



AFRICAN DEVELOPMENT BANK GROUP

*Meeting of the Committee of Finance Ministers and Central Bank
Governors*

KEY ISSUES ARISING IN THE G20 PROCESS

Background Briefing Note

Dar Es Salaam, 11 March 2009

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The G20 established four Working Group to prepare proposals for the Leaders Summit meeting in London on 2 April. (Terms of reference for the Working Groups were circulated for the first meeting of the Committee.) Reports from each Group will be discussed by G20 Deputies and then G20 Finance Ministers and Governors at their meetings on 14 March. This note highlights key issues arising and the implications for Africa.

Financial Regulation and Supervision, and International Cooperation

The primary focus of discussion has been on the role and scope of current regulatory instruments and institutions, how to mitigate procyclicality, strengthen international standards, cooperation and information sharing, risk management and cross border crisis management. Attention has been given also to the issue of inappropriate incentives which encourage risk taking, tax havens, money laundering and terrorist financing.

Debate in London is expected to centre around the balance between tighter regulation with the need to calm markets and stimulate recovery. Leaders are likely to focus only on the major questions around ensuring a coordinated global recovery package, the health of the financial system, and dealing with toxic assets. Most of the detailed and technically complex work will be taken forward in the appropriate institutions, for example the Financial Stability Forum, Financial Action Task Force, Basel Committee on Banking Supervision, and those bodies concerned with international accounting standards, as well as the IMF.

In practice action taken on a unilateral basis by developed countries to tighten standards or impose new regulations may have a knock on effect in reducing further the availability of credit. For instance, changes in capital requirements under Basel 2 appear to be contributing to withdrawal of trade financing. It may be useful to organize meetings of the relevant African authorities to discuss the details of the proposals and to consider what views should be fed into subsequent discussions.

Beyond that, the impact of the proposals is likely to be in demands that national regulators identify potential regulatory gaps, to tighten supervision in country, improve transparency and flows of information, and implement amended accounting standards. These will impose additional requirements on countries.

Role of the IMF

The financial crisis has underlined the central role of the IMF in providing advice and temporary financial support; promoting domestic and international policies to support growth; and minimizing the risk of future crises. Particular attention has been paid to the level of resources available to the IMF; issues

of governance, in particular the voice for emerging economies; and access to resources. Whilst attention has been concentrated on those countries which pose systemic risk, the Managing Director has drawn attention to the need also to ensure that the IMF has the capacity to provide concessional lending to low income countries.

Increased Resources

There are proposals that the IMF's resources should be doubled. There is an ongoing debate in the G20 and in the IMF Board on how best to do so, and how LIC can benefit, as well as the extent to which funds are needed for the short or longer term. The main suggestions are:

- There should be more borrowing from the official sector through bilateral loan arrangements, expansion of new Arrangements to Borrow
- That a general increase in or review of quotas would take time, and is not a suitable option. As long as quotas are related to economic weight a general increase would provide only limited (c5%) increase in African quotas.
- There might be a new issue of SDR. However because it would be linked to quota, to benefit the LIC, it would either have to be very large or there would have to be a voluntary agreement amongst members for a post allocation redistribution. That will not be easy. For instance a "one-time" allocation of SDR was agreed by the IMF Governors in 1997 to make some corrections for economic weight and provide an allocation to those countries who had joined since 1981, has still not become effective. A decision to allocate SDR requires 85% approval.

Increased Access to Existing Resources

So far the IMF has lent some \$50bn to MICs in response to the crisis but only some \$0.45bn to LIC. Several MICs have received multiples of quota. There is some appreciation that the full effects of the crisis have not yet materialized in Africa and other LIC, and that provision should be made for greater access to existing resources.

The WG has proposed increased access for PRGFs, but not for the Exogenous Shocks Facility (ESF). Both are of interest to Africa.

- PRGF: This has been the main instrument for the IMF to provide longer term concessional resources linked to policy reforms. There are proposals to increase access to up to 150% of quota; this is likely to require additional donor resources (it is subsidised by grants to the IMF from donors).
- ESF: This was established in 2005 but scarcely used. It was revised last September. It currently provides for up to 75% of quota under the high access scenario for PRGF countries or those with positive policy assessments, and 25% of quota for under rapid access without any policy conditionality.
- Standby Facility: There have been suggestions of a new concessional standby facility for LICs who need high access and substantial policy adjustment. Given that any member can access the Fund's SBA it

seems that the new proposal is to provide more policy prescription allied to concessionality. (Some have seen this as an alternative to the ESF.)

Decisions on these matters will be for the IMF Board, but the signals sent by the G20 will be important.

Governance

A package of voice and quota reforms was approved by Governors in April 2008 and is awaiting ratification. The WG has proposed a third Board chair for sub-Saharan Africa, this is to be welcomed. Other issues which will need more consideration by the IMF Governors are the respective roles of the Board and IMFC.

Reforming the World Bank and other Multilateral Development Banks

The draft action Plan produced by WG4 is attached as Annex 1. This was discussed further in Jakarta on 2 March and a revise is awaited.

Resources

For all the MDBs there has been a continuing tension between the call to play a bigger and a counter-cyclical role, and the availability of resources. The focus of attention has been on the capital resources of the Banks and how these are used. Most of the Regional Development Banks are proposing early General Capital Increases. The AfDB put forward forcefully its case.

The major questions from shareholders are around the level and composition of demand for borrowing from African countries, whether it is temporary or longer term, and the capacity of the Bank to deliver. Clearly a number of shareholders see a policy choice as to where they should put additional resources, and the respective merits of various channels. Borrowing countries have given weight also to issues of voice and representation.

There has been little attention given to the particular needs of LIC, those who depend more on development assistance, and who do not have the resources themselves to adjust to the crisis or take stimulus measures. This is an issue which should be drawn to the attention of Heads, with specific suggestions in addition to the call for donors to honour existing commitments.

Like other RDBs the AfDB has taken steps already to make best use of its existing concessional resources by front loading allocations, speeding up disbursements, and restructuring portfolios to release dormant resources. These measures of course do not provide any additional resources, and the AfDB has argued therefore that new resources should be made available to ADF or the next replenishment (due in 2011) brought forward.

Consideration should be given to providing more secure, longer term stream of resources which would allow longer term planning and promote policy consistency by borrowers. There are other suggestions for innovative financing. For instance for the sale of IMF gold reserves to release resources to inject new resources for development spending in LIC (eg to establish an infrastructure fund).

There is scope too for fresh thinking on ways to link measures being taken by developed and emerging countries to stimulate their own economies with means to provide at the same time assistance to poorer countries, for instance investments in particular projects, consistent with value for money for the recipient.

The President of the World Bank has argued that developed countries should provide 0.7% of the resources they commit to stimulus packages to a “Vulnerability Fund” which would be used to support LIC. (For information the statement issued at the conclusion of the recent Heads of MDB meeting in Tunis is attached at Annex 2.)

Policy questions

There are continuing debates about the scope in the MDBs to adjust instruments and associated pricing to meet the diverse needs of regional members. In particular:

- The degree of “policy space” permitted to enable countries to tailor their own responses to particular country and regional circumstances and the degree to which assessments (and hence allocation of resources) should be based more on results and less on prior conditionality.
- Allocations of concessional resources are determined by a rigid performance based system, underpinned by a backward looking and subjective assessment process which relates implicitly to a particular model of development. We should review its construction and application in the light of desired responses to the crisis, its appropriateness in fragile states, and its suitability in determining allocations to regional investments.
- Whether the Debt Sustainability Framework provides adequate scope for LIC to provide a degree of stimulus in response to the crisis, or even to maintain existing investment plans.
- The ability of countries with good performance records and sound debt management (the so called “green light” countries) to access less concessional (ie ADB) as well as concessional (ADF) resources.

Issues for Discussion

The 2nd April meeting of G20 Leaders will not itself resolve all these issues. But it is likely to give a lead to the continuing and intensive process of negotiation within the G20, the G8, and in the governing bodies of the International Financial and other Institutions.

In addition to South Africa as a member of the G20, Prime Minister Meles has been invited to attend the meeting of G20 Leaders in his capacity as Chair of NEPAD, and Jean Ping will participate also as chair of the African Union Commission. There will be opportunities also for African views to be fed in before the Summit.

We suggest that the discussion of the Committee should focus therefore on:

- What conclusions Africa wants from the London meeting, in terms of immediate decisions and on priority issues to be pursued;
- The key questions on which a coordinated African perspective should be developed;
- How these should be taken forward; and
- The next steps for the Committee.