the Implementation Plan, as well as in the oversight of the strategy, including on decisions on country cases and individual projects. Ministers called for a review of the implementation of the strategy in a year's time.

V. OTHER MATTERS AND DATE AND PLACE OF NEXT MEETING

20. Ministers welcomed the initiative of the Government of Qatar to host the follow-up International Conference on Financing for Development to review the implementation of the Monterrey Consensus, which will be held in Doha in the second half of 2008. The G-24 will cooperate with the G-77 in the preparations of this conference with the support of the Financing for Development Office of the UN Department of Economic and Social Affairs.

21. Ministers thanked the outgoing Director of the G-24 Secretariat, Ariel Buira, for his services, and welcomed Amar Bhattacharya and Jomo Sundaram as the new Director and Research Coordinator, respectively, for the G-24. Ministers expressed their support for enhanced collaboration with the G-77 and expressed appreciation to the G-77 for hosting the Technical Group Meeting.

22. The next meeting of the G-24 Ministers is expected to take place on October 19, 2007, in Washington, D.C.

LIST OF PARTICIPANTS[1]

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development held their seventy-seventh meeting on April 13, 2007, in Washington, D.C. Ms. Felisa Miceli, Minister of Economy and Production of Argentina, was in the Chair, with Mr. Mawakani Samba, Advisor to the Governor of the Central Bank of the Democratic Republic of Congo D.R. as First Vice-Chairman, and Mr. A. Shakour Shaalan, Executive Director at the IMF representing Syria as Second Vice-Chairman.

The meeting of the Ministers was preceded on April 12, 2007, by the Eighty-Ninth meeting of the Deputies of the Group of Twenty-Four, with Mr. Hector Torres, Alternate Executive Director at the IMF as Chairman.

African Group: Mourad Medelci, Algeria; Douda Diabate, Cote d'Ivoire; Mohamed Amr, Egypt; Sufian Ahmed, Ethiopia; Paul Toungui, Gabon; Kwadwo Baah-Wiredu, Ghana; Akinlose S. Arikawe, Nigeria; Trevor A. Manuel, South Africa.

Asian Group: Rakesh Mohan, India; Daseh Jarafi, Islamic Republic of Iran; Nada Mufarrij, Lebanon; Salman Shah, Pakistan; Margarito B. Teves, Philippines; Sarath Amunugama, Sri Lanka; Maya Choueiri, Syrian Arab Republic.

Latin American Group: Martin Abeles, Argentina; Ronaldo M. Cavalcante, Brazil; Maria I. Agudelo, Colombia; Julio R. Saurez, Guatemala; Javier Guzman, Mexico; Julio Velarde, Peru; Conrad Enill, Trinidad and Tobago; Armando Leon, Venezuela.

Observers: Detlef J. Kotte, UNCTAD; Mohammad Alipour-Jeddi, OPEC Secretariat; Damo Justin Baro, BCEAO; Adbinasir M. Nur, IsBD; Jose Antonio Ocampo, UNDESA; Munir Akram, G-77; Jose Alfredo Blanco Valdes, CAMC; Yong Li, China; Ahmed Al-Nassar, Saudi Arabia; Ines Bustillo, ECLAC.

Special Guests: Rodrigo de Rato, Managing Director, International Monetary Fund
Paul Wolfowitz, President, World Bank

IMF Executive Board: Ranjit Bannerji; Goodwill Ukpong
World Bank Executive Board: Sid Ahmed Dib

G-24 Secretariat: Amar Bhattacharya, Laura dos Reis
G-24 Research Coordinator: Jomo Sundaram

IMF Secretariat for the G-24: Patrick Cirillo, Jones Morco, Henry Mooney, Verona Itam, Christine Hissen-Lee, Denise Infante

[1] Persons who sat at the discussion table.