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)

October 1, 2004
DC2004-0017

G-24 COMMUNIQUE

The attached Communiqué of the Ministers of the Intergovernmental Group of Twenty-Four, held in Washington, D.C., on October 1, 2004, is circulated for the information of the Development Committee at the request of their Chairman, Mr. Conrad Enill, Minister of Finance, Trinidad and Tobago.

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

COMMUNIQUÉ

October 1, 2004

I. GLOBAL ECONOMIC PROSPECTS

1. Ministers welcome the continued strengthening in global growth prospects, but note that significant downside risks remain, including ongoing large payments imbalances, the move toward a higher interest rate environment, the volatility of oil prices exacerbated by downstream supply constraints, and serious geopolitical concerns. Moreover, while economic growth has become increasingly broad-based, some regions continue to lag behind. In particular, growth in sub-Saharan Africa, while improving over the recent period, remains at levels inconsistent with achieving sustained poverty reduction and reaching the Millennium Development Goals (MDGs).

2. Ministers consider that, while the significant fiscal expansion and accommodative monetary policy in the United States have helped to support the global recovery, resolute action will be needed over the medium term to return fiscal policy to a sustainable path and address the large current account deficit. This would help to minimize the risk of disorderly exchange rate movements and a sharp increase in interest rates that would undermine the global recovery. In addition, the growing U.S. external imbalance and the diversion of a substantial portion of world savings from developing countries to the largest and highly-capitalized economy constitute a misallocation of resources and pose a serious short- and medium-term challenge for the international economy. Ministers believe that higher growth in the European Union is essential to the continuation of the global recovery process, and see a need for maintaining an accommodative monetary policy stance and for a deepening of structural reforms. They welcome the recovery of the Japanese economy, and encourage the authorities to address the lingering imbalances in the financial and corporate sectors to help boost domestic sources of growth. Ministers recognize the strong contribution that emerging market economies are making to the global recovery, and encourage a greater role for these countries in international economic policy coordination. Ministers welcome the ongoing efforts made by oil-producing countries to stabilize the oil market. These efforts should be supported by closer consumer-producer cooperation.

3. Ministers consider that to effectively address global imbalances and to sustain high growth momentum, a cooperative multilateral approach is essential, and call upon the IMF to undertake a more proactive role in this area and to enhance the effectiveness of its surveillance of major economies.

4. Ministers remain deeply concerned about the deteriorating situation in the occupied Palestinian Territories, the construction of a wall in the West Bank, and its adverse social and economic ramifications on the Palestinian people. They call on the IMF and the World Bank to intensify their assistance to the Palestinian people. Ministers are concerned about the

economic and security situation in Iraq, and call on the BWIs and other donors to intensify their assistance and accelerate the disbursement of aid pledged at the Madrid Donors Conference in October 2003. Ministers welcome the Emergency Post-Conflict Assistance (EPCA) the Fund is providing to Iraq which should catalyze adequate debt relief from Iraq's creditors. They found the approach of the IMF in the application of the EPCA policy to be innovative and flexible. Such flexibility should be an example in addressing other potential EPCA cases.

5. Ministers deeply regret the loss of life and severe property damage caused by the hurricanes that recently struck the Caribbean region. They call on the multilateral institutions and the rest of the international community to provide prompt and substantial concessional assistance to the affected countries.

II. TRADE

6. Ministers welcome the resumption of the Doha Round of multilateral trade negotiations. They reiterate that the Doha Round should result promptly in improved market access for developing country exports, the dismantling of tariff escalation schemes, and the elimination of tariff peaks and non-tariff barriers. The Doha Round should also result in an accelerated reduction of industrial and agricultural tariffs, the phasing out of subsidies in agriculture (particularly the removal of all export subsidies), the expansion of agricultural tariff-rate quotas, as well as ensuring its transparent administration. Tariffs in such areas as textiles, clothing, and footwear should be removed. Ministers caution that the dismantling of the quotas under the Multifibre Agreement on January 1, 2005 should not lead to the imposition of other protectionist measures. They urge the Bank and Fund to intensify their efforts to develop clear strategies to assist countries in adjusting to greater trade liberalization.

III. CRISIS PREVENTION AND RESOLUTION

7. Ministers note that, in the absence of appropriate crisis prevention mechanisms, developing countries must rely on excessive reserve accumulation as a form of insurance against crises, and believe that the IMF should play a much larger role in this regard. They urge the IMF to develop effective lending facilities to assist countries in the prevention of financial crises, and to make precautionary financing available to countries pursuing strong policies, but which remain vulnerable to exogenous shocks to their capital accounts.

8. Ministers question the benefits of creating an instrument for signaling purposes, such as the proposed Policy Monitoring Arrangement, with stringent conditionality and no financing. Such an instrument would be inferior to existing precautionary arrangements that allow countries to borrow in case of need. While the instrument has been presented as "voluntary," there is a high probability that it would in fact become a requirement for lending, grants, and debt relief. Furthermore, the proposed instrument would be contrary to the purposes of the IMF as an institution of international monetary cooperation and would substitute for existing facilities by minimizing lending to low-income countries. Ministers

note that the capacity of the IMF to discharge its role has been eroded over time by the decline in quotas relative to world output, and call for a sizeable quota increase as soon as possible.

IV. REDEFINING THE STRATEGIC ROLE AND THE GOVERNANCE OF THE BRETTON WOODS INSTITUTIONS

9. Ministers note that, despite the increased role of developing countries in the world economy since the creation of the IMF and the World Bank, the governing structures of the BWIs have not evolved in line with this transformation. Recalling that the Monterrey Consensus calls for enhancing the participation of developing countries in the decision making processes of the IMF and the World Bank, Ministers express strong disappointment and concern that, after two and a half years, no progress has been made on the issues of increasing basic votes and revising the quotas of developing countries in the IMF and their capital shares in the World Bank. They stress that the current under-representation of developing countries in the decision-making processes undermines the credibility and legitimacy of the Bretton Woods institutions, and puts their relevance into question.

10. Ministers consider that enhancing the representation of developing countries requires a new quota formula to reflect the relative size of developing country economies. The formula should be simplified to give greater weight to measures of gross domestic product in terms of purchasing power parity, and take into account the vulnerabilities of developing countries to movements in commodity prices, the volatility of capital movements, and other exogenous shocks. In addition, basic votes should be substantially increased to restore their original role in relation to total voting power and to strengthen the voice of small countries. Ministers are concerned that the updated quota calculations contained in the report to the IMFC and DC continue to understate the role of developing countries in the world economy and run counter to the good governance, legitimacy and best interests of the Bretton Woods institutions.

11. Ministers noted that the term of the President of the World Bank will expire next June. In the event that he does not seek another term of office, they call for the initiation of a transparent selection process, with a view to attracting the best candidates regardless of nationality. The process should be in keeping with the recommendations of the Executive Directors contained in the reports of the World Bank Working Group to Review the Process for Selection of the President and the Fund Working Group to Review the Process for Selection of the Managing Director.

V. ACHIEVING THE MDGs AND BOLSTERING SUPPORT FOR LOW-AND MIDDLE-INCOME COUNTRIES

12. Ministers express serious concern that on current trends, most MDGs will not be met by most countries. They therefore call for the adoption of additional measures to implement the Monterrey Consensus. Ministers note that while developing countries are doing their part in maintaining macroeconomic stability and in pursuing structural reforms, developed

countries are lagging behind in fulfilling their commitments made at Monterrey. In particular, advanced economies continue to fall far short of reaching the agreed UN target of 0.7 percent of gross national income for official development assistance. Ministers note with concern that financial flows from the World Bank and the regional development banks continue to give rise to increasingly large negative net transfers of resources to developing countries.

13. Ministers emphasize that, as agreed in Monterrey, achieving the MDGs will require a significant increase in development assistance. They welcome the new U.K. initiative for paying their share of the poorest countries' debt service owed to IDA and the African Development Bank's concessional financing arm up to 2015. Ministers urge other advanced economies to join in this effort. They also believe that the proposed International Financing Facility merits further consideration, as a way of frontloading resources to meet the MDGs, and this facility should be implemented rapidly. Ministers also underscore the need for additional measures to increase aid, including the creation and voluntary redistribution of SDRs and other sources of revenues. To improve the effectiveness of aid, Ministers stress that urgent action should be taken by the donors to reduce the administrative burden by improving the coordination and harmonization of aid policies as well as to increase the predictability of aid flows to low-income countries.

14. Ministers welcome the increase in grant financing to low income countries, but underscore that grants should be supported by additional contributions from donor countries. Ministers welcome the amendment to the PRGF-HIPC Trust instrument to provide for full topping up in cases where the member country's debt parameters are affected by exogenous factors. They stress that additional resources need to be mobilized soon to sustain the PRGF.

15. Ministers welcome the World Bank's action plan for enhancing support to middle-income countries, which have a large proportion of the world's poor. They call for increased development financing to support large social and infrastructure investment needs to help these countries meet the MDGs. This assistance should be provided on a flexible basis and on concessional terms. Ministers welcome the ongoing work of the IMF and the World Bank to accommodate sound infrastructure investment in measuring fiscal outcomes in developing countries.

16. Ministers consider that low-income countries need balance of payments support of the type provided under the IMF's Compensatory Financing Facility since these countries are particularly prone to exogenous shocks, which tend to have a prolonged adverse impact on their economies. These funds need to be provided promptly and at low cost to meet emergency needs, including rising oil import costs, and to sustain the momentum of reforms. Where the impact of the shocks is longer term, the assistance should be provided on concessional terms.

17. Ministers welcome the Report of the World Commission on the Social Dimensions of Globalization, which provides guidance for placing employment at the center of the MDGs and the development agenda. They underscore the role of employment in poverty reduction and call for the Bretton Woods Institutions to stress employment creation in their programs

and policy advice. Ministers welcome the outcome of the September 20 UN informal meeting of Heads of State on Action Against Hunger and Poverty, and urge the Bank and the IMF to pursue further work to develop the proposals coming out of the meeting.

VI. USE OF OWN COUNTRY SYSTEMS IN THE OPERATIONS OF MULTILATERAL DEVELOPMENT BANKS

18. Ministers are of the view that the World Bank and other multilateral development banks should make every effort to implement their commitment to simplification, harmonization, and reducing the cost of doing business. They consider that the use of domestic rules and procedures in Bank operations is one of the ways to achieve these objectives. Ministers recognize the steps already taken by the Bank to permit the use of domestic rules and procedures for national competitive bidding and financial management. They endorse the Bank's readiness to extend the use of these country-owned procedures to international competitive bidding, procurement of international consultants, and environmental and social safeguards, and encourage the Bank to urgently address the legal impediments to the national implementation of projects.

VII. STRENGTHENING THE RULE OF LAW AND FIGHTING CORRUPTION

19. Ministers consider that corruption both in developed and developing countries continues to hinder efficient mobilization and allocation of resources and to increase the cost of doing business. They call on all countries to redouble their efforts to strengthen the rule of law and to fight corruption to improve the investment climate and achieve higher and sustainable growth. The on-going fight against money laundering and terrorism financing should be extended to help track the proceeds of corruption and ensure their quick return to the affected countries.

VIII. DATE AND PLACE OF NEXT MEETING

20. The next meeting of the G24 Ministers is scheduled to take place on April 15, 2005 in Washington, D.C.

Attachment

LIST OF PARTICIPANTS [1]

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development held their seventy-second meeting on October 1, 2004 in Washington, D.C. Senator Conrad Enill, Minister in the Ministry of Finance, Trinidad and Tobago, was in the chair, with Mr. Paul Toungui, Minister of State, Finance, Economy, Budget and Privatization, Gabon, as First Vice-Chairman and Mrs. Juanita Amatong, Secretary of Finance, Department of Finance, Philippines, as Second Vice-Chairman.

The meeting of the Ministers was preceded on September 30, 2004 by the eighty-fourth meeting of the Deputies of the Group of Twenty-Four, with Mr. Ewart Williams, Governor of the Central Bank, Trinidad and Tobago, as Chairman.

African Group: Abdelatif Benachenhou, Algeria; Paul-Antione Bohoun Bouabré, Côte d'Ivoire; André-Philippe Futa, Democratic Republic of Congo; Youssef Boutros-Ghali, Egypt; Sufian Ahimed, Ethiopia; Paul Toungui, Gabon; Paul Acquah, Ghana; Ngozi Okonjo-Iweala, Nigeria; Ian Plenderleith, South Africa.

Asian Group: P. Chidambaram, India; Ebrahim Sheibani, Islamic Republic of Iran; Fuad Siniora, Lebanon; Ishrat Husain, Pakistan; Cyd Amador, Philippines; Sarath Amunugama, Sri Lanka; Ghassan El Rifai, Syrian Arab Republic.

Latin American Group: Hector R. Torres, Argentina; Luiz Awazu Pereira Da Silva, Brazil; Maria I. Agudelo Valencia, Colombia; Alfredo Blanco Valdés, Guatemala; Roberto Marino, Mexico; Javier Silva-Ruete, Peru; Charles De Silva, Trinidad and Tobago; Mary Dager, Venezuela.

Observers: Raquel Artecona, ECLAC; José Antonio Ocampo, UN; Sultan N. Alsuwaidi, UAE; Mohammed Daïri, Morocco; Sinan Al-Shabibi, Iraq; Abdallah S. Alazzaz, Saudi Arabia; Li Ruogu, China**;** Mohammad Alipour-Jeddi, OPEC; Suleiman J. Alherbish, OPEC Fund.

Special Guests: Rodrigo de Rato, Managing Director, IMF; James Wolfensohn, President, World Bank; Jose Antonio Ocampo, UN; Juan Somavia, ILO; Heiner Flassbeck, UNCTAD.

International Monetary Fund: B.P. Misra, ED; Xiaoyi Wang, ED.

World Bank: Mohamed Amr, Alternate ED; Tanwir Ali Agha, ED; Nada Mufarrij, Senior Advisor.

G-24 Secretariat: Ariel Buira.

IMF Secretariat for the G-24: Patrick Cirillo, Henry Mooney, Beryl Keary, Gordana Damjan Rodic.

[1] Persons who sat at the discussion table.