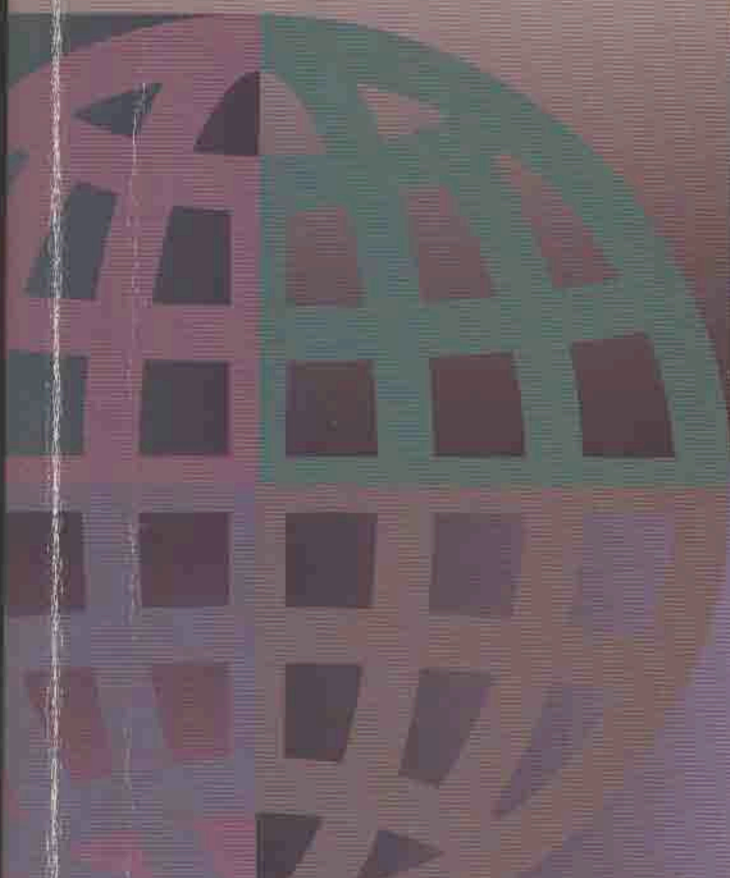
Development *and* Global Governance



Edited by Roy Culpeper and Caroline Pestieau

Canadian Cataloguing in Publication Data

Main entry under title:
Development and global governance
Papers from a conference organized by the North-South Institute and the International Development Research Centre held May 2, 1995, Ottawa, Ont.
Includes bibliographical references.
ISBN 0-921942-97-4 (North-South Institute) -
ISBN 0-88936-805-8 (International Development Research Centre)

1. International finance —Congresses. 2. Financial institutions, International -Developing countries Congresses. 3. Economic assistance -Developing countries—Congresses. 4. International Monetary Fund—Congresses. 5. World Bank—Congresses.
I. Culpeper, Roy, 1947- II. Pestieau, Caroline, 1940-
III. North-South Institute (Ottawa, Ont.).
IV. International Development Research Centre (Canada).

HG203.D49 1996 337 C96-900352-8

Editor: Clyde Sanger
Copy Editor: Rowena Beamish
Desktop Design and Production: Anne Chevalier
Cover Design: Paul Edwards Design
Printing Office: M.O.M. Printing

Price: $20.00
Additional copies may be ordered from:

Renouf Publishing Ltd.
Head Office
1294 Algoma Road
Ottawa, ON
K1B 3W8
Tel.: (613) 741-4333
Fax: (613) 741-5439

IDRC Books
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About the Publishers

The North-South Institute (NSI) is a non-profit corporation established in 1976 to provide professional, policy-relevant research on the 'North-South' issues of relations between industrialized and developing countries. The results of this research are made available to policy makers, interested groups and the general public to help generate greater understanding and informed discussion of development questions. The Institute is independent and non-partisan, and cooperates with a wide range of Canadian, overseas and international organizations working in related activities.

The International Development Research Centre (IDRC) is committed to building a sustainable and equitable world. IDRC funds developing-world researchers, thus enabling the people of the South to find their own solutions to their own problems. IDRC also maintains information networks and forges linkages that allow Canadians and their developing-world partners to benefit equally from a global sharing of knowledge. Through its actions, IDRC is helping others to help themselves.

Contents

Francisco Sagasti

The topic of this meeting, on the governance of international financial institutions, requires at least some agreement on what good governance would be. To offer one view: good governance of international organizations would have to be efficient in the sense of solving the problems it addresses in a cost-effective and timely manner. To be effective means maintaining the stability of the system but also being flexible enough to accommodate changes. Finally, good governance would have to be legitimate in the sense of representing the various views of all the constituencies in international organizations, and legitimate also in terms of accountability. This is one of the areas in which most international financial institutions fail miserably.

I would like to focus on an area that I know a bit about: development finance and some questions of governance.

The Paris Club

In the first place, I am surprised that none of the papers, especially in a meeting just before the Halifax Summit, touched on the role of one of the most important 'non-institutions' that we have that has a tremendous influence on developing countries: I refer to the Paris Club. There are no articles of agreement of the Paris Club, only a series of codified practices. It works in peculiar ways and has a very interesting impact in terms of cross-conditionality. First of all, as I say, it is a non-institution. It is extremely rigid — I don't know any other non-institution that is as rigid as the Paris Club. It doesn't deal with countries on a case-by-case basis. It only reschedules official debt over a very short term — three years. It requires an IMF agreement and, in addition, it sets terms in very rigid ways according to income levels. We have heard of the Toronto and the Naples terms and, once it has settled those terms, they apply to all countries in that income category. Of course, they set minimum conditions and countries can be more generous within the framework of the Paris

Club but this is very rare. Not only that, but the way in which it is organized is that all the creditors gang up on each country. If you've been to a Paris Club meeting, you see 15 people sitting in front of two or three people from a developing country and then, the next day, you have another country. Of course, developing countries don't talk to each other; it's the creditor countries that talk to each other and agree on terms.

The G-7 is another non-institution and it defines what the Paris Club is going to do. Therefore, if we want to do something on Halifax, one thing would be to mention that there needs to be changes in Paris Club proceedings. By the way, this is one of the institutions where political conditionality works in a very clear way. Recently, for example, the United States blocked a concessional agreement to Nicaragua and not because the IMF thought that the Nicaraguan economy was in bad shape. It was simple political conditionality with names attached to it: Senator Jesse Jones wanted to bring pressure on the Nicaraguan government to return to some former Somozistas properties that were seized a few years ago and this was used as an excuse for the State Department and the Treasury not to do anything with Nicaragua.

One of the things that I learned from looking closely at these negotiations is that, if you really want to get a good deal at the Paris Club, make sure that, when the IMF mission comes to your country and begins to review your data, you get two or three good people challenging every single figure, because those are the figures that are going to be used in Paris Club 'negotiations' to decide on the terms that your country is going to have.

The practical point here is that if we really wish to have a lasting impact on development finance, let's look at the Paris Club and at official bilateral creditors which now account for something like 40 percent of developing country debt.

Changes to the World Bank

My second point has to do with the World Bank. I do not know whether James Wolfensohn is going to be invited as an observer at the Halifax Summit but it would be a good idea if he were there — I know he has friends among the leaders of the G-7, and he's going to take over [the World Bank presidency] on June 1. This is a timely occasion to propose some significant reforms of the World Bank. It has become a large conglomerate with many different products, managed in the way that inefficient conglomerates were managed in the 1970s and 1980s. It needs to be more product-focused, and to be closer to its clients. I have made a quick list of five of its constituencies and products, but I remember when I worked at the Bank we were able to identify many more. You have the role of catalyst for private finance, especially for the NICs high- or middle-income countries. You have the role of providing long-term finance at lower than or near market rates, for middle-income countries. Because of the difference between authorized and paid-in capital, the World Bank has been a most efficient way of raising capital for developing countries in the sense that it delivers more bang for the buck. By paying in a small amount, you're really able to raise a huge amount in the capital market. Of course it's based on guarantees by the industrialized nations, but I don't see any reason why, with some minor modifications, this system could not continue working in order to serve the needs of the rapidly dwindling number of countries that still need long-term financing near market rate.

The third area is concessional finance and here the role of aid coordination is a very important one for the World Bank. It's a different product. Then we have policy dialogue and policy advice, and research. Now the clients and the consumers of these various products are very different. What would be required, in my view, would be to break down the World Bank into four or five sub-units, have a kind of conglomerate board, and then have the equivalent executive boards for each of the various products and clients and involve more people in each of those areas.

Anyway, this will have major organizational and personnel changes. It will move a long way toward making the World Bank more accountable. It would change radically its relations with the regional development banks. When I was doing some strategic planning for the World Bank and we raised the issue of relations between the regional banks and the Bank, we were really hammered by all the regional vice-presidents and several members of the President's Council that existed at that time. They simply didn't want to discuss that issue, but I think it's high time now to discuss it; and the contributions that the North-South Institute has made on the subject [with its series of volumes on the Regional Development

Banks] are extremely important to reach a more sensible definition. In a nutshell, my view is that the World Bank has to take more of a functional cut rather than a regional cut, and one of the first implications would be to abolish regional vice-presidents in the World Bank and to settle on a different type of organizational structure.

One final thought on governance. I think that we should go further than simply broadening the G-7 to the G-15, as Gerry Helleiner said or as Frances Stewart implies in her paper. We should think of including private corporations and the international civil society, including academics, advocacy groups and workers' organizations, in the governance of international financial institutions. I do not believe that the time is appropriate to remain locked in the circle of governments. I think it would be possible to expand and to include representatives of international banks and of multinational corporations. Whatever we do, if (for example) we break up the World Bank in the way I have suggested, and if there is one area in charge of providing the catalyst for private finance, it is obvious that you should get some of the private banks involved in governance, in this particular sub-area as a function of the Bank.