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Rapporteur's Report

International Conference on Financing for Development
Multi-Stakeholder Consultations on Systemic Issues

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Organized by New Rules for Global Finance Coalition on behalf of Civil Society
In collaboration with the UN Financing for Development Office, and
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The International Conference on Financing for Development (Monterrey, Mexico, 18-22 March 2002) was a turning point in the approach to development cooperation by the international community. More than fifty Heads of State and Government and over 200 ministers of foreign affairs, trade, development and finance gathered in Monterrey. The Monterrey Consensus, the outcome document of the conference, contains commitments in six key areas of Financing for Development:

- A) Mobilizing domestic financial resources for development.
- B) Mobilizing international resources for development: foreign direct investment and other private flows.
- C) International Trade as an engine for development.
- D) Increasing international financial and technical cooperation for development.
- E) External Debt.
- F) Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

It concludes with a section on “Staying Engaged” in which it calls on the “United Nations, the World Bank and the International Monetary Fund, with the World Trade Organization, to address issues of coherence, coordination and cooperation, as a follow-up to the Conference, at the spring meeting between the Economic and Social Council and the Bretton woods institutions.” In the consensus UN member states further decided to hold a biennial High-Level Dialogue on financing for development, with inputs of all stakeholders including civil society and the private sector, to assess the implementation of the Monterrey Consensus. To ensure effective secretariat support to the intergovernmental follow-up process to the Monterrey conference the General Assembly (GA) passed a resolution (A/RES 57/273) calling for the establishment of the Financing for Development Office (FFDO) within the UN Department of Economic and Social Affairs. In resolution A/RES/58/230, the GA mandated the FFDO to organize multi-stakeholder consultations, involving the private sector, civil society, national governments, the relevant UN agencies, the WTO, World Bank and the IMF to examine issues related to the mobilization of resources for financing development and poverty eradication.

In July 2004, the FFDO invited the New Rules for Global Finance Coalition to organize a series of multi-stakeholder consultations on behalf of civil society, and to focus on the systemic issues portion of the Monterrey Consensus. In fulfillment of this agreement, New Rules for Global Finance Coalition organized the first in a series of multi-stakeholder consultations at the IMF in Washington, DC on November 16-17, 2005. The attendees (listed in Appendix I) came from the IMF, the World Bank, UNDP, the FFDO, Central Banks, Bank for International Settlements, Financial Stability Forum, the private sectors, academics, and NGOs. The Agenda for the overall consultation on Systemic Issues. (Appendix II) is posted on both www.un.org/esa/ffd and www.new-rules.org. The agenda at the first consultation focused on specific subtopics, as described in the November Agenda. (Appendix III).

The summary of discussions follows as the Rapporteur’s Report, which will be posted on both the UN/FFDO and New Rules websites. As agreed by the participants, the content can be shared, but no remarks or comments will be attributed to any individual. At the conclusion of the consultative meetings, New Rules for Global Finance Coalition will prepare both a

comprehensive publication including background papers, Rapporteurs' Reports for each of the 3 input sessions (Washington, Lima, Nairobi), the Summary Meeting to be held in New York at UN Headquarters in May 2005, and recommendations for the High-Level Dialogue on financing for development to be held on 27 and 28 June 2005. The recommendations will represent the position of the New Rules for Global Finance Coalition and its members alone; it will not pretend to be a consensus or majority position of the attendees of any of these meetings.

Session 1: Welcome and Introduction

Participants were welcomed to the opening meeting of the Multi-Stakeholder Consultations on Systemic Issues by representatives from the New Rules for Global Finance Coalition and from the Boards of the International Monetary Fund and World Bank. All were thanked for their willingness to continue the inclusive mode of the FFD Conference, and to work together toward implementing its goals.

The framework for the Systemic Issues conversations was set by a summary presentation of research just concluded by the Swedish Ministry for Foreign Affairs, entitled: The Future of Development Financing: Challenges, Scenarios and Strategic Choices.

According to the authors, at the beginning of the 21st century, more than five decades after international development began to emerge as a field in its own right, the international development financing 'system' is still not a *system*. It is rather a collection of disjointed entities that lack coherence, often work at cross purposes and are not up to the task of mobilizing finance in the amounts and ways required to assist a growing diversity of developing countries in their efforts to reduce poverty and improve living standards.

Yet, the early years of the 21st century have brought about an unprecedented 'window of opportunity' for a conscientious re-examination and re-alignment of the institutions and organizations that configure the international development architecture. There is a renewed impetus for reform, partly because global communications have increased awareness of the plight of the poor in developing countries, partly because criticisms about the effectiveness of the development financing system have multiplied, and partly because of increased awareness that the haphazard approaches to reforms of the past have not been successful. In addition, the specific and time-bounded nature of the Millennium Development Goals has helped to focus attention on the inadequacies of current international development financing arrangements. There is also evidence that the terrorist attacks of September 11 2001 have forced political leaders to acknowledge that a series of international security crises may be looming (and perhaps imminent) unless the widespread poverty, marginalization and growing inequalities that lead to frustration and despair are significantly reduced.

If meaningful and sustained reform is to occur, the authors maintain, it will need to be guided by a long-term vision and what we term in this study a 'radical incrementalism' perspective.

This study, The Future of Development Financing, develops four scenarios (business as usual; inertia; limited, and comprehensive reform). It also addresses a series of 9 questions to assist policy makers in assessing alternatives and prospects for international development financing.

- How important is finance in the process of development?
- Are the current structures, channels and mechanisms to provide external development finance appropriate to the needs of developing countries?
- What would be the main characteristics of a more effective and adequate set of international development financing institutions? Some 8 characteristics include: adequacy; predictability; diversity and choice; capacity to absorb shocks; complementarity of external financing with domestic resource mobilization; voice, representation and accountability; and flexibility, efficiency and learning.
- What are the prospects of international development financing during the next decade and a half? Their response to this particular question is: very uncertain. Yet those prospects are arguably much better at the moment than they have been in at least two decades....In 2005 there will be the special session of the UN on the MDGs and the pledges of Monterrey will need to be extended beyond their current framework that extends only to 2006.
- Is it necessary to explore new ways of classifying developing countries from a development financing perspective?
- How can change in the international development financing system be brought about?
- Who are the main actors in the process of moving towards a more effective international development financing system
- What are the main issues in the reform of institutional arrangements?
- Which are the main issues and initiatives regarding financial instruments to channel resources towards developing countries?

Their fundamental conclusion and recommendation is a process they call “radical incrementalism” They believe that this oxymoron fits well the paradoxical character of the emerging fractured global order, and may be the best approach to advance towards their *Transformation* scenario for development financing in the mid-2010s. It implies the simultaneous articulation of a shared vision of the desired future and the design of pragmatic, down to earth, means to approach it.

Session 2: Review of the Official Reform Agenda

By the end of the 1990s, the decade’s repeated financial crises had brought a sense of urgency for reform of the international financial architecture. Session two focussed on adjustments to the global financial system that were part of the official response to the East Asian crisis, especially that cluster of domestic financial and regulatory policies better known as “Standard and Codes” (S+C).

The framework of Standards and Codes

Participants agreed that the development of Financial Standards and Codes were part of a process of “groping” toward a set of globally accepted rules as a pre-requisite for provision of international financial support for countries experiencing currency crisis. The Financial Stability Forum, which was established by the G7 finance ministers and central bank governors in 1999, identified twelve key standards which could be categorized as directed towards three broad subjects: (1) transparency, (2) regulation and infrastructure of the financial sector, and (3) market integrity.

Uniformity vs. country specific needs

While the participants agreed that developing economies have shown great progress in implementing these standards, there was a spectrum of views regarding the S+C's themselves, ranging from the view that S+C's should be an integral part of an international rule-based system to the view that their design and implementation should take more account of countries' different levels of development and capacities. Several participants supported the second view that a ‘one size fits all’ was unlikely to appropriately address the functioning of the international financial system, whereas other speakers explained that the limited but albeit important role of S+C's would enhance the efficiency and effectiveness of the international financial system to withstand systemic crises. It was suggested that the aspect of uniformity and particular country needs should be addressed in the upcoming regional meetings that will be organized by the New Rules for Global Finance Coalition.

Merits and Weaknesses of S+C's

The conversation highlighted some of the merits and weaknesses of Standards and Codes. There was wide agreement on the intrinsic limits of S+C's and that their overall utility is often exaggerated. While they some maintained they incorporated the principles for best practices, by reflecting policies of financial leaders in the most advanced economies, and that they could support the creation of a sound domestic financial market, by themselves S+C's were unable to solve major macroeconomic problems that may occur prior to or during financial crises. Several participants strongly asserted that capital controls were a prudential measure available to developing countries to use unilaterally in response to international disruptions, and they should be internationally recognized and protected as such.

Other participants in the meeting underscored that the implementation of standard and codes, in particular by emerging market countries, could enhance their access to external private capital and could reduce the risks of contagion and volatility in financial markets in crisis situations. It was argued by some speakers that there is also empirical evidence that standards and codes have been useful for benchmarking progress towards development and reform of financial systems in several developing countries. One weakness of S+C's that several participants pointed out was a lack of policy ownership by developing countries. These countries were either absent from or enjoyed restricted access to the discussion in the standard-setting bodies that designed S+C's. This asymmetry in agenda-setting processes could create competitive advantages for industrial countries in the financial sector.

The new Basle Capital Accord

The core principles for effective banking regulation and supervision were also discussed, even though work on a new Basel Capital Accord (Basle II) is not formally part of the Standard and Codes Framework. Participants agreed that the two processes are closely linked. One strong line of argumentation was challenged the general problem of prescribing global standards for banks at different levels of development, since the Basle Capital Accord does not account for regulatory differences among national regimes in developing countries. Others, while acknowledging the significant regulatory implications of Basle II, explained developing countries were under no obligation to implement the full Basle II framework.

Regulation of over-the-counter derivatives

The discussion also touched on the role of over-the-counter derivatives. Some participants deplored the lack of proper standards of regulation in this area and warned about resulting systemic instability. The counter-position asserted that derivatives markets were sufficiently regulated through banking supervision standards such as Basle II. There was consensus that a subsequent meeting of the FFD Multi-Stakeholder Consultations on Systemic Issues should explore how far systemic risk might be related to under-regulation of derivatives market.

Summary of Session 3: Crisis Prevention

The opening statement of Session 3 contrasted two types of financial crises. The first primarily affects developing countries, such as the debt crisis of the poorest, which continues for decades without resolutions. The second are systemic crises of major middle income countries which threaten the stability of the money centers. These latter crises, such as those in East Asia and Brazil in the late 1990s, receive major funding and policy response for early resolution.

Participants were also reminded that this discussion about crisis prevention was taking place in a dramatically changed financial environment. Unlike the 1990s, many middle income countries (MICs) now export capital to industrial countries, instead of being capital importers. Several MICs have built high levels of reserves to insure themselves against the old form of financial crisis. Further in this current situation, several MICs are lending to the US, with its impending double debt crisis, involving both the fiscal and current account deficits.

An underlying tension throughout the discussion in Session 3 was the appropriate balance between collective rules for crisis prevention and rules that are the responsibility of local governments. Although the overt purpose of the session was to address proposals at the collective level, that is, addressing elements exogenous to the economy affected by a crisis, considerable attention was paid to domestic policy measures potential crisis-affected countries could implement. Specifically, it was recommended that MICs regulate domestic risks differently than they were regulated in industrial countries, especially for domestic banks to

avoid treating domestic sovereign debt as a risk less asset--a common action in developing countries.

Regarding collective rules for crisis prevention, some participants highlighted the political difficulties of achieving change at this level. Some even questioned the desirability of collective rules. Without collective rules, developing countries could enjoy greater policy space to seek creative or sui generis policy responses. There was broad agreement that, at a minimum, it was important to ensure that global rules not limit local options, as happened when Chile gave up its right to regulate capital in-flows when it signed the bilateral trade agreement with the United States.

Those participants calling for greater collective mechanisms for crisis prevention cited two reasons. First, no amount of domestic reform can guarantee that a developing country will be free from crises originating from exogenous factors. Second, even if self-insurance mechanisms proved to be effective, they would still be costly in terms of foregone development opportunities.

Among the collective action measures proposed were:

- Establishing precautionary financial arrangements: Ideally, these should incorporate the best elements of the defunct Contingent Credit Line (CCL), without its worst. The CCL was judged a failure since it was available only to countries carrying no risk, or what one participant called “an empty set.” It provided no protection from external shocks even for countries adhering to IMF policies. The current stand-by arrangements are not sufficient since they are too slow moving (taking 6 weeks to assess data), too small, especially the first tranche of any arrangement, and regarded negatively since the borrowing country is stigmatized as a long-term borrower of Fund resources.
- Reducing volatility in international financial markets, for example by strengthening regulation of highly-leveraged institutions. One participant suggested that, since industrial governments tended to oppose these measures, it might be more realistic, and equally effective, to identify the few large banks that fund them and regulate those banks.

There was no consensus regarding a proposal to establish a rules-based debt workout scheme. Some strongly endorsed a comprehensive debt work out mechanism provided it was outside the framework of the IMF, which, as a creditor, was not qualified to serve as an impartial arbitrator. Others resisted any consideration of a legal workout framework, fearing a negative reaction from private financial institutions. They argued that the promise of official credit would suffice to prevent crises or to resolve crises. This latter position evoked several questions: How much official lending was “enough”? When would the additional lending not be appropriate, i.e., how to distinguish insolvency from illiquidity? Also, how would the moral hazard of private creditors awaiting official bail out be addressed?

Policy tools that could be useful for crisis prevention but warranted further debate included: overcoming original sin, i.e., the inability to borrow in one’s own currency; rekindling attention to growth, rather than fixation on stability; addressing the impacts of derivatives and off-balance sheet activities on increased volatility of capital flows; addressing the vulnerability of countries exposed to those sudden capital movements; comprehensive debt work outs for sovereign

debtors; the appropriate use of capital controls; and mechanisms for stabilizing commodity prices.

Another proposed topic for a future meeting of the Multi-Stakeholder Consultations on Systemic Issues was the crisis that would result from China's over-valued currency and excess capital supply ending its support for US demand for China's products and no longer financing the US fiscal and current account deficits.

Session 4: Provision of Credit in Times of Crisis

Discussion during Session 4 focused on how to overhaul the International Monetary Fund so it could effectively provide credit in times of crises. Recent crises showed the Fund was ill equipped to fulfill the goals articulated in the Articles of Agreement, namely, limiting damage in the crisis country and avoiding damage to the global economy. To date, the Fund has responded in two ways: through the Contingent Credit Line, introduced in 2000, but dropped in 2003, and through the use of precautionary stand-by arrangements.

Participants also addressed the adequacy of Fund resources. Some participants felt the Fund did not have enough resources, given that total resources relative to global trade flows have decreased dramatically since the Fund's foundation and that trade flows were probably not an adequate indicator, as financial flows currently dwarf trade flows. They maintained that the size of the Fund's resources should be assessed against the possible needs for credit in the event of a large financial crisis involving large economies such as US and China. Others maintained that the size of global markets was being exaggerated, and that a scenario of worst cases was not the appropriate context. The size of the 1990s crises in Asia or Russia were more appropriate. Still others argued that the Fund has adequate resources, based on indicators such as the one-year commitment capacity (as of September 2004, 93 billion SDRs) which exceeds the maximum amounts available under the three largest crises arrangements.

Broad consensus was evident around a comprehensive proposal to enable the Fund to address the needs of members in times of crises, building on the analogy of a lender of last resort. The proposal involved four elements:

First, overall increase in quotas and redistribution thereof. Countries in crisis need adequate resources available quickly. This funding would calm the market and enable the member to negotiate longer term solutions from a stronger position. Present Fund financing is ill-suited for modern financial crises which can hit overnight. All financing still require the Fund to conduct "rigorous and systematic analysis that debt will remain sustainable." Satisfying this criterion requires time, which is not available when a crisis is breaking. The conflict between the needs for cautious lending and speedy financing could be resolved by enlarging the first tranche. However, this sensible solution is precluded by the size of the country's quota which severely limits the size of any arrangement. Consequently, for the Fund to provide prompt and adequate credit at the on-set of a crisis, the quota sizes must be dramatically enlarged. Quotas must be redistributed to reflect the fact that the relative sizes of economies has changed significantly

since 1944, and under current rules, MICs are not allowed to expand their quotas to suit their growing needs.

Second, short-term use of capital controls is needed, as no amount of resources would meet the demands of a market-driven crisis (“stop the bleeding” while one engineers long term solutions).

Third, the Fund should be empowered to make generalized emissions of SDRs to calm the market. This would enable the Fund to play a role similar to that played by the US Federal Reserve Board during the Long-Term Capital Management crisis. One could not rely on the Fed (much less the tighter arrangements of the European Central Bank) to provide the global market with extra liquidity needed in crisis situations, since the Fed’s mandate is designed to protect the US domestic market. For this proposal to be effective, extra SDR emissions would need to be monetized through particular central banks. However, even without being monetized, the issuance of additional SDRs would help emerging market countries by providing them additional reserves.

Fourth, in signing a longer term program, which would be larger and include higher conditionality, the Fund would necessarily follow good practices appropriate for any lender of last resort, namely, it would lend against good collateral. This requires early asset revaluation (that may mean revaluation of the currency and the outstanding external claims on the country) before further lending. It was noted that early debt restructuring or debt forgiveness would also be central to resolving the problem of long term users of Fund resources and to avoid having to write off later what were, from the outset, bad loans.

Other issues that were raised in the discussion and singled out as deserving further attention in future meetings of the Multi-Stakeholder Consultations on Systemic Issues included:

- **Regional Monetary Funds:** Some participants discussed the desirability of moving towards establishing Regional Monetary Funds to take advantage of the reserves countries in East Asia were building. The advantage would be that, instead of having to struggle to increase their quotas (and votes) in the Fund, these countries could create their own monetary cooperation arrangements to fulfill their needs. This could provide healthy competition to the Fund. The Latin American Reserve Fund was named as a positive, if incipient, experience in that direction. Others were of the view that regional cooperation systems would not be as solid as a global response, and that no region had so far bought into the idea of a regional monetary fund, which thereby cast doubt into the feasibility of the idea.
- **Debt sustainability:** Recommending that the IMF larger loans in the event of crises runs contrary to current concerns about the debt sustainability of the poorest countries, and proposals for IFIs to provide them grants rather than loans?
- **Moral hazard:** while lending in times of crises may be needed, the prospect of large bail-out packages also has implications for moral hazard on the part of private creditors. In the past, large amounts of private debt have been socialized this way, thereby sheltering private creditors from market discipline for bad lending decisions.

- CFF: Participants agreed that the Compensatory Financing Facility, currently on “life-support”, has proven to be a poor response to income uncertainty due to commodity price decline and fluctuations. Participants agreed the problem persists, and adequate financing responses still need to be developed.

Session 5: Credit in Times of Crisis

Underlying causes for systemic risk: In the fifth panel participants discussed the importance of financial markets in promoting sustained investment and growth, and that the efficiency and stability of these markets – i.e., the prevention of systemic vulnerabilities -- was imperative for improvements in living standards. It was argued that risk-taking and information externalities as well as monopolistic and destructive competition represent micro imperfections that could lead to serious systemic market failures. These market imperfections raise the question of whether good public policy can improve financial market efficiency and stability. Moreover, the existence of macro-imperfections such as business cycles, surges and droughts of capital flows as well as herding and contagion would strengthen the case for appropriate policy and a prudential regulatory framework.

The adequacy of existing regulatory frameworks to prevent systemic failures:

Capital Adequacy Requirements: One proposal that participants discussed in this session focused on the question whether domestic financial regulations in developing countries effectively limit the impact of volatile capital flows. It was argued that despite increasing financial liberalization and the internationalization of the banking system, financial deepening was still low and deposit volatility had remained high in these countries.

Existing prudential regulations such as capital requirements had not proven to be effective tools in dealing with flow volatility and did not help in predicting banking crises. Part of the debate focused on the adequacy of capital requirements in the banking sector as a risk-prevention measure. One particular proposal was to promote liquid secondary markets in subordinate bank debt so that banks’ creditworthiness would be priced more efficiently than in equity markets or measured by bank capital adequacy.

Another point was made that government risk was usually highly correlated to bank risk, which brought up the suggestion that banks should hold capital against their holdings in government securities. Many participants were in favour of modifying Basle II accordingly, while others warned that this would unnecessarily raise the borrowing costs of developing countries’ governments. Restricting the share of government bonds in the lender’s portfolio was suggested as a more sensible strategy.

Some speakers also underscored that while inappropriate accounting standards and reporting systems would reduce the effectiveness of capital requirements, capitalization ratios would also be less effective in developing countries due to the lack of deep and liquid capital markets. These

markets existed only in industrialized countries and could provide supervisors there with information regarding the quality of reported capital. According to some participants, the solution would lie in policies that promote greater deepening and sophistication in developing countries' financial institutions so that they would price risk correctly and better internalize the costs associated with their risk exposure.

Trade issues and trade in financial services

While some participants attempted to underscore the benefits of developing countries "importing financial services" or relying on foreign owned financial institutions for financial services, others warned that there was at best conflicting evidence to support the claim that the entry of multinational banks in developing countries would enhance domestic credit supply.

The discussion also ventured into broader international trade policy issues and trade in financial services. It was suggested that developing countries might have more success in gaining market access to developed country agricultural markets if they were willing to offer more concessions on opening their domestic financial markets to developed country financial services providers. Contrarily, it was pointed out that some provisions in many bilateral trade treaties required developing countries to forego prudential safeguards that they were guaranteed under the General Agreement on Trade in Services (GATS) and that these bilateral anti-regulatory provisions were not supportive of financial system stability.

The way forward

As the debate focused heavily on the banking sector it was suggested that future meetings look more closely at other markets, such as security markets, insurance markets and derivative markets.

Session 6: Institutional Matters: Are the Right Issues on the Agenda?

In opening the discussion on governance, it was recalled that the Monterrey Consensus called for two broad areas of action: broadening the base for decision-making on issues of development concern and filling organizational gaps.

Several participants addressed the fact that globalization is characterized by interpenetration of domains, interrelatedness, and intersectorality. Such characteristics manifest themselves in areas such as the Millennium Development Goals. Fulfilling development objectives requires better coordination at the level of local and national governments. But, at the international level, this reality pointed to the need for a way to provide broad political and strategic guidance so that this multi-sectoral agenda could be implemented through the patchwork arrangements of formal institutions. Strong, coherent political leadership was identified as the only way to get the fragmented arrangements of institutions committed to single issues—such as food, health, trade—to coordinate and to collaborate to achieve the MDGs and related goals. This undertaking clearly required the active role of the United Nations.

Opinions divided on the shape of such a broad political guidance mechanism. Some proposed building on the G20, upgrading it to a Heads of State meeting (it could possibly replace the G7), adding a chair for the African Union, practicing outreach to other countries. Others challenged this idea on the grounds that a G20 would lack legitimacy, since it is an ad hoc body with no formal basis for selecting representation. Others, while recognizing the G20 was not perfect, recommended using it as an experiment to open new spaces and achieve some more transparency as a way to improve upon the existing practices of the G7. Several speakers warned of substituting informal bodies for formal institutions. In this context the proposal to strengthen ECOSOC's decision-making power was formulated.

Participants also articulated the need to keep in mind how the whole system functioned, and not to be distracted by reform of one or two institutions. The Monterrey Consensus was not about the reform of the IMF or the World Bank, per se, but rather about a fresh look at better instruments for decision-making credible to the larger constituency. Problems in the Bretton Woods Institutions could not be analyzed in isolation from the UN system. One speaker explained that the urgency of enhancing the legitimacy of multilateral institutions stemmed from a current trend that could deepen, namely, that countries, not feeling well-represented by multilateral formal institutions, tended to launch regional and informal limited membership forums. This fragmentation should be avoided. Others, however, acknowledged that the prominence of bilateral and regional mechanisms also owed to the fact that they had proved more effective in addressing certain challenges, so one could not take for granted multilateral was always better, and an argument needed to be made on a case by case basis.

Regarding the governance of the Bretton Woods Institutions, a participant addressed two important trends that, in his view, were undermining the IMF: 1) increased interference by the G7, as opposed to the International Monetary and Finance Committee, with two by-products: less emphasis on consensus-building and weakened authority of Managing Director and Executive Board; and 2) growing obsolescence of the quota formula, resulting in quota distribution and voting power (currently 60-40 between developed and developing countries) which was not in sync with the stronger role of emerging markets (particularly in Asia).

In terms of reforming the Bretton Woods Institutions, several participants stressed the need for a new quota formula. Because the quota of any member cannot be reduced without its consent, quota increases seem to be necessary which, in turn, makes it necessary to gather 85 % of the votes to approve the change. The package has, thus, to be one that appeals to members holding that percentage. The calculation of GDP on Purchasing Power Parity rather than market-based exchange rate was proposed as an element in any new quota formula.. In addition, Europe's weight in the Board (counting votes commanded by EDs as heads of constituencies, not only the votes a particular country held) is above 40 percent, compared with 17 percent held by the United States. The EU, now comprised of 25 members, could bundle into a single member and the EU intra-trade no longer be counted as foreign trade. In this way, EU quotas would go from 32 percent to 22 percent. The Board was judged to be too large to be effective. Consolidation of European seats could reduce the Board from 24 seats to 14. Proposals were also made to address the secretive process for selecting the Bretton Woods Institutions leadership; and redistributing shares in the World Bank by taking into account contributions made by middle income countries to the capital of the World Bank via interest payments.

Not everyone supported consolidation of EU members' quotas and seats, as well as greater European coordination. Some members of the EU feared losing their individuality; others raised concern about losing the pro-development voices of countries like the Nordics. Participants also called for developing countries themselves to take more leadership. So far, there was no consistent voice coming from them and calling for increases in their voice and vote. Others highlighted concerns with the potential role developing countries could play on issues that could be divisive among themselves. For example, would newly-empowered middle income members act in solidarity with the interests of low income members?