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WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **P. CHIDAMBARAM,**
Governor of the Fund and the Bank for **INDIA,**
at the Joint Annual Discussion

Statement by Mr. P Chidambaram
Governor of the Fund and the Bank for India
at the 2006 Annual Meetings of the Board of Governors
Singapore

September 19, 2006

Mr. Chairman,

1. We meet at a time when global growth has exceeded expectations. While growth has become more broad-based, the sustainability of the current growth phase is a matter of concern. While most countries have seen benign core inflation, there is strong evidence of an upswing with fuller pass through of oil and commodity prices. Further, tightening of the monetary stance in advanced economies in the face of an inflationary threat could impact emerging markets and retard future growth.

2. Mr. Chairman, I would like to remind ourselves of the need for continued attention to the Millennium Development Goals (MDGs). While there has been encouraging progress on the poverty MDGs, there are serious concerns about attainment of the human development MDGs in all regions. We need to reaffirm the principle of mutual accountability of developing countries, developed countries, and the international financial institutions for making progress on this important agenda.

3. There are many important items on the agenda in this year's annual meetings. Let me focus on three.

Firstly, Surveillance

4. We note the new initiatives to strengthen the bilateral, regional and multilateral surveillance process. We need to remain focused on the Fund's area of core competence, namely rigorous macroeconomic analysis, while continuing to improve the tools of analysis within the provisions of Article IV.

5. Given the persistent perception of a significant section of members that the Fund's surveillance is not 'even handed', we should use this opportunity to restore confidence among both borrowers and lenders.

6. Fund surveillance should take into account country-specific political, social and institutional differences. There is a wide diversity in the level of financial sector development across Fund membership; hence, a one-size-fits-all approach would not be appropriate.

Secondly, Governance and Anticorruption

7. We recognize the importance of this issue in the development dialogue. But I would say there is a disproportionate focus on it in the Bank's strategy, with suggestions to integrate it into the operational policies of all the Bank's affiliate institutions. The Bank's mission is "a World Free of Poverty", and we would be unhappy if the new focus tends to obscure or negate the Bank's historical development-centric approach.

8. We encourage the Bank to work on monitorable, consistent and agreed governance indicators. The proposal to customize Country Assistance Strategies on the basis of governance grading of a country, including extreme options like break in lending, I am afraid, is bound to hurt the development process in countries that need Bank assistance the most. Mr. Chairman, at the Spring meetings, many of us had clearly expressed the view that we do not support the approach of 'zero tolerance leading to zero development'. We would, therefore, urge that the strategy on governance must be further developed with the full involvement of and oversight by the Executive Board.

9. The suggestion in the agenda papers relating to Bank's involvement with non-executive institutions must be approached with caution. The Bank's relationship with its development partners is based on trust, and this must be respected. We do not favour the position that the Bank may deal directly with such non-executive institutions – all interface of the Bank must invariably be through country governments and be limited to matters of transparency in project implementation.

Finally, Quota & Voice

10. Mr. Chairman, what is at stake here is the credibility and legitimacy of the IMF. Bridging the 'Voice' deficit requires fundamental reforms in the quota structure, which are long overdue. We were, therefore, not in favour of any *ad hoc*ism including the proposed two-stage process based on a hopelessly flawed formula. We believed that all reforms – new quota formula, realigning country quotas, and increase in basic votes – could have been adopted simultaneously as a package.

11. The two-stage process will mean that some developing countries will be asked to yield a portion of their quotas in favour of some other developing countries. Let me make it clear that we support the increase in quotas of the four countries that are in the reckoning, or for that matter of any under-represented country. But we would have been happier if this increase was the result of a comprehensive reform that reflected accurately the economic weights of member countries and required countries that are over-represented to yield ground.

12. Now that the vote has been done, let me say that the 23 countries – many of them large, emerging and well-performing economies – that voted against the Resolution may have lost the vote but have not lost the argument. We promise to work with the Management and other Member Countries. At the same time, we would hold the Management of the IMF and the countries that supported the Resolution to their promise – that the second stage will begin **<u>now</u>**; that the criteria for a revised formula will be determined and defined; that there will be a second round of *ad hoc* increase for some more underrepresented countries which we believe included India; that the Articles will be amended; and that, in the end, the quotas and voting rights will reflect the relative economic strengths of countries in the 21st century. And all this will be done in a time-bound manner.

13. In conclusion, Mr. Chairman, the actions of the global development community are being closely compared against the promises repeatedly made. The development challenge facing us is daunting and we need to focus on global priorities. We are collectively answerable to the poor and the under privileged of the world. Through the Millennium declaration, we gave them hope. Let us all strive by our actions to convert that hope into a reality.

Thank you.