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On behalf of the constituency comprising Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, and Trinidad and Tobago

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The Global Crisis and the Future of the Fund

1. The global crisis has shown that the Bretton Woods institutions were ill prepared to face the challenges that arose in 2008 and 2009. Reforms of the IMF, as well as of the World Bank, were long overdue. These institutions were lagging well behind in terms of lending capacity, surveillance, lending instruments and governance. The need to reform the IMF became unmistakably clear. Since the outbreak of the crisis, considerable progress has been made at the Fund, but I believe that we all recognize that much remains to be done to make the institution more effective, more legitimate and more representative.

2. I do not want to minimize what has been achieved since our last Annual Meetings, in Washington, a year ago. The crisis has receded. Economic and financial recovery is underway. The IMF has provided emergency support for a number of member countries, carried out multilateral surveillance and helped coordinate the response to the crisis. The Executive Board has approved a major overhaul of the Fund’s lending facilities, including for low-income countries. The creation of the Flexible Credit Line (FCL) was an important breakthrough. Brazil played a major role in the formulation and negotiation of this innovative credit line and we are happy to see that it is being useful for some important member countries.

3. In these last 12 months, the G20 has helped to set the agenda and has provided support and guidance to the Fund’s work. Some of the major initiatives implemented recently by the Fund were, as is well known, launched at the G20. Two of them stand out: a) the immediate increase in the Fund’s firepower and available resources by more than US$ 500 billion; and b) the largest allocation in the SDR`s history, equivalent to US$ 250 billion. Needless to say, the final decisions are taken in the institution, through its formal bodies – by us, IMF governors, or by the Executive Board, under our guidance. Nevertheless, since its transformation into a Leader’s forum, the G20 has acquired central importance for the global economy and for institutions like the IMF. This was formalized in the G20 Pittsburgh summit a few days ago, when leaders designated the G20 as the premier forum for international economic cooperation.

4. We are in effect creating a new international economic order. This phrase, often used in the past – sometimes in a merely rhetorical manner – has acquired real content now. Changes in international economic geography had been underway for sometime, with the growing weight of emerging market and developing countries. However, the recent crisis accelerated this process and created the opportunity to produce major changes in the international architecture and, in particular, in institutions such as the IMF.

5. This new international economic architecture has the G20 at the top of the pyramid, providing guidance and support to international financial institutions. A renewed IMF – a goal, I repeat, which is yet to be accomplished -, a renewed World Bank, the enlarged and renewed Financial Stability Board, as well as the regional development banks will all have important roles in this new setting. Among these institutions, the IMF may become the most crucial one – but this will only happen if the Fund proves capable of reinventing itself. Needless to say, this "reinvention" has to be done carefully, building on the Fund's undeniable strengths. Its major weakness, as I have often stated, is the unfair distribution of quotas and voting shares – and the resulting excessive concentration of power in the hands of a small number of members. The IMF has to become a more representative institution. If it manages to do so, it will inspire more trust and more confidence throughout the world. The Fund will cease to be regarded as mainly an American-European institution and become a truly multilateral institution.

6. A renewed and more legitimate Fund could for instance move gradually to become a major international lender of last resort, capable of rapidly providing substantial international liquidity to its members. It could gradually move towards working, in some respects, as an international central bank. To that end, we could decide to equip the Fund with much larger quota resources and further review its lending instruments, building on the experience with the FCL.

7. The Fund could be adapted to respond more rapidly in crises – automatically supplying reserve currencies or SDRs in substantial amounts. This could lead countries to work with somewhat lower levels of international reserves. The IMF could take over the role that is now played by some of the major central banks, chiefly by the Federal Reserve through its swap arrangements. To have a reformed IMF play this role would be preferable. A multilateral framework for the provision of liquidity is better than bilateral arrangements such as the ones we have now.

8. Will the Fund be able to enhance its role? Can it become a more effective international lender of last resort? Can it be transformed into an institution recognized and accepted internationally, without suspicions and reluctance, as a guardian of the international monetary system? I believe this vision is shared by many IMFC members. Brazil is ready to do its part to make it become a reality.

9. There is, of course, another scenario. As the crisis recedes, the Fund may slip back into irrelevance and become again an institution racked by existential doubts. Countries will seek self-protection in the form of very high international reserves, partly to avoid the

political costs of having to come to the Fund. Regional reserve pooling arrangements, such as the Chiang Mai Initiative, will increase in importance. The result could be a fragmentation of the international monetary system.

10. We do not want this to happen. Therefore the IMF will have to continue to change and to accelerate its reform efforts. In Pittsburgh, the G20 leaders reached an agreement on a target for the minimum shift in quota shares of at least 5 percentage points to dynamic emerging market and developing countries. I hope that this agreement will quicken the pace of quota and voice reform in the Fund. It is amazing that the aggregate quota share of emerging market and developing countries has only increased by 5 percentage points in the last 30 years.

11. Over-represented developed countries are reluctant to accept these changes. To some extent, I can understand this. The task before us is not easy. Redistribution of shares is obviously a zero-sum-game. We can only hope that over-represented advanced countries will realize that they may do great harm to the Fund if they attempt to block or delay quota and voice reform. In fact, at this stage, resistance to change would be tantamount to going against what these countries' leaders have agreed to in the G20 Pittsburgh summit.

12. Our task, therefore, is to produce a double movement. On the one hand, we have to value and enhance the IMF's role by strengthening the institutions' permanent resources, lending tools and surveillance responsibilities. On the other, we have to transform it into a balanced and truly multilateral and representative body. These two movements have to go hand in hand. The first one presupposes the second. Let us not fool ourselves into imagining that the first movement can occur on its own – this can only happen temporarily in times of acute emergencies such as the one we have gone through.

14th Review of Quotas

13. In Pittsburgh, the G20 Leaders established a floor but not a ceiling for the shift in quota shares. We continue to be of the view that this shift should be of the order of 7 percentage points. With this order of magnitude, the share of emerging market and developing countries in total voting power in the Fund would reach about 50 percent and would correspond roughly to their share in the world economy.

14. Quota shares should reflect relative economic weights. The economic landscape is changing and at a very fast pace. According to the World Economic Outlook database, the share of emerging market and developing countries in the world economy was 40 percent in 2000 (measured in purchasing power parity terms). This share is projected to reach nearly 50 percent this year and to rise to 55 percent by 2014.

15. The next quota review should at least double the overall size of quotas. We all repeat all the time that the Fund is and should remain a quota-based institution. However, we must

put this principle into practice. Quotas, not borrowing arrangements, should be the main source of funding for the IMF.

16. Restoring the ratio quotas/global economic indicators to the levels observed at the time of the last general quota increase would recommend an increase of up to 130 percent, according to IMF staff. We would welcome further work by the IMF to assess the required augmentation of the Fund's quota resources.

Other Governance Issues

17. We, the Governors of this institution make all important decisions ourselves – either directly when we vote on the most important issues in the Board of Governors, or through our representatives in the Executive Board. The degree to which decision-making is delegated to Executive Board members is a matter of choice for individual constituencies and should remain so.

18. I would welcome, however, more involvement of Governors in the work of the Fund. This can best be achieved through changes in the functioning of the IMFC. I am happy to see that the ideas that I put forward in my speech in the Spring Meetings have gained widespread acceptance. The report of the Executive Board to the IMFC on governance includes these ideas, develops them and presents further proposals that I deem worthy of consideration. I believe that the suggestions presented in this report should be further explored by the Executive Board.

19. Another aspect of this report of the Executive Board which I consider valuable is the way it approaches management selection. A standard phrase, ritualistically repeated, is the defense of an open, transparent and merit-based selection of the Managing Director and Deputy Managing Directors. As the report states, more important is the commitment that the selection be made without regard to nationality. I fully agree that a clear IMFC statement against informal understandings on nationalities among shareholders would help us overcome antiquated rules.