



AFRICAN DEVELOPMENT BANK GROUP

Meeting of the Committee of Finance Ministers and Central Bank Governors

G20 PROCESS: KEY ISSUES AND FOLLOW UP TO THE PITTSBURGH COMMUNIQUE

Cape Town, 21 February 2010

Summary

The G20 Leaders will meet in June and November 2010. Their immediate focus will be on global recovery and growth, exits from current stimulus packages, and financial regulation. They will also review implementation of the commitments made in Pittsburgh. The G8 Leaders will also meet in June.

This paper considers briefly developments since Pittsburgh, and looks forward towards the forthcoming Summits, and preparatory meetings of G20 Finance Ministers. Key issues include: African voice and participation; resources; division of labour amongst the Multilateral Development Banks (MDBs); and the impact of changes in financial regulation.

Detail

G20 and G8 Agendas

The G8 will meet in Canada on 25-26 June, followed immediately by a G20 Leaders meeting on 26-27 June. Attention is shifting from the impact of the financial crisis towards recovery and growth in the global economy.

The G20 have welcomed indications of recovery in the global economy and want to shift attention to growth. However given continuing signs of fragility (eg Greece) the debate may focus as much on the solidity of the recovery and the timing of exits from stimulus packages. Financial regulation, proposals on remuneration and the size of banks, still dominate political attention.

Although Leaders are committed to review progress in implementing the Pittsburgh communiqué, other matters (for example IFI reform) are likely therefore to receive less attention, and be handled by Financial Ministers. Leaders may also discuss economic aspects of climate change, the measures needed to pursue a low carbon growth path. Climate change will certainly feature on the G8 agenda. Canada seems keen to discuss also improving maternal and child health. The summit to be hosted by Korea in November is likely to give attention to development and the links to global growth.

G20 Composition and Participation

Although the G20 Finance group has a relatively well defined composition and mandate, the meeting of G20 Leaders has been less structured. Leaders agreed at Pittsburgh to consider how to maximize the effectiveness of the G20. They face a number of difficult political issues regarding the composition of the G20, including over-representation of some regions (Europe), under representation of Africa, and how the G20 should reach

out to non-members. They are conscious that the outcome will impact on the legitimacy and credibility of the G20.

So far there seems consensus that G20 Leaders meetings should retain a broad focus on economic and financial matters. It is uncertain how they will deal with issues such as development, energy, trade and climate change, and the extent to which there should be more overtly political issues discussed, such as peace and security – as is the case in the G8. It is likely however that over time the G20 process will supplant the development agenda of the G8 and also the tradition of G8+5 meetings, that is with selected African countries before and in the margins of G8 Summits.

Representatives of G20 Heads (Sherpas) will meet regularly, but much of the policy preparation for the Summits will fall to Finance Ministers. Finance Deputies meet frequently and this places a premium of continuity of participation, expertise and experience in the issues being discussed. The international organizations which are observers in the G20 play a substantive role at the finance level; however some of the Sherpas feel that the Leaders meetings should be between Heads themselves, with international organizations playing a supportive role.

No decisions have yet been reached on any changes to G20 membership. The final attendance at the Leaders' meetings so far has been the prerogative of the host, and Canada is considering its position. Nonetheless there seems to be general support for additional participation from Africa, at meetings of Leaders and, perhaps on an institutional basis, in the more technical G20 Finance discussions.

There are discussions about setting up a permanent Secretariat, but for the moment the host nation retains a central role, usually in consultation with the host of the next meeting. Canada is therefore coordinating closely with South Korea.

Resources and Division of Labour

Fiscal consolidation is putting pressure on development resources and put at risk long standing donor commitments to poorer countries. These include the promise to double aid to Africa by 2010 compared with 2004 levels. Donors overall are not on track, nor have all countries announced a timetable to meet these commitments. The sums are marginal compared to overall budgets, and it is essentially a matter of political choice rather than of affordability. However for most of the donors the debate is about reallocation of scarce resources, or the amount of a cut, within existing budgets.

The debate on resources within the G20 has been dominated by the G7. They want to consider collectively bids from the various MDBs for replenishments of their soft loan windows and for General Capital Increases, and some are arguing for a joint G7 position. Questions have been raised on whether the MDBs require the level of replenishment requested and on the speed of resumption of access to the capital markets for sovereign borrowers. Whilst supportive of more MDB lending to promote private sector development, there are a number of concerns that further growth in lending, and aggressive pricing, risks crowding out the commercial market.

The starting point for most of the G7 is essentially incremental, to look at the percentage growth anticipated in each MDB. But there is also the start of a debate on broader questions on the international architecture. The key elements are: the size of multilateral banks; the role of, and balance between, the Washington institutions and the regional development banks; permanent versus temporary support; the benefits to the poorer countries from general capital increases. To some extent G7 views are related also to the influence they can exercise formally and informally on decision making in each institution.

Previous African submissions to the G20 have made a case for more resources to go to Africa, for sustained investment in African institutions, for borrowers to have more say in decision making, and therefore for a greater proportion of funds to be channeled through the AfDB. The recently concluded AU Summit took the same view. The forthcoming consultations on the GCI for the AfDB and for replenishment of ADF12 provide opportunities for African countries to make their voice heard. However given the limited participation currently in the G20, African views will need to be transmitted directly the G20 Chair.

The UN High Level Meeting in September on progress to the MDGs will direct more attention to performance against commitments. Much of the debate there is likely to be on the gap between the sums required to meet the MDGs and the level of external assistance. Climate change has added a new dimension.

Aid commitment figures will be inflated as spending on new climate change initiatives will be counted as official development assistance – notwithstanding proposals that as the costs of climate change on developing countries is externally induced, separate and additional resources should be provided, not diverted from existing development plans. This is likely to be the case for the extra \$10bn a year for “fast start” measures from 2010-2012 promised at Copenhagen. In the longer term new sources of finance may develop, but much of these are likely to be market based and concentrated therefore on mitigation rather than adaptation. (These issues are covered in the paper for agenda item 3.)

Financial Regulation

In response to the crisis, several international bodies including the Basel Committee on Banking Supervision and the Financial Stability Board have issued new recommendations. Basel II will become the framework for banking supervision and regulation globally. Key aspects include minimum capital requirements; supervision of capital adequacy and risk; disclosure of financial information.

Potential implications for Africa are that the new arrangements might adversely affect the cost of financing, and inhibit cross border financial flows to countries where public and private borrowers are rated at a higher level of risk. By remodeling risk-weighted assets, Basel II is likely to influence also how credit will be allocated within countries, to the real economy.

The new regulations are technically complex. Implementation in Africa is likely to be difficult and expensive for both banks and regulators. It will be much easier for the big international banks with well developed risk management systems than for purely national banks – consequently increasing the competitive edge of the former. (For more detail, see the note on the implications of the financial regulation reforms and Basle II for African countries.)

OECD has taken the lead in responding to the commitments to implement the OECD standards of transparency and exchange of information on tax matters. All of the 87 jurisdictions covered by the Global Forum have now committed to the Global Forum's standards. The Global Forum will produce a report to the G20 on progress made for the June 2010 G20 meeting, and an annual report will be available before the November 2010 Summit.

Africa's interest is to ensure there is a proper and prompt flow of information between national, regional and international regulators. Work is also ongoing (including through for instance the African Tax Administration Forum or ATAF) to build up tax administration in developing countries so that they can benefit from this new open environment. OECD-sponsored technical events have been organized in Africa covering a broad range of topics including transfer pricing and taxation of minerals, oil and gas.

Policies

A number of issues of significance to African countries are still being considered within the IFIs. This includes possible revisions to the debt sustainability framework – that is, the scope for increasing fiscal space, whether lower income countries with a sustainable debt position should be able to borrow from the MDBs non-concessional windows.

The IMF is reviewing its list of countries eligible for PRGF, prompting some G20 countries to question potential anomalies in the current MDB credit model (basically dividing borrowers into two groups) and whether it should be more varied to reflect the range of income, and to take account of other factor such as the size of the economy and vulnerability.

The MDBs are discussing whether to introduce crisis response mechanisms, and new instruments such as guarantees. However work led by the IMF on so-called "Gleneagles scenarios" has demonstrated the capacity of African countries to use effectively additional external resources and to manage any impact on exchange rates.

Food security continues to receive considerable attention. African priorities are articulated in the Comprehensive Africa Agriculture Programme, and the AfDB efforts are focused on improving productivity and efficiency through the provision of essential rural infrastructure to link farmers to markets, reduce post-harvest losses, better water management and increased irrigation. Global warming and less predictable climatic conditions will continue to pose risks. Attention must be given to the potential impact of

events elsewhere; for example, of the present sharp rise in food prices in India, and increased import requirements, as a result of poor harvests.

A major political thrust from Pittsburgh was to launch a mutual assessment framework that would lay out how the G20 should act together to generate strong, sustainable and balanced global growth. Leaders committed to set out objectives, put forward policies to achieve these objectives, and together assess progress.

They acknowledged that the process will only be successful if it is supported by candid, even-handed, and balanced analysis. They asked the IMF to develop a forward-looking analysis of whether policies pursued by individual G-20 countries are collectively consistent with more sustainable and balanced trajectories for the global economy, and to report regularly to both the G-20 and the International Monetary and Financial Committee (IMFC). Heads undertook to review the results of the first mutual assessment at their next summit.

The Fund is drawing up a template, covering for instance: financial sector, labour market, trade, investment and other structural policies. The IMF will provide a central assessment and then pass to the World Bank to comment on the implications for development and poverty reduction. Some in the G20 feel the Fund should consult more broadly, to ask Regional Development Banks and Specialised Agencies to contribute their assessments. A report is expected to be made to the Spring Meetings.

Issues for Discussion

- What are the critical issues on which further messages might be sent to the G20 before the next Leaders meeting?
- How can African views and perspectives best be injected into the discussions at both the technical and political levels?
- As attention shifts to a growth agenda, what are the key external issues that will impact on Africa, and which should be reflected in the mutual assessment process?
- Should a separate meeting of African Central Banks be held to discuss developments and prospects in financial regulation, and to prepare an African submission?
- As the focus of international debates move on from the impact of the crisis, what should be the future role of the C10, its agenda, and how frequently should it meet.