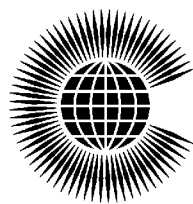


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REVIEW OF IMF AND WORLD BANK ISSUES

Paper by the Commonwealth Secretariat

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REVIEW OF IMF AND WORLD BANK ISSUES

ISSUES FOR DISCUSSION

Ministers may wish to focus their discussions on the relationship between the existing operational and reform priorities in the Bretton Woods Institutions and the approach set out in the Marlborough House Statement of the representative group of Commonwealth leaders on the Reform of International Institutions.

In particular, Ministers may wish to consider the following:

General

- What are the best strategies to progress the Commonwealth process for reform of the Bretton Woods Institutions?
- What common positions should Commonwealth Finance Ministers adopt to enhance the governance of both institutions?

The IMF

- What measures should be taken to strengthen the Fund's ability to play an effective role in supporting global economic and financial stability in the light of lessons learned from the past management of financial crisis?
- What role should the IMF's finance and financial instruments play in support of its membership?

The World Bank

- What considerations should guide its role in the international system of environmental finance?
- How can it best serve the interests of the entire membership, including the smallest members and make best use of its financial resources?
- What changes might be made to the international system of disaster management in the wake of the experience with high food prices?

INTRODUCTION

The past year has seen an intensification of the global debate about the role of all international institutions. This is no academic discussion. The immediate international economic challenges – slowing global growth, rising inflationary pressures, the financial crisis and the impact of high food and fuel prices - and the task of meeting the Millennium Development Goals makes it all the more imperative that there be a deeper and wider multilateral response to these issues and early international action.

2. Yet the institutions which support this necessary multilateralism and the commitment of countries to seeking and implementing collective solutions to common challenges have seemed to fall short of the task. The need for wide ranging reform is increasingly felt.

3. The Bretton Woods Institutions continue to be at the centre of these discussions. These institutions are essential to catalysing and supporting the action needed to meet uncertainties in the global economy and international development challenges. Yet at the same time there remains the need to continue – and accelerate – the process of reform in both institutions to ensure that they are able to support effective multilateral action into the medium term. Balancing these two perspectives is the challenge for the membership at the Annual Meetings.

4. This paper sets out a Commonwealth perspective on these issues. It discusses developments in international institutional reform of particular relevance to the IMF and World Bank. Against this background, it reviews the issues most central to the Annual Meetings themselves, focussing on those which will continue to be important in the foreseeable future. The aim is to both provide a framework for discussing the issues relevant to both institutions and to put forward a Commonwealth position that can be taken forward to the Annual Meetings and beyond.

DEVELOPMENTS IN THE COMMONWEALTH

5. At the Commonwealth Heads of Government Meeting in Kampala, in 2007, it was agreed that the Secretary-General should form a small representative group of Heads of Government to ‘undertake advocacy in support of wide ranging reform’ of international institutions. Underlying this was the view that ‘the current architecture of international institutions...does not reflect the challenges in the world of the 21st century’.¹

6. Responding to this mandate, a representative group of Leaders met at an exceptional meeting on 9-10 June 2008 in London. Leaders set out their conclusions in the Marlborough House Statement on Reform of the International Institutions which is set out in full in **Annex 1**. The statement falls into two parts. The first reaffirms the importance that these Commonwealth Leaders attach to effective mechanisms of multilateral cooperation in the modern world and the crucial role of institutions in supporting that aim. It goes on to set out principles or qualities which should underpin any institutional reform. Whilst the emphasis may differ amongst them in specific institutions, leaders felt that: effectiveness; legitimacy; fair representation; responsiveness; accountability and transparency were both universally applicable and mutually reinforcing.

¹ Paragraph 54 of the Commonwealth Heads of Government Communique available in full at www.thecommonwealth.org/document/181889/34293/35232/173044/chogm2007finalcommunique.htm

7. Leaders went on to make statements about three areas where the Commonwealth should promote specific reform. One was the Bretton Woods Institutions. In this case, they argued that there was a need for greater clarity about what the international community needed from a multilateral institution in a world where integration had increased; the distribution of economic weight was shifting and the nature of the international monetary system and development challenges were very different from the time of the foundation of the two institutions.

8. At a high level, they accepted the idea that the global system needed a World Bank and IMF which formed:

- **A neutral forum for multilateral discussion:** with a view to improving policy making in all member countries - the financial crisis having provided a particularly clear example of the potential spillover effects of policy in one country on the global economy;
- **Impartial arbiters of agreed-standards:** since as the global economy becomes more complex and integrated, clear, well understood and predictable ways of working are increasingly necessary to support stability.
- **Unbiased advisers and providers of information** to supplement national capacity and to enhance the transparency and global understanding of economic developments and interactions.

9. In all these areas, the strong emphasis is on the credibility of the institutions with the entire membership to assure neutrality and for them to have influence with all members. In this leaders recognised the membership is at least as responsible as the institutions for an effective multilateral system.

10. In considering the current position of the Bretton Woods Institutions, leaders saw three broad things as necessary:

- **A clearer definition** of the purposes and objectives of the organisations;
- **Fundamental change in the governance** of the organisations to address the concerns of many about representativeness, accountability, responsiveness and even handedness
- **A profound global consensus and commitment to multilateralism** which could both support and be supported by the other two strands of change.

11. Change of this nature is difficult to achieve easily or quickly. Nevertheless the leaders committed to two things. First, as a representative group of Commonwealth leaders, they considered that this level of reform could not be achieved through the existing processes in the institutions. As a result, their statement called for a refoundation of the institutions through a second Bretton Woods Conference to create the wide consensus essential to redefine the institutions' purposes, create fundamental change of governance and reanimate multilateralism.

12. Second, and as importantly, the leaders recognised the need to generate a widespread consensus for this position within the Commonwealth; within regional groupings and ultimately within the global community itself.

13. Progress on these two tracks needs to be complementary. A first step will have been taken by the time of the Commonwealth Finance Ministers' Meeting at the meeting of Heads of Government in the margins of the UN General Assembly. This meeting will discuss reform of international institutions. For the Bretton Woods Institutions, this represents the start of a process of wider consultation within the Commonwealth through which the Secretariat will gather the views of the entire membership on what nature fundamental reform of the institutions would take in the event it took place. In parallel, the Secretariat will develop further the thinking on how any international conference of this nature could be structured to be successful in its aims.

14. This Commonwealth initiative provides the context in which the remainder of this paper is set. The principles for reform enunciated by the representative group of leaders provide a benchmark for assessing developments in the institutions. Equally, while pursuing fundamental reform, all members need the institutions to be as effective as possible now, especially at a time of vulnerability in the global economy.

IMF

Background

15. The Fund is emerging from a long period of introspection reflecting widespread internal and external questioning about its direction and purpose in the global economy. The catalogue of criticisms is as lengthy as it is familiar:

- Declining Fund lending (arguably a signal of success) has been seen as a sign of diminishing relevance and also created an internal financing crisis;
- The persistence of global imbalances, which potentially signal fundamental problems in the international monetary system, taken by some to indicate a failure of multilateralism and the Fund as an institution;
- Concern that the nature of representation in the Fund's governance structure was both antiquated and slow to change. This was reinforced by a view that the internal processes of the Fund were neither efficient nor focussed;
- Continuing concern about the commitment of the membership to the institution signalled through the building up of precautionary reserves and active disengagement with the rise of regional arrangements for mutual financial assurance;
- Concerns about mission creep and lack of focus across a range of the Fund's activities.

16. The response to these criticisms has been a period of reform and uncertainty starting with the then Managing Director's Medium Term Strategy in 2006. This has seen significant change in the Fund, a process accelerated by the new Managing Director from October 2007 and given greater urgency by both the ongoing weaknesses in the global financial system and the Fund's own shortage of income.

17. In assessing progress and the challenges which lie ahead, it is easiest to use the Managing Director's own categorisation of his efforts as supporting between relevance and legitimacy, whilst recognising the link between them.

Ensuring Relevance

18. The Fund's strengths are the volume and quality of its analysis; global reach and consequently its potential to be the main forum for consensus in international economic policy. It combines these strengths through its instruments - policy advice through surveillance over the global and national economies; technical assistance and lending - to support the membership. The balance between these elements varies with country circumstances, but as a universal institution, the obligation is to be relevant to every member.

Policy Advice and Surveillance

19. Supporting national and international economic stability and sustainable growth is at the heart of the Fund's aims and relevant to the entire membership. As the balance of world economic growth and the relative weight of countries in the world economy changes, fewer systemically important countries are borrowing, or are likely to borrow, from the Fund. Reflecting this, the risks to global economic stability will come increasingly from countries which have only a surveillance relationship with the IMF. The recent financial crisis has been an example of that. As a result, the importance of the IMF's bilateral and multilateral surveillance has increased and become the most important tool through which the Fund's influence at the global level can be expressed. Consequently, it is a universal goal that Fund surveillance should be effective and one which all Commonwealth countries have a direct stake in.

20. Effective Fund surveillance would have three key features:

- **Excellence in analysis:** The Fund can only be credible with the membership if it has a track record of sound policy advice;
- **Influence over the entire membership:** The Fund can only influence, not determine, outcomes in the global economy. But it can only exert this influence if – in addition to being analytically excellent – it is skilled in communicating; responds to countries' concerns and acts as a trusted partner;
- **Exploits the Fund's comparative advantages:** The Fund's unique strength comes from its ability to make linkages between the challenges facing all economies and supporting a collective response. The ability to maximise this multilateral perspective is key to effectiveness and the Fund's added value.

21. The reform of the surveillance framework has three key elements which have aimed to respond to these considerations:

- **The introduction of multilateral consultations.** The first multilateral consultation concluded in 2007, showed this as an attempt to strengthen influence over the key systemically important members.
- **The revision of the Surveillance Decision** also concluded in 2007, which sought to give rigour and consistency to the Fund's surveillance work
- **A Statement of Surveillance Priorities** to be set as part of the Triennial Surveillance Review in the autumn. This should provide a more rigorous process of priority setting for surveillance and an accountability framework for delivery of the Fund's work (and reinforcing the responsibilities of the membership).

22. It will take time to assess whether these reforms will create the more effective system of Fund surveillance which should allow the Fund to fulfil its purposes. However, initial concerns centre on the implementation of the new surveillance decision and the extent to which it can be applied consistently and even-handedly across the membership – a key part of the Commonwealth approach. The lengthy delay in bringing the Chinese 2007 Article IV to the Board is the most significant illustration of this concern. This concern finds confirmation from a different perspective in a recently published paper from the Fund² which highlights the difficulties which have been experienced with candour and transparency in the implementation of the decision. The risk is that these concerns have a direct impact on the confidence of the entire membership in the surveillance system. Without that confidence, Fund surveillance risks being ineffective, to the detriment of all members.

23. The financial crisis provided confirmation that further reform is needed, especially in three areas:

- **An improved analytical framework** for understanding the linkages between the financial sector in macro-economic developments. The Managing Director has established a new unit to undertake this analysis. This would reinforce the analytical strength of the surveillance framework.
- **Greater emphasis on cross border linkages.** The Fund was not alone in not fully understanding the channels through which contagion spread through the financial system globally following the US sub-prime crisis. But it is best placed in the international system to provide the needed cross-country analysis.
- **Strengthening influence and impact.** Analysis of the financial developments may have fallen short, but there was also a lack of response from policy-makers and markets to warnings given by international organisations. There is no straightforward answer, but processes to encourage action would be valuable.

² *Guidance on Operational Aspects of the 2007 Surveillance Decision.* IMF, 4 August 2008. Available at <http://www.imf.org/external/np/pp/eng/2008/080408.pdf>

24. This immediate response should help support more effective surveillance. However, in the longer term the crisis may also have illustrated why a fundamental response of the type called for by the Marlborough House statement is required.

25. Firstly, the financial crisis and the response to it exposed an inconsistency in global economic governance. Integration of global capital markets means that national regulation has international consequences, but whilst the IMF provides universal forum for the formulation of economic policy, the Financial Stability Forum is creating global policy on the basis of partial membership. Secondly, new processes to strengthen influence may be needed. The multilateral consultations may provide a partial model but more formal engagement of the entire membership might be needed. Thirdly, whilst the current Articles of Agreement are sufficiently open to interpretation to allow much of this activity to take place, they remain predicated on a different vision of both the Fund's operation and capital markets. Giving greater precision to its founding document might be a way of simultaneously focussing the Fund's work and renewing multilateralism.

Finance

26. The Fund has been lending significantly less in recent years with lending under stand by arrangements below \$1bn in each of the last three years as shown in **Table 1**. One emerging market creditor, Turkey, – remains and accounts for over 70 per cent of total Fund credit outstanding, but this is a high proportion of historically low lending volumes overall. Despite the recent spate of augmentations of existing PRGF programmes, the availability of finance in the PRGF is greater than anticipated as recently as 2005.

27. It seems likely that at least part of this decline in lending is structural. The last developed country to borrow from the Fund was Italy in 1975. That position is unlikely to change. There is a growing group of emerging market economies in a similar position, as access to private capital and reserve levels have increased. One implication of this has already been explored in the previous section.

28. Nevertheless, however successfully the Fund uses its surveillance tools to promote the prevention of crisis, many members will continue to need Fund finance – at least episodically – and it is important for the ongoing relevance of the Fund for its financial instruments to be designed to deliver efficiently. Two particular reforms to enhance relevance will be addressed in the run up to the Annual Meetings:

- **Reform of the Exogenous Shocks Facility** to remedy the situation where it remains unused in the face of existing shocks. The expectation is that revision of the relationship between the ESF and the Policy Support Instrument and accelerations in disbursement will make the instrument more attractive.
- **Raising access limits:** A concern in the debate over quotas and voice was that the way in which quotas were calculated did not adequately reflect the needs of some potential borrowers. Consequently, access limits are being reviewed with a number of countries arguing for raising the level of normal access from 300 per cent of quota to 500 per cent of quota. A more radical approach would be to find a more complete measure of country's needs and break the

link with quota. This might be more economically rational and have the advantage of reducing the multiple (and often conflicting) uses of the quotas.

The Unanswered Questions

29. These immediate issues would start the process of addressing the coherence of the Fund's current financing instruments for all the membership. The current constellation of instruments and charges is the result of years of evolution. At a minimum, there is an opportunity to rationalise existing instruments and make charging structures consistent. This could also mean finding new uses of Fund finance to fill in gaps in the Fund's armoury. A long-term concern has been to find ways of using Fund financing to promote better policy making and to provide countries with generally strong policies with rapid disbursing, contingent finance. So far, it has not been easy to find customers, or wide consensus on need or design, for such a facility. Worsening credit conditions globally might increase potential demand for such a facility and overcome the logjam. Equally, proposals to link this specifically to the financing challenges created by capital account opening might help provide a basis for a consensus. The creation of this instrument, in the event of demand being established, would perpetuate the tradition of ad hoc evolution.

30. However, a discussion of more comprehensive reform of the Fund's instruments is expected before the Annual Meetings and is likely to be a matter of ongoing debate into the future. For all members of the Fund, it will be important to explore all options to ensure that the Fund is not missing opportunities where global stability can be improved through finding new ways of deploying Fund resources. In particular, the increased importance of the financial sector as a source of vulnerability of both domestic and external economic stability point to the need to re-examine both the intellectual underpinning and practical implementation of the financial role of the Fund in relation to the financial sector.

31. For low income economies, there are different issues which should be considered in any overall discussion of the role of Fund financing. As more low income countries move towards middle income status, their needs from the international community and the institutions change. Four questions are particularly important:

- Ensuring that the absence of an IMF programme – either funded or a PSI – is seen as a signal of strength by the international community when frequently the presence of a programme has been used by countries to signal relative strength to donors or markets.
- Managing the graduation from concessional to non concessional lending under Fund arrangements without endangering medium-term debt sustainability. A move towards a short-term concessional facility might respond to the need for short-term balance of payments support.
- Maintaining the flow of necessary technical assistance and policy advice without the regular contact of a programme relationship, when countries wish it to continue.
- As the economic landscape changes over the medium-term, there might be a case for considering again the uses and purpose of Fund financing and its place in the development system.

Legitimacy

32. A package of quotas and voice reform was approved by the vast majority of the membership of the Fund following the Spring Meetings. Its components are well known³ as is the fact that – despite the breadth of the approval – many participants felt disappointed by the outcome, often for different reasons.

33. There is a continuing momentum for future change from three broad sources. Firstly, further change was built into the agreement at the Spring Meetings with the commitment to revisit the distribution of quota shares in five years' time. Secondly, impetus is maintained due to the commitment to deal with the technical issues of the definition of openness and variability in the quota formula; key issues for many, which must be resolved before further change takes place. Thirdly, the United States in particular has signalled its desire that the distribution of Board seats, left unchanged by the reforms, be addressed and proposed a timetable for reducing Board size to 20 by 2014.

34. Commonwealth countries have an interest in fully supporting this continuing process of improving the representativeness of the Fund and have consistently stressed the need to ensure that Fund governance reflects the changing world economy and that adequate voice exists for the smallest and poorest of countries. A Commonwealth position in favour of promoting greater double majority voting on the one hand and reconsideration of the ability of the largest member of the Fund's inbuilt veto on the most important policy decisions, would go a long way towards strengthening that voice, independent of changes in voting share.

35. In addition, in the immediate term, there is a consensus within the Commonwealth for an open, transparent selection process which disregards nationality considerations in the selection of the Managing Director. The process set out by the Board to select the current Managing Director represented a substantial improvement over the past. However, it did not produce a different result. As long as the Heads of both the Bretton Woods Institutions are selected – in effect – by part of the membership, it is difficult to argue that all countries have an equal part in assuring accountability of the institution. The Commonwealth has a potential role in promoting respect for the process in practice as well as in principle.

36. In addition to representation, momentum is also building on other key governance issues which relate directly to the aims of the Marlborough House statement to see institutions which are more clearly accountable and responsive to their membership. The IEO report on Aspects of IMF Corporate Governance – Including the Role of the Executive Board - took a wider and deeper look at the governance of the Board. It identified a confusion of responsibilities; a lack of direct political engagement; a lack of accountability; and a need to improve the Board's discussions of supervision of the institution as key areas to be addressed.

³ The IMF's Press release of Press Release No. 08/64 of March 28, 2008 presents the succinctest summary. Available at <http://www.imf.org/external/np/sec/pr/2008/pr0864.htm>

37. To solve these, the report looked for a clearer definition of all the roles and responsibilities amongst the various parts of the governance structure, especially between the Board and Management; the establishment of a Ministerial Council as provided for in the Articles of Agreement; a proper mechanism for performance assessment of management and a shift in the Board's working practices. There is broad agreement that the IEO identified many of the right issues. On solutions, there is a difference of view amongst Commonwealth countries on whether a Ministerial Council is the most effective means of gaining political input to the Fund. The same result may be achievable through an IMFC with better defined terms of reference and a strengthened formal relationship with the Board.

38. But there is a shared Commonwealth view that clearer definitions of responsibility and better mechanisms of performance management would strengthen accountability and that reforms to achieve this are necessary. The question will be – as it is in the case of addressing representation – whether an incremental or comprehensive approach is better in achieving lasting and substantial change.

WORLD BANK

Background

39. Geographical location and common heritage implies that fundamental reform of one of the Bretton Woods Institutions reinforces the need for reform in the other. There are similarities in the challenges facing the World Bank and those in the Fund, but there are also differences. The commonality is clearest in the need for reform to tackle the institution's legitimacy and accountability. In ensuring relevance, the challenges for the Bank are operational, rather than existential.

40. In general, the philosophy and underlying purposes of the Bank, as set out in its Articles of Agreement, do not reflect the current reality and are no more up to date than those of the Fund. However, in practice the poverty focus of the Bank's work, reinforced by the international endorsement of the Millennium Development Goals, gives a natural and universally-accepted framework within which the Bank's work is placed.

41. Nevertheless the landscape in which the World Bank is operating is changing and within this general context, two considerations are important:

- Firstly, for an increasing number of countries the World Bank is simply one financing option amongst many. This has implications for the Bank's convening and coordinating role in the long run. Equally, it has strategic implications as the balance in the World Bank Group is changing; the volume of IFC lending is increasing rapidly compared to the relatively static level of IBRD lending. This sharpens the context in which the Bank operates, forcing it to be more responsive to the needs of the whole borrowing membership in order to assist countries achieve their development goals.
- Within the official sector, the Bank faces a different set of pressures. Its size and reach means that there is a risk that it finds roles which either dilute its poverty focus or make for an incoherent international system. This applies with equal force to the relationship with the Fund or the UN system. The

latest example is the potential role of different parts of the international system in the financing for environmental challenges.

Legitimacy

42. Enhancing the voice of Developing and Transition Countries in the Bretton Woods Institutions is a commitment contained in the Monterrey Consensus in 2002. The issue has been on the formal agenda of the Development Committee since 2003, three years before serious discussion at the IMFC. Progress has been slow – and at times dispiriting - and with Fund reform of voting shares now in place, the necessity for change in the Bank is reinforced. Reflecting this, the Development Committee has established a timetable for reform which should lead to conclusion at the Spring Meetings in 2009. Movements in the Fund and the Bank have tended to mirror one another, but there are notable differences in the voting shares of the countries in the two institutions and even more notable differences within the World Bank Group itself.

Voting power in the World Bank Group and IMF⁴

Type of Members	World Bank Group				IMF	
	IBRD	IDA (actual)	IFC	MIGA	Before Reform	After Reform
Developed Countries	58.6	59.4	67.4	50.0	61.5	59.0
Developing and Transition Economies	41.4	40.6	32.6	50.0	38.5	41.0

43. Two things could be drawn from this. Firstly, any reform needs to be comprehensive across the World Bank Group and should consider all the component parts of the Bank. Secondly, having created differences between the two institutions, the process of divergence between the Fund and the Bank should be accelerated in this reform. This seems logical in the face of the different objectives of the institutions. With the process of defining options for implementation in 2009 underway, the four main lines of discussion can be assessed.

Board Seats

44. The proposal for a third African chair would go some way towards mitigating the level of work imposed on the two current African constituencies. It would also see a practical increase in the voice for Africa in an institution primarily geared to development. This fits well with the Commonwealth aims of increasing the representativeness and responsiveness of the Bank. Budgetary and Board effectiveness objections have been raised. Both seem spurious. African chairs have made a commitment to ensure that the change is budget neutral. If the size of the Board is raised to 25, the incremental change to Board effectiveness is likely to be minimal. There are more basic barriers to Board effectiveness than size. Clearly, agreement to increase African representation within the current Board size would do even more to rebalance voice in the Board.

⁴ As quoted by the G24 Secretariat

Voting Shares

45. Although for many countries incremental changes in voting share are relatively unimportant in practice, the distribution of voting shares in the institution and the method of determining them is highly symbolic in any discussion of legitimacy. From a Commonwealth perspective, and in a development institution, it is appropriate for developing countries, and particularly the poorest, to have increased voting share. Given the nature of the work of the Bank - there is a strong case for that share being substantially higher than in the Fund. The structure of the likely proposal is that – as in the Fund – there would be some increase in the basic votes allocated to each country and some adjustment of capital shares to change the distribution of voting weights. For basic votes, tripling Basic Votes would raise the share of Developing and Transition Countries (DTCs) in total voting power at the Bank alone by over 2 percentage points (significantly more than what the similar proposal achieves within the Fund). Raising it to the level from the Bretton Woods conference brings this to over 3 percentage points.

46. In the implementation of any reform, two specific issues are of particular controversy, whether an objective of this exercise should be for the group of DTCs to have a voting share equal to that of the developed economies and whether each individual DTC country should have no decrease in voting share at the end of this process. The desirability of these goals hinges on definitions. The DTC group is eclectic, including members of the OECD, members of the European Union and countries which are elsewhere classified as high income. A Commonwealth approach – which stresses the importance of voice for poorest and smallest members – might look for a different objective which at least protects the voting share of low income countries and small developing states, both categories with clear definitions and of importance in the Commonwealth.

47. The mechanics of how this should be achieved are potentially complex. However, one part of this reform must be to reinforce the overall commitment to multilateralism. Consequently, the means of achieving a change in voting shares should entail a real financial commitment on the part of countries gaining voting share to reflect the fact that greater say should also bring greater direct responsibility.

48. Again, as with the Fund, double majorities and the compatibility of a single country veto on important decisions could be aspects that the Commonwealth should highlight, bearing in mind the principle of fair voice expressed in the Marlborough House statement.

Selection of the President of the World Bank

49. As described previously, the nationality convention over the Heads of the institutions is disproportionately damaging to the image, credibility and practical governance of the institutions, irrespective of the quality of the individuals selected. There will always be excuses for retaining it: at the Annual Meetings the present US Presidential Administration could claim it is too far into its tenure to make such a change; the risk is that in the spring the next Administration will claim it is not yet far enough in. The Commonwealth should be consistent and militant in pressing any Administration to move to an open and transparent process with the best person being appointed irrespective of nationality, and to call the EU's bluff on their commitment to do the same in the Fund should the US move. More widely, the attitude of the United States to Bank governance reform has been markedly more reserved than in the Fund. Again there is a role for the Commonwealth in seeking a commitment from

the US to deliver reform on the timetable agreed in the Development Committee, particularly for those countries which are also part of the G20.

Responsiveness

50. The ability of the Bank to listen to the membership is the essential counterpart to any increase in voice for developing countries. This is an area where progress has been made in the period since Monterrey. Decentralisation of staff – although not formally evaluated – is considered by borrowing members in particular to have made a significant difference to the Bank’s approach. There is an opportunity to take this further, considering the extension of decentralisation to more senior management. Similarly, enhancing diversity of both nationality and background amongst senior staff should also be tackled in this process. Incremental changes along these lines can have as great an impact on the effectiveness of the institution as other changes in operation.

Wider Effectiveness Reform

51. The Marlborough House statement emphasised the importance of accountability and transparency in the operation of all international institutions. In addition to the flawed selection processes of the Heads, both Bretton Woods institutions share weaknesses in internal governance. In the Bank, the lack of a formal strategic framework makes it challenging for the Board to provide the strategic oversight role which would be typical of best practice in corporate governance. The same confusion of responsibilities, particularly between Management and the Board, which were identified by the IEO report in the Fund, also exists in the Bank. Increasingly, the Commonwealth should aim for both institutions to enhance accountability to shareholders and the wider public through greater transparency.

Operational Issues

52. In addition to governance, the key issue at the Annual Meetings will be the Strategic Framework for the Environment. The Bank’s engagement in this area has evolved over recent years with a three-fold approach to addressing the development challenges created in this area based on access to energy, adaptation to climate effects and mitigation to support the transition to low carbon forms of energy generation.

53. Discussions are evolving, but initial concerns about the risk of environment displacing poverty reduction as the focus of the Bank have been addressed. Progress on the Strategic Climate Fund and its governance has also allayed concerns about additional conditionality. Issues that will need to be resolved in this process are concerns about environmental criteria being used to restrain country’s growth and how far money for climate change priorities is additional to existing ODA commitments. However, resolving these issues is a key test of the ability of the Bank to fulfil its potential as a supplier of Global Public Goods. Bringing overall coherence to the system of finance necessary to support meeting the international environmental challenges, was an issue discussed by Commonwealth leaders in June. They stressed the importance of treating environmental and development issues together, but did not form a firm view on the precise role for the World Bank in this system. Some of the concerns and differences in views derived from the wider questions of legitimacy in the overall governance structure of the Bank. This demonstrates the reinforcing nature of legitimacy and operation in the international system.

54. The immediate priority before and potentially at the Annual Meetings has been seen as the response to the food crisis. The World Bank (and the donor community in general) has been criticised for its relative lack of emphasis on agricultural investment in the past decade or so. However, it has played a leading role in the analysis and the reaction to the crisis. The President of the Bank was one of the first to publicly set out the need for a comprehensive response with the New Deal for Food in April. Since then the Bank has played a leading part in the coordinated response of the international community - this is dealt with in more detail in the *Special Theme*. This has showed the ability of the Bank to respond quickly and flexibly to emerging issues. However, it has also raised questions - of long-standing – about whether the capability of the international system to respond systematically to shocks is well designed.

Other Issues

55. As a publicly-owned development institution, the World Bank is not a commercial bank. By design, Multilateral Development Banks' (MDB) lending is more risky than commercial lenders. The Management of the Bank has to balance the consideration that it should maximise development impact, whilst not damaging its capital base. It does so in a context that there is a clear asymmetry, since donors are likely to punish a Management more for loss of capital than a foregone development opportunity. As a result, there is an understandable bias to conservatism in the use of resources. Such conservatism can also support flexibility.

56. However, the primary purpose of a development bank is supporting the development objectives of the membership. As a multilateral institution, the Bank has multiple lines of defence in protecting its financial position:

- Its preferred creditor status – although this is a convention, it has proved effective in the enforcement of contracts in general.
- The size of its callable capital (which covers the entirety of the loan portfolio) and the credit quality of the shareholders.
- The conservatism of the reserves policy.

57. All this contributes to a situation where the IBRD has been assessed by Standard and Poor's to be '...extraordinarily well capitalised by historical as well as absolute standards...'⁵ The question is whether this position is making best use of the world's scarce development resources. The members of the Commonwealth have an interest in the efficient use of international resources to maximise development effectiveness. A full, independent analysis of the optimal use of the Bank's capital would give a clearer picture of whether these resources could be more effectively used.

⁵ In *Ratings Direct: The International Bank for Reconstruction and Development*. Standard & Poor's Mrch 2008. Available at <http://treasury.worldbank.org/web/SPIBRDFY2007Analysis.pdf>

58. Finally, given the emphasis accorded this issue by Commonwealth Heads of Government at Kampala and their subsequent representative group meeting, there are two specific areas where there is an additional role for the World Bank in terms of addressing the needs and interests of the smallest as well as poorest countries. The first is in managing the graduation of the smallest countries from official resources to IBRD. Small states are given exceptional access to IDA resources at higher income levels recognising the particular challenges they face. Those challenges persist even as the income level rises further. Consideration should be given to a similar exception in the cap of access to IBRD resources. The second is to examine how the Commonwealth Secretariat and members can work further with the Bank to address the debt challenges in small states.

Table 1: Fund Assistance to Member Countries (1998-2008)

(Billions of SDRs) ⁽ⁱ⁾

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Commitments											
Stand-by and Extended Arrangements Approved	30.6	13.7	16.2	31.2	39.1	11.3	0.8	8.8	0.1	0.6	0.4
of which: Supplemental Reserve Facility ⁽ⁱⁱⁱ⁾	13.1	5.8	2.1	16.0	7.6	0.1	0.0	0.0	0.0	0.0	0.0
PRGF ^(iv)	1.1	0.9	0.8	2.1	1.2	1.1	0.5	0.1	0.4	0.2	0.5
Total Commitments	31.7	14.6	17.0	33.3	40.3	12.5	1.4	8.4	0.5	0.8	0.9
Purchases											
Stand-by and Extended Arrangements	18.4	9.0	7.1	23.8	25.2	20.3	4.2	2.3	2.4	1.0	2.9
of which: Supplemental Reserve Facility	[9.4]	[3.6]	[1.7]	[13.2]	[3.9]	[1.5]	n/a	n/a	n/a	n/a	n/a
Systemic Transformation Facility ^(v)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Compensatory and Contingency Facility	2.2	0.7	0.0	0.0	0.0	0.0	0.0	0.0	n/a	n/a	n/a
Total Purchases	20.6	10.0	7.1	23.8	25.2	20.3	4.2	2.3	2.4	1.0	2.9
Disbursements											
PRGF	0.9	0.7	0.5	0.9	1.3	0.8	0.8	0.4	0.5	0.3	0.5
Structural Adjustment Facility	-	-	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Purchases & Disbursements	21.5	10.8	7.7	24.6	26.5	21.2	5.0	2.7	2.9	1.3	3.3
Repurchases and Repayments											
Repurchases	6.7	19.4	15.2	13.3	15.1	18.9	13.8	29.3	21.0	4.7	1.1
Repayments: Trust Fund ESAF/SAF	0.6	0.6	0.6	0.8	0.9	0.8	0.9	0.9	2.9	0.4	0.3
Total Repurchases and Repayments	7.3	20.0	15.8	14.0	16.0	19.7	14.7	30.1	23.9	5.1	1.4
Forward Commitment capacity ^(vi)	19	24	60	61.0	54.7	54.2	72.0	91.5	n/a	n/a	n/a
Total IMF Credit Outstanding	56.0	67.2	50.4	59.9	70.5	71.9	62.1	34.7	13.7	9.8	11.8
Change in Fund Credit ^(vii)	14.2	-9.6	-8.2	10.6	10.5	1.5	-9.7	-27.0	-21.0	-3.8	-2.0

Source: International Monetary Fund (IMF)

(i) Components may not add up to totals because of rounding.

(ii) As of 31 July 2008

(iii) The Supplemental Reserve Facility (SRF) was established in 1997.

(iv) PRGF – Poverty Reduction and Growth Facility, formerly known as the Enhanced Structural Adjustment Facility (ESAF).

(v) The Systemic Transformation Facility (STF) was established in 1993 and expired in 1995.

(vi) Forward Commitment Capacity is a measure of resources available for new financial commitments in the coming year.

(vii) Total purchases plus total disbursements less total repurchases and repayments.

**Table 2: IBRD/IDA - Commitments and Resources Transfers
FY 1998 -2008**

(US\$ billion)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Commitments:	28.6	29.0	15.3	17.3	19.5	18.5	20.1	22.3	23.6	24.5	24.7
of which IBRD	21.1	22.2	10.9	10.5	11.5	11.2	11.1	13.6	14.1	12.8	13.5
IDA	7.5	6.8	4.4	6.8	8.1	7.3	9.0	8.7	9.5	11.7	11.2
Gross Disbursements:	24.9	24.2	18.5	17.3	17.9	19.3	17.2	18.7	20.7	19.7	19.7
of which IBRD	19.2	18.2	13.3	11.8	11.3	11.9	10.1	9.7	11.8	11.1	10.5
IDA ⁽ⁱⁱⁱ⁾	5.6	6.0	5.2	5.5	6.6	7.3	7.1	8.9	8.9	8.6	9.2
Net Disbursements^(iv)	12.8	13.3	6.4	6.3	4.6	-2.2	-3.0	1.9	5.0	0.5	4.8
of which IBRD	7.8	8.2	2.9	2.1	-0.8	-7.9	-8.3	-5.1	-1.7	-6.2	-2.1
IDA	4.9	5.0	3.5	4.2	5.3	5.7	5.3	6.9	6.8	6.7	6.9
Net Transfers^(v)	5.5	5.0	-2.2	-2.6	-3.4	-9.1	-8.6	-3.0	-0.5	-5.5	-2.0
of which IBRD ^(vi)	1.1	0.6	-5.2	-6.2	-8.1	-14.0	-13.1	-9.0	-6.4	-11.5	-8.0
IDA	4.4	4.5	2.9	3.5	4.7	4.9	4.5	6.0	5.9	6.0	6.0

Source: World Bank

(i) For financial years ending 30 June.

(ii) Data is provisional

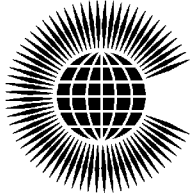
(iii) Excludes HIPC Grants

(iv) Net disbursements are gross disbursements minus repayments.

(v) Net transfers are net disbursements minus interest payments and fees.

(vi) Excludes changes in net present value of guarantees.

Commonwealth Secretariat



Commonwealth Heads of Government Meeting on Reform of International Institutions

London, 9-10 June 2008

Marlborough House Statement on Reform of International Institutions

Commonwealth Heads of Government, representing one third of humanity and more than one quarter of the world's sovereign governments, collectively expressed the concern of our 53 member states at Kampala in November 2007 that the current architecture of international institutions no longer responds adequately to the challenges of the 21st Century.

2. Since then, the world has witnessed continued financial turbulence, and record levels of prices for food and fuel. These challenges have further illustrated the fundamental weaknesses of a number of today's international organisations that are charged with promoting economic stability and sustainable development. Such institutions do not have adequate capacity, governance structures, or in-built responsiveness either to anticipate or to address global needs in a timely fashion. In some cases, such as energy and the environment, there is an absence of institutions with the mandate to deal globally with these issues of global public policy.

3. We have therefore met as a representative Group of Commonwealth leaders⁶ to identify underlying principles and the actions that should be taken, as a global priority, to achieve reform of international institutions and lead to new institutions where necessary.

4. We recognise that sovereign states must have the capacity and freedom to determine national goals and implement national policies and strategies. Equally, we recognise that many national goals cannot be achieved without international collaboration and support.

⁶ President Bharrat Jagdeo (Guyana), Prime Minister Navinchandra Ramgoolam (Mauritius), President Maumoon Abdul Gayoom (Maldives), President Mahinda Rajapaksa (Sri Lanka), Prime Minister Feleti Sevele (Tonga), Prime Minister Patrick Manning (Trinidad and Tobago), President Yoweri Museveni (Uganda), Prime Minister Gordon Brown (United Kingdom), President Jakaya Kikwete (United Republic of Tanzania), Vice President Alhaji Aliu Mahama (Ghana), Deputy Prime Minister Najib bin Tun Razak (Malaysia).

5. Global crises require truly global and universal responses. The inadequacy of the current responses calls into question whether incremental and ad hoc approaches to reform will create a new generation of international institutions fit for today's world.

6. The institutions that were established in the mid-20th Century enjoyed strong political agreement at the time on the ends to be achieved by them and the means of doing so, underpinned by a commitment to multilateralism. That commitment is now at risk. The majority of independent sovereign states today are politically subordinate and inadequately represented in these institutions. It is unacceptable, and indeed weakens these institutions, that the greater part of the world community of states participates and benefits less than fully in them.

7. Well designed international institutions have a fundamental role to support all countries to meet their economic, political, humanitarian and security challenges. Through collective co-operation, embodied in international institutions, the global community will foster the conditions for a fully inclusive and equitable global society. The commitment of the world's major powers to multilateralism and its underlying values remains central to any successful settlement on a new architecture of international institutions in this century.

8. As members of the Commonwealth, we recognise the strength of multilateral co-operation founded on consensus amongst countries with diverse backgrounds, interests and cultures. We believe that reform and construction of new international institutions should be built on the following guiding principles:

- Institutions must enjoy the legitimacy not only of their member states but also of the wider international community in order to command confidence and commitment.
- It is essential that all countries have equal voice and fair representation.
- A voice for all countries is only valuable if it is listened to and is reflected in decision-making. It is essential that institutions are responsive, with the interests of all members, especially the smallest and poorest, being taken into account.
- The activities and governance of institutions must be flexible, responding to new challenges, national priorities and the specific circumstances of member states, and changing global realities.
- Institutions must have clear responsibilities and the conduct of their business must be transparent and accountable to the entire membership and the wider public.
- It is essential that they be effective and capable of addressing today's global challenges.

9. We are committed to reform that creates an effective multilateral system, and that supports a more democratic global society with greater equity and fairness. The new generation of international organisations should reflect a new cooperative spirit.

10. We welcome the reform processes and debates under way in many international institutions. The United Nations has a unique role and legitimacy, and we acknowledge the reforms that are occurring to strengthen the coherence of the United Nations system and the efficacy of its development and humanitarian activities in particular. It is imperative that the UN's "Delivering as One" initiative is further implemented with urgency. It is also vital that the UN continues to develop a global framework of rules and collective action in an inclusive and democratic way.

We intend to accelerate UN reforms and their effective implementation, as a matter of urgency, through lobbying and advocacy in the UN itself as well as other international fora.

11. We also acknowledge the discussions and welcome actions taken to date to reform the International Monetary Fund. However, these and proposed reforms of other international financial institutions including the World Bank, must now be addressed further with greater ambition. These institutions as well as their policies and instruments should be redefined so that they serve the needs of all members and the broader global community.

We intend to pursue the redefining of the purposes and governance of the Bretton Woods institutions, including working towards a Commonwealth consensus and wider international support for an international conference to achieve these goals.

12. The effective management of the global environment is one of the most pressing international priorities of our generation. The impacts of environmental degradation are most starkly felt in the smallest, poorest and most environmentally vulnerable countries. A new system of environmental governance must be fully integrated with development priorities and concerns, and be responsive to the needs of these countries. In addition, a financing mechanism needs to be developed that underpins the linkage between development and the environment, and notably supports investment in long term sources of energy and environmental efficiency.

13. A comprehensive system of international governance is essential, and collaboration is necessary to meet current and projected environmental challenges. Commonwealth leaders have already acknowledged that the Commonwealth is uniquely placed to play a leading role in light of its diversity and unqualified support for work through the United Nations Framework Convention on Climate Change. It is imperative that we collaborate now to build high levels of Commonwealth consensus on positions in the UNFCCC negotiations, in order to achieve early results and the strongest possible foundation on which to build the requisite global governance structure. Commonwealth positions should be built around our shared view that the outcomes of the UNFCCC negotiations should address all aspects of the environment including climate change, energy balance, and the impact on global human development within the context of sustainable development.

We intend to pursue the possibility of an international conference to achieve improved global environmental governance, including the possibility of a new international organisation or reform of existing arrangements, again working on the basis of a Commonwealth consensus and wider international support.

14. The Commonwealth is committed to advancing a programme of reform of international institutions. The existing crises in finance, food, and fuel demand no less. We acknowledge that high quality reform will not be achieved unless all those with a stake in future global governance have their voices heard. We are conscious that the conferences that we propose to pursue will require careful preparation and wide consultation to achieve the essential universal acceptability.

15. The Commonwealth will work closely with the institutions concerned. To that end, we will work with the wider Commonwealth community, including at an extraordinary meeting of Commonwealth Heads of Government on 24 September 2008. We have given guidance to the Commonwealth Secretary-General to develop an Action Plan on Reform of International Institutions. We will use the full extent of Commonwealth networks, including our civil society and professional associations.

We intend, individually and collectively, to carry forward our reform agenda to relevant international fora. We will seek to enlarge the breadth of international commitment to our Commonwealth reform agenda, and call on others to join us in this endeavour.

Marlborough House
10 June 2008