

REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE

**Presentation in the G-24 Technical Group
Meeting, Abuja, Nigeria, Feb. 19-20**

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A CRUCIAL FRAMEWORK: THE FFD4 SEVILLA COMMITMENT A COMPREHENSIVE AGENDA

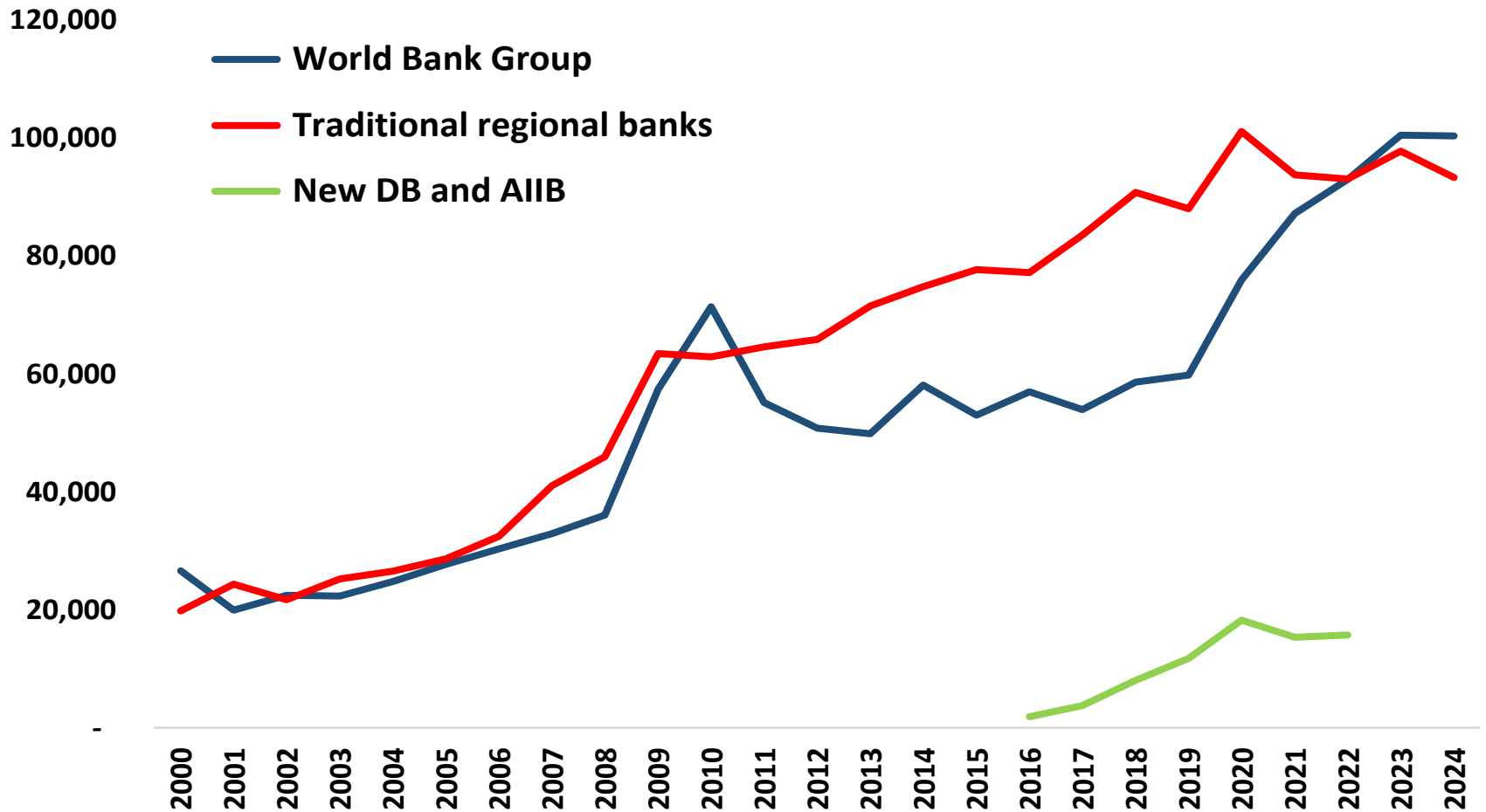
- ❖ Development financing
- ❖ Financing environmental sustainability
- ❖ Strengthening the global safety net
- ❖ Sovereign debt crisis resolution
- ❖ Pending issues in financial regulation
- ❖ International tax cooperation
- ❖ Trade and investment issues
- ❖ Critical institutional issues

DEVELOPMENT FINANCING

- ❖ Revitalize Official Development Assistance (ODA)
 - meet the historical 0.7% target
- ❖ Multilateral Development Banks
 - ✓ Capitalize them and leverage their capital
 - ✓ Expansion of the support for low-income countries
 - ✓ Finance the provision of international public goods
 - ✓ Financing local governments.
 - ✓ The counter-cyclical function, to compensate for the procyclical behavior of private capital markets
 - ✓ Instruments: loans, equity, guarantees.
 - ✓ Lending in the local currency of countries
 - ✓ Links with National Development Banks
- ❖ Support NDBs, but also the development of local bond markets in developing countries.

THE RELATIVE ROLE OF DIFFERENT MDBs

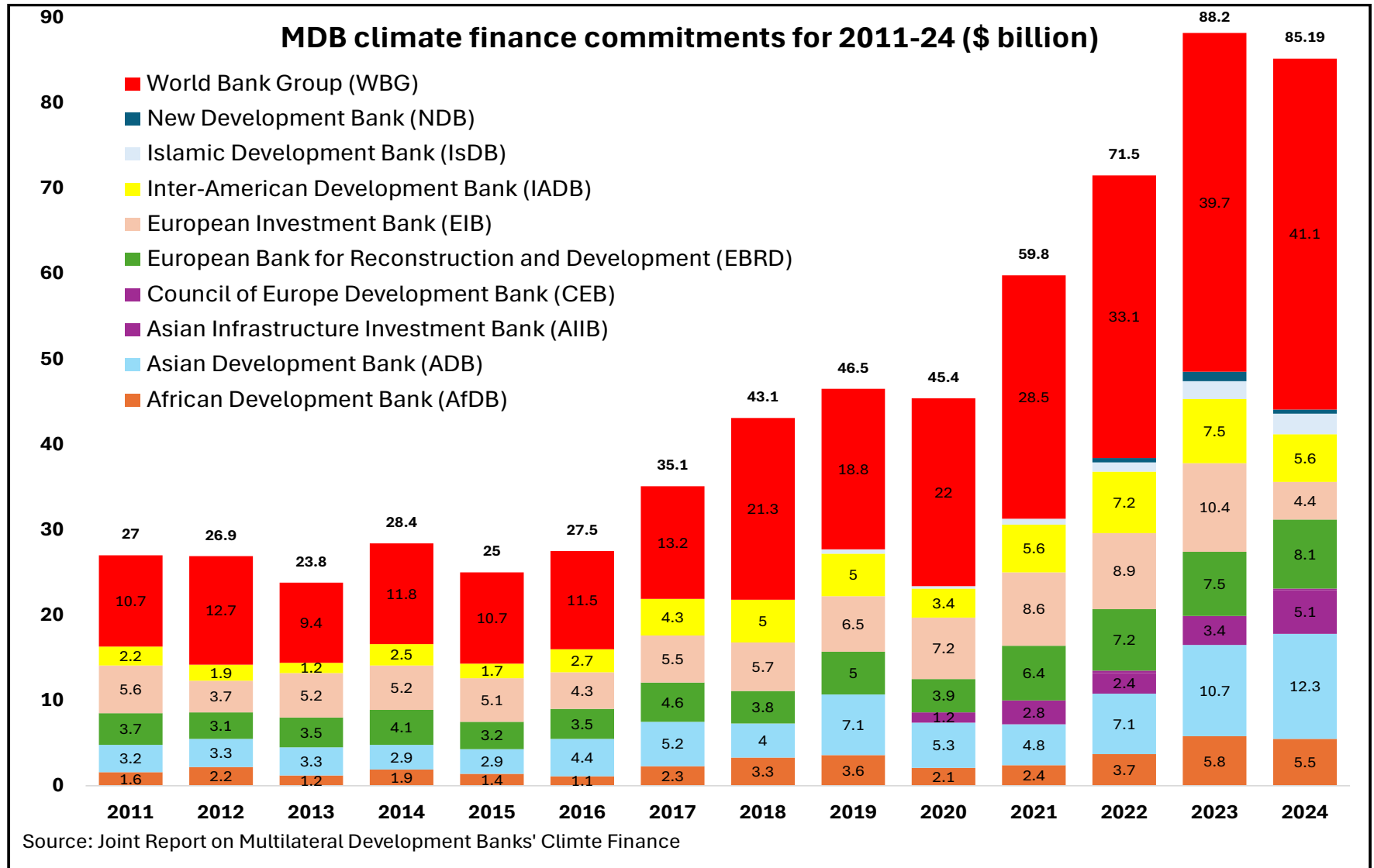
**Loan Commitments by Multilateral Development Banks
(Million dollars)**



FINANCING ENVIRONMENTAL SUSTAINABILITY

- ❖ Increased financing for climate change (mitigation and adaptation)...
- ❖ ... and for the protection of biodiversity.
- ❖ Who would cover the concessional element of financing in these areas? ODA?
- ❖ Coordination among the different financing mechanisms (MDBs, IMF, special funds).
- ❖ De-risking private sector investments in these areas, including through guarantee funds.
- ❖ Enhance the use of debt-for-nature swaps.

SUPPORT OF MDBs TO CLIMATE CHANGE HAS BEEN POSTIVE AND MUST CONTINUE

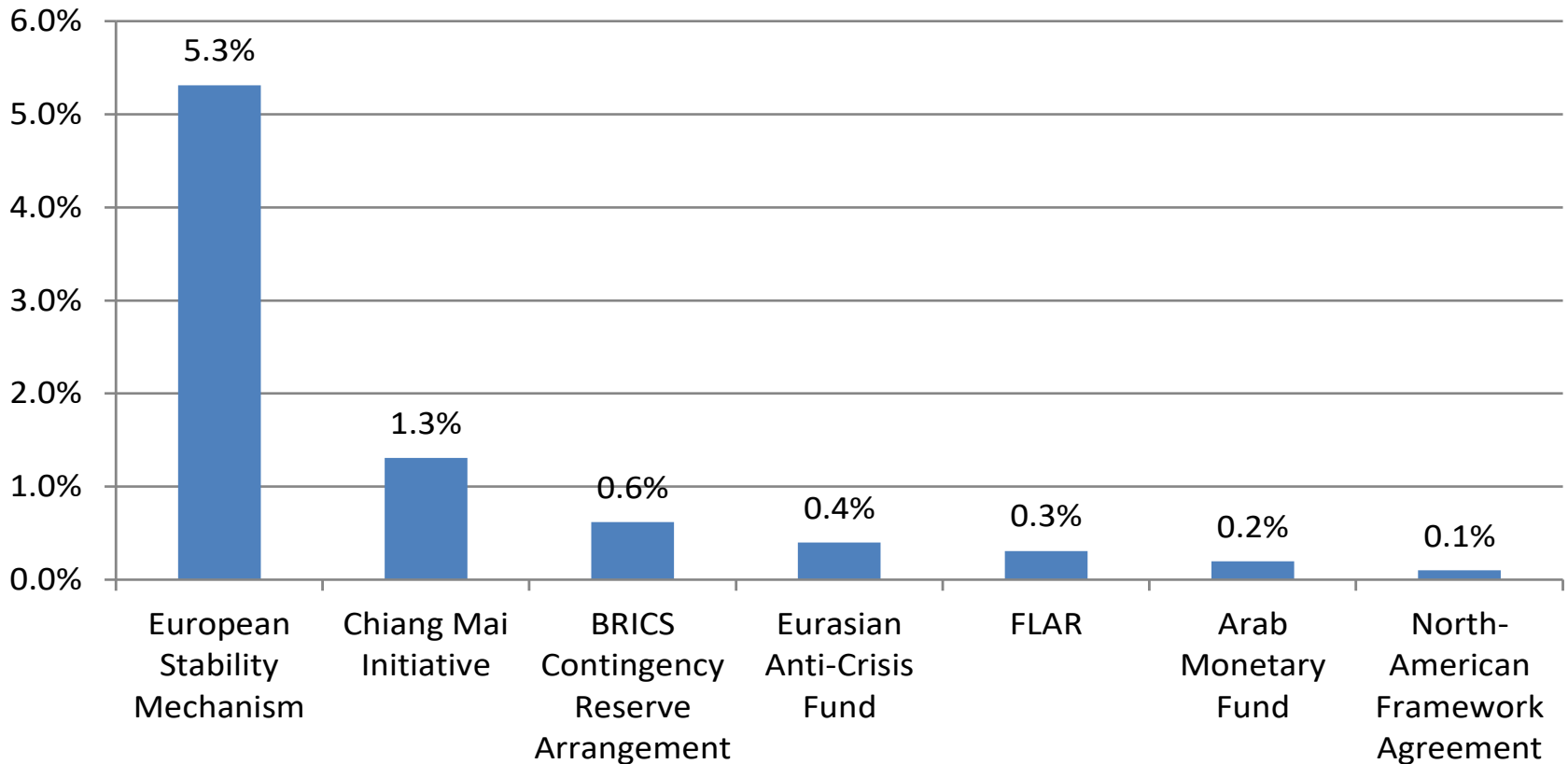


STRENGTHENING THE GLOBAL SAFETY NET (1)

- ❖ Strengthen credit facilities for low-income countries, including access to regular credit lines.
- ❖ Strengthening and greater access contingency facilities (to reduce the need for developing countries to accumulate reserves).
- ❖ Possibility of a new liquidity facility through a mechanism that would allow intervention in bond markets of emerging and developing countries.
- ❖ The controversies over conditionality:
 - ✓ Protecting social spending during crises
 - ✓ Governance standards
- ❖ Strengthen existing regional institutions and create new ones.

REGIONAL MONETARY INSTITUTIONS ARE VERY FEW

**Size of Regional Balance of Payments Facilities
(% of regions' GDPs in 2013)**



STRENGTHENING THE GLOBAL SAFETY NET (2)

- ❖ More active use of SDRs
 - ✓ Larger allocations, with a counter-cyclical component
 - ✓ Should developing countries have a larger share in the allocations?
 - ✓ Eliminate the dual accounting, keeping unused SDRs as “deposits” in the IMF that can finance IMF programs or be deposited in the MDBs.
 - ✓ Creation of special funds: Poverty Reduction and Growth Trust, and the Resilience and Sustainability Trusts. But should they be IMF facilities or managed rather by the MDBs?

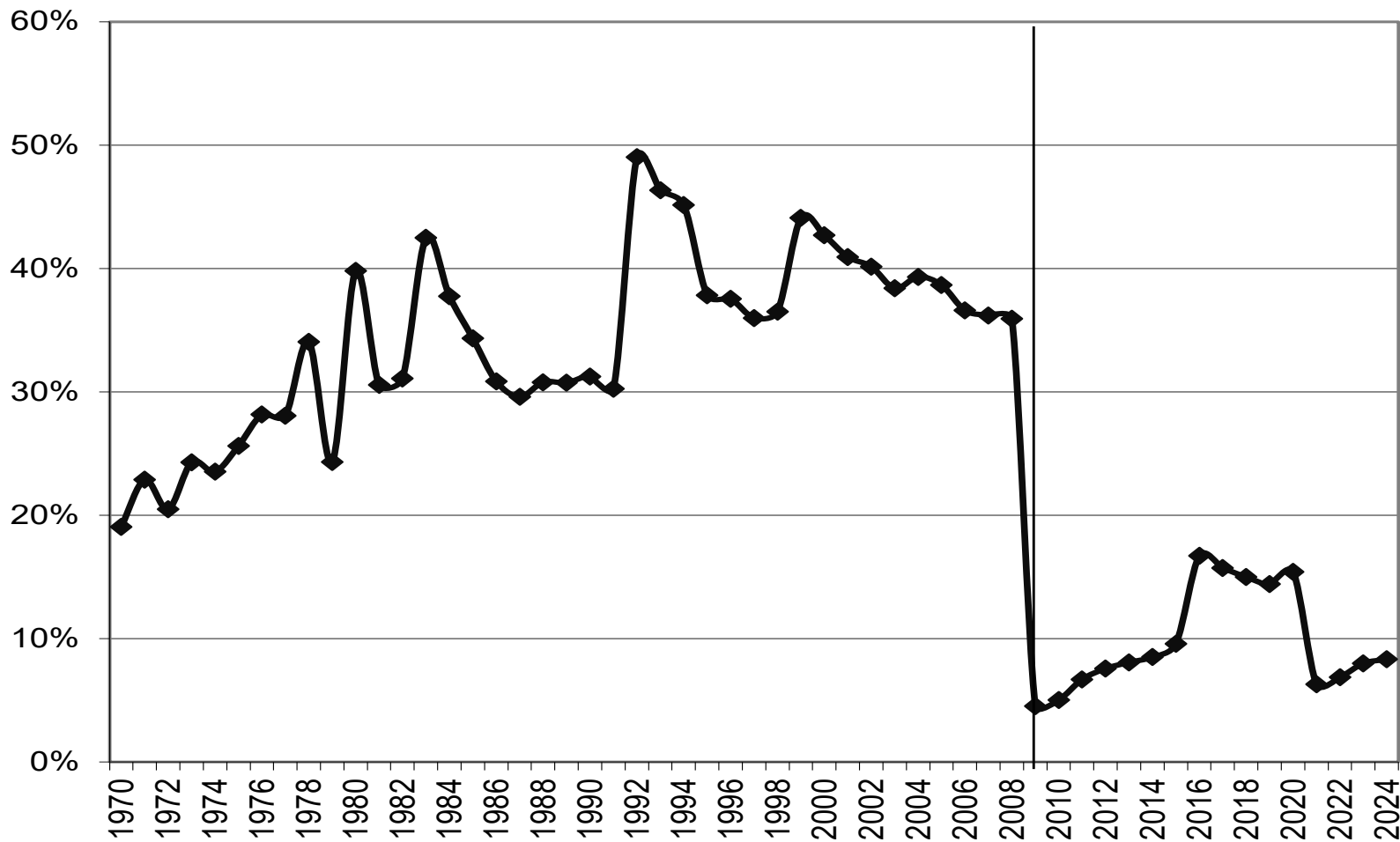
DEVELOPED COUNTRIES GET CLOSE TO TWO-FIFTHS OF SDR ALLOCATIONS

SDR allocations by level of development (in millions of SDRs)

	Allocations (in million SDRs)				Share in total allocations			
	1970-72	1979-81	2009	2021	1970-72	1979-81	2009	2021
High income: OECD	6,796	7,906	108,879	280,861	73.6%	65.8%	59.6%	61.5%
United States	2,294	2,606	30,416	79,546	24.8%	21.7%	16.6%	17.4%
Japan	377	514	11,393	29,540	4.1%	4.3%	6.2%	6.5%
Others	4,125	4,786	67,070	171,775	44.7%	39.8%	36.7%	37.6%
High income: non-OECD	17	127	3,588	34,958	0.2%	1.1%	2.0%	7.7%
Gulf countries	0	78	2,057	15,251	0.0%	0.7%	1.1%	3.3%
Excluding Gulf countries	17	49	1,531	19,707	0.2%	0.4%	0.8%	4.3%
Middle income	1,488	2,730	54,173	132,373	16.1%	22.7%	29.6%	29.0%
China	0	237	6,753	29,217	0.0%	2.0%	3.7%	6.4%
Excluding China	1,488	2,493	47,420	103,156	16.1%	20.7%	26.0%	22.6%
Low income	933	1,254	16,095	8,294	10.1%	10.4%	8.8%	1.8%
Total allocations	9,234	12,016	182,734	456,485	100.0%	100.0%	100.0%	100.0%

THE USE OF SDR ALLOCATIONS IS VERY LIMITED

Total Net Drawings as Percent of Total Allocations

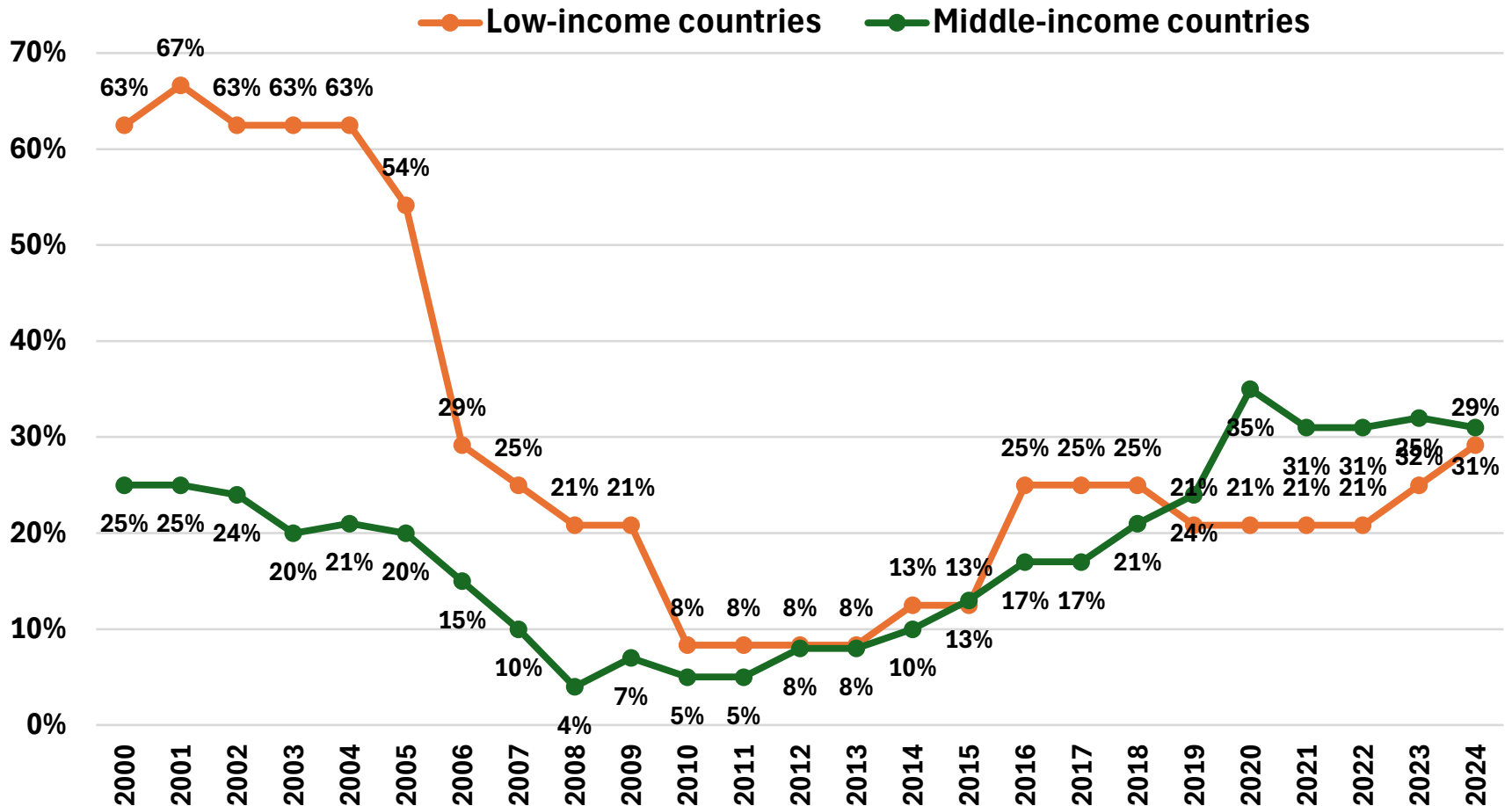


SOVEREIGN DEBT CRISIS RESOLUTION

- ❖ Need to create an ad hoc mechanism to manage the current crisis, which could be an expanded Common Framework for Debt Treatment, or an alternative mechanism.
- ❖ It should be available to middle-income countries.
- ❖ Should collective action and aggregation clauses be improved?
- ❖ Need for a permanent institutional framework, in the UN or the IMF (so long as in the latter case the decisions are independent from the Board)...
- ❖ ... which should manage three phases: voluntary renegotiation, mediation and arbitration.

THE NUMBER OF COUNTRIES WITH HIGH LEVELS OF DEBT HAS BEEN GROWING

Percentage of overindebted low and middle-income countries



PENDING ISSUES IN FINANCIAL REGULATION

- ❖ Develop an enabling system for developing countries to implement capital account management.
- ❖ Regulate credit rating agencies
- ❖ Enable and coordinate regulation of privately created digital assets and “currencies”, especially those involving secrecy.
- ❖ Introduce environmental risks in global and national financial regulations.
- ❖ Differentiate the regulation of development banks from that of commercial institutions.
- ❖ Impose clear conditions and performance requirements upon private players who receive public financial support and subsidies.

CRITICAL INSTITUTIONAL ISSUES

- ❖ Continue to reform of “voice and participation” of developing countries in the Bretton Woods institutions, through both recognizing their participation in the world economy and a stronger share of basic votes.

This should include the open and transparent systems to elect the heads of these institutions.

- ❖ Develop new global institutions to manage sovereign debt restructuring and international tax cooperation.
- ❖ Build a denser global architecture, with stronger regional institutions. This exists for MDBs, but it is essential for monetary and tax cooperation

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