

FOREWORD

In the Monterrey Consensus, agreed at the 2002 International Conference on Financing for Development, held in Monterrey, Mexico, world leaders committed to broaden and strengthen the voice and participation of developing countries in international economic decision-making and norm-setting. This commitment reflected the perceived need to increase the representativeness of the Bretton Woods institutions, which operate within a governance structure largely defined six decades ago. It also reflected the need to adjust other multilateral financial institutions, such as the Bank for International Settlements, to a global environment characterized by the growing importance in the world economy of a dynamic group of developing countries and to give developing countries in general, some representation in policy-making and norm-setting bodies where they have no formal participation, such as the Basle Committee on Banking Supervision and the Financial Stability Forum.

This commitment has translated thus far into some actions and an ongoing discussion on the Bretton Woods institutions. The International Monetary Fund (IMF) and the World Bank have strengthened the offices of African Directors and some European countries have created an Analytical Trust Fund to support the African Chairs. These changes have been motivated by the evident concern to maintain the legitimacy of these institutions as representative global entities. The International Monetary and Financial Committee aptly summarized the major issue at stake in its communiqué of April 2005:

The IMF's effectiveness and credibility as a cooperative institution must be safeguarded and further enhanced. Adequate voice and participation by all members should be assured, and the distribution of quotas should reflect developments in the world economy. The Group of 24 (G-24), the major group of developing countries in international financial issues, has positioned itself at the forefront of this debate. In its October 2004 communiqué, the G-24 called for the adoption of a new quota formula in the IMF that reflected the relative size of the different economies, by

measuring Gross Domestic Product (GDP) in terms of purchasing power parities (PPP), as well as the vulnerability of different economies to commodity prices, capital account volatility and other exogenous shocks. At the same time, it called for strengthening the voice of smaller sized economies in decision-making, by increasing the weight of the basic votes to its original weight of 11 per cent of the total voting power. Indeed, through time, that weight has declined to only 2 per cent today. Whereas measurement of GDP is particularly important to the dynamic 'emerging' economies of Asia, the issue of basic votes is particularly important to small and poor economies, especially those of sub-Saharan Africa.

This book represents a major contribution by the G-24 to the ongoing debate. Edited by the Director of the Secretariat of the Group, the book offers a rich set of quality papers by current or former Executive Directors of multilateral financial institutions who come from developing countries, as well as by leading academics. The authors analyse the virtues of alternative formulas for the distribution of voting power, which apply measures of GDP based on PPPs; alternative definitions of international trade, which exclude trade among members of the European Monetary Union using a single currency; estimates of the vulnerability of developing countries to commodity shocks and the volatility of capital flows; and restoring the weight of basic votes. They also analyse alternative voting structures, particularly the 'double majority voting procedures' used by some regional development banks, which ensure a greater weight to smaller members, as well as other changes that could increase the accountability and effectiveness of the Executive Boards of the international financial institutions.

This is a timely contribution to an essential debate in international economic governance, a debate that we hope will fulfil the historic promise of voice and representation made at Monterrey.

José Antonio Ocampo
Under-Secretary-General of the United Nations
for Economic and Social Affairs