

Session on institutional roles and relationships: gaps, roles, needs
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Five major issues/recommendations in the nature of gap-filling, clarifying. . . .¹

I. Global institutions and global financial governance: costless commitments for April communiqué

Global financial institutions matter; G-20 not a step forward without institutional backing of international financial institutions to institutionalize benefits of increased engagement of emerging market economies in cooperative solutions.

0 Communique should confirm G20 succeeds G7 role in “steering” global financial institutions, especially at the IMF and the hard windows of the MDBs. (Manuel and Zedillo commissions should reflect G20 role and mirror it in recommendations for changes in institutions’ governance.

0 U.S. and Europe should agree to G20 announcement in April communiqué of agreement on open, meritocratic selection of future heads of IMF and World Bank, independent of nationality, and by double majority vote (majority of weighted votes and of country members)

0 The G20 should announce commitment to developing over the next year new rule-based financing and related governance arrangements for the provision of global public goods, with the focus on financing new agricultural, health and energy technologies and their applications, separate from “development” financing (aid/ODA). More below on a specific initial proposal for implementing climate change agreements. The World Bank should be assigned to support a working group to develop financing options for the next G20 meeting, including institution of a Tobin or other globally based tax as well as voluntary contributions....

0 G20 and G7 members should clarify their respective roles as different “clubs” in setting the direction for financing and governance of the MDBs’ activities in low-income countries; at a minimum the G7 should announce inclusion of low-income countries (e.g. through the African Union or AfDB) in any working groups to deal with emergency financing of low-income countries’ revenue needs during in the next year. G7 members should also clarify their plans for inclusion of G20 and other countries in their spring meeting in Italy.

0 It may seem obvious, but the G20 should announce it will meet again in the fall of 2009, before the annual meetings of the IMF and the World Bank.

II. Immediate temporary suspension of MDB restrictions to unlock use of their existing capital for countercyclical financing

0 MDBs should not substitute for the IMF in provision of liquidity, and an emergency suspension of the usual safeguards is not a substitute for an SDR issuance and increases in the GAB and NAB.

0 However it makes sense to maximize use of their existing capital in a systemic crisis (as in the 1990s), with fast-disbursing funds to shore up fiscal revenues including for safety net program financing, to provide trade finance, to leverage in private capital flows through guarantees, to provide finance to sovereigns for emergency support to their banking systems, and so on.

0 Implying suspension of procurement, environmental and other safeguards, probably for one year

0 And suspension of limits on fast-disbursing loans, and possibly of concentration limits;

0 Countries eligible for the deferred drawdown option loans from the World Bank , i.e. countries that have already passed some threshold in terms of adequate country systems (of procurement, budget management and so forth) should have immediate access to emergency flows from the relevant regional banks;

0 With ex post monitoring to minimize abuses.

0 If concessional resources are insufficient (from the IMF and the MDBs) for low-income countries, permit their borrowing from the hard windows of the banks, and from the IMF, with concessional resources and PRGF funds used to subsidize fully their costs.

0 Ask all MDBs to prepare proposals for internal reforms that would create incentives to reduce bureaucratic pressures that are likely to lead to renewed pro-cyclical lending when economies rebound (more attention to use of risk mitigation products discussed below would also help minimize pro-cyclical behavior of the banks).

III. Call on all MDBs to report in the fall on their plans for greater use of risk management products

0 The G20 should call on the IFIs to develop more aggressively risk management products. "Making" markets in risk management provides an alternative for developing

countries to a new round of lending by IFIs in response to external shocks, including financial, weather, climate change, and commodity price shocks.

0 Creating markets for insurance and other risk management products should include initiatives by the IFIs to jumpstart new markets in GDP-linked or other contingent state securities/bonds; no developing country can afford to be the first mover and no single country can capture the full benefits of being first mover on such products.

0 These markets and products should be developed for low-income countries as well as the emerging market economies; the risk is that otherwise a decade from now there will be new round of debt forgiveness for low-income countries which are more subject to weather, commodity price, and terms of trade shocks than middle-income and rich countries.

IV. Ask World Bank management to report back in the fall on creation of a major new trust fund managing global climate change functions

0 Ask World Bank management to prepare a proposal for the Bank to have a clear mandate and an instrument (grant resources) to carry out the information, monitoring and reporting functions (analogous to IMF surveillance) associated with any agreement in which countries make policy commitments or commitments to limit emissions or protect forests; technical advice and oversight of trading clearinghouses; management in a fiduciary sense of transfers among countries associated with trading; grant-making to other institutions for research and development (as in CGIAR) and so on;

0 Not replacing the science and rule-making role of the UNFCCC and not substituting for but complementing the GEF, the UNEP, and at the Bank the Clean Technology Fund and other existing trust funds that subsidize investment projects within countries;

0 And would not necessarily be the only institution carrying out these global public good-type functions, but would ensure minimal efficiency in such functions worldwide.

0 With a governance structure separate and independent of the existing governance arrangements at the World Bank, akin to a large trust fund, with voting shares per unit of contribution inversely tied to emissions per capita but using the full complement of Bank management and staff (similar to IDA in that regard)

0 And an agreement among the G20 that the creation of such a new facility requires contributions from the 10 largest emitters in absolute terms and the major forested countries, probably amounting to at least \$5 billion as a start.

V. Institute a process to address low-income country development financing needs, with representation from low-income countries

0 Create a future working group to develop reasonable proposals for global financing of redistributive transfers to low-income countries to meet basic health, education and other needs, including via such benighted ideas as the Tobin tax (the sand in the wheels of capital flows does not seem such a bad idea. . . .) as well as President Zoellick Vulnerability Fund, etc.

0 Focus in April communiqué on measurable steps in improving the quality of aid, to increase value for money, consistent with the Paris Declaration and Accra agenda and with efforts to make progress on MDGs. Examples are: commit to increasing the proportion of aid disbursements that are outcome-not input-based (i.e. pay for results not policy change or books or equipment or training) to 20 percent over several years, expanding and deepening the approach of the European Union and GAVI; and commit to reporting quarterly to aid recipient government each donor's in-country disbursements the previous quarter, including disbursements to non-government entities. The G20 could ask the OECD DAC to monitor and report on progress on these. . . .

0 Announce as a principle the logic of a separate governance arrangement for IDA at the World Bank, and possibly for the concessional windows at the ADB and IDB, allowing for more engagement of low-income countries in policy decisions on use of concessional resources, including an effective veto on additional mandates by donors;

0 Announce as a principle an arrangement requiring a majority of the weighted votes of hard window borrowers to transfers from hard windows of the MDBs to soft windows;

ⁱ These are in addition to two proposals for gap-filling at the institutional level likely to be discussed in earlier sessions: (1) To minimize beggar-thy-neighbor macroeconomic and exchange rate behavior there is the weak option of name and shame, i.e. agreeing on a new mandate for "staff technical reports" at the IMF that are published without Board or Council or IMFC review (Mervyn King); and the strong option proposed by Bergsten and Subramanian to formalize a new combined and agreed joint function of the IMF and WTO in which the IMF analyzes and pronounces and the WTO punishes the perpetrating sovereign using trade restrictions; and (2) to strengthen international banking standards and adherence to financial regulation, broadening the representation of the FSF and clarifying the respective roles of the FSF and the IMF.