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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. **PRANAB MUKHERJEE,**
Governor of the Bank and the Fund for **INDIA,**
at the Joint Annual Discussion

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Governor of the Bank and the Fund for India,
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Mr. Chairman,

We meet in an atmosphere which is more hopeful than it was a year ago. The coordination demonstrated at the global level has generated hope that we can overcome the worst. It appears that recovery will be unsteady and long-drawn, with growth in employment lagging behind. Maintaining policy stimulus is crucial for anchoring the recovery. Balancing the stimulus against the risks of inflation and threats to fiscal viability is a key short term challenge. The timing and sequencing of exit strategies assume importance. Further, there is an unfinished agenda on repairing the financial system. The perimeter of regulation has to be expanded. Supervision needs to be intensified in systemically important financial centers.

2. Lingering effects of the crisis on the poor may continue for many years. The medium-term imperatives are returning output to pre-crisis levels, recovering jobs, and to continue the fight against poverty. Developing countries face fiscal constraints in maintaining their investments in education, health and infrastructure. The struggle to achieve the MDGs has suffered a serious setback. The demand for World Bank assistance would remain high for many years to come. The Bank needs to be well capitalized to meet this demand.

3. The Fund and the Bank cannot emerge from the crisis unchanged. They have to enhance their legitimacy to perform their expanded roles and mandates effectively. Far reaching changes to the governance structure of the IFIs are needed to reflect the changing dynamics of the global economy. Role of developing countries as drivers of future global economic growth needs to be recognized. Resistance to the overdue change will only detract from the legitimacy, credibility and effectiveness of these institutions.

4. As a first step, the early ratification of the April 2008 package of quota reforms for the Fund is an urgent requirement. The next quota review should be completed by January 2011. To preserve the Fund as a quota-based institution, at the minimum there should be a doubling of quotas.

5. Parity in the vote shares of developed and developing countries would greatly enhance the legitimacy of the Fund. This can be achieved through a 7 to 8 per cent shift in quota shares. Even to achieve the shift of at least 5 per cent called for by the G20 leaders in Pittsburgh, we would have to work beyond the current quota formula.

6. Other aspects of governance reform should follow and flow from the quota rebalancing. Enhanced political engagement of Ministers in IMF related issues is best achieved through improvements in the functioning of the IMFC. The chairs in the Executive Board should be redistributed on a more equitable basis amongst the regions of the world. Any changes to the size of the Board should protect the representation of developing countries.

7. A year ago, we agreed on two phases of Voice reform in the Bank. The first Phase enhanced the voice of Sub Saharan Africa and gave greater representation to smaller members. But the shift in vote share was a miniscule 1.4 per cent. It is time for us now to deliver a significant shift, effectively raising the voice of DTCs. This is possible only with an additional shift of 6 per cent and not by some mechanical exercise.

8. The realignment should be based on Bank specific parameters. Economic weight with primacy to GDP-PPP should be the main criteria. We also need to preserve the voice of small countries by ring-fencing their vote share.

9. We need an ambitious outcome from the governance reform processes in the IFIs. We are prepared to constructively engage to arrive at a satisfactory conclusion on these issues. Let us not miss this opportunity of strengthening the credibility, legitimacy and effectiveness of the Fund and the Bank.

Thank you.