

G-20 CHAIR CONSULTATION OF LOW-INCOME COUNTRIES

London, UK, 17 August 2009

Representatives of 13 low-income country governments met in London on 17 August, as part of the consultation by UK Government, on the review requested by leaders at the G-20 Summit on improving the adaptability and responsiveness of the IFIs. The meeting was sponsored by the UK Department for International Development, and opened by Michael FOSTER, Under-Secretary of State for International Development. The meeting was facilitated by Development Finance International (DFI) and the Overseas Development Institute (ODI).

Countries welcomed the recent reforms in Bretton Woods Institutions (BWI) policies, instruments and behaviour, but made further important recommendations to improve the adaptability and responsiveness of the IMF and World Bank for low-income countries, as well as in their roles in the global architecture.

1) Role of the IMF in Low-Income Countries

1.1 Conditionality/Growth-Oriented Policy

Countries urged that there should be more transparency in programme approval and lending decisions by Fund Management and Board, and that these should be based on technical economic grounds rather than political interventions by Board members.

Countries welcomed the greater flexibility of fiscal policy advice provided by the Fund in some countries, providing space for fiscal stimulus or protection against the crisis. They urged that this fiscal space be opened more permanently in order to fulfill LIC needs for large-scale spending to meet their national development goals and the MDGs. However, they suggested that in many countries there was still a focus on fiscal deficit reduction, although this did not fit with G-20 members' application of fiscal stimulus packages. They urged that the basis for Fund programme design should be the potential sources of accelerated growth, and fiscal and monetary policy should be eased during and after crisis periods where this is necessary to promote growth and possible without compromising macroeconomic stability.

Countries also urged that in conducting global surveillance, the Fund should pay more attention to the global barriers constraining low-income country growth, such as credit ratings, shipping/freight/transport/insurance charges, and lack of trade credit and private sector financing even in non-crisis periods. This also requires more focus in Fund programmes on the development of local financial systems.

They also welcomed the relaxation of structural conditionality, but urged that conditions be reduced further in number to those critical to national growth, and that prior actions be avoided wherever possible. Further, they urged the Fund to re-examine its entire basis for

programme design, moving away from the “one-size-fits-all” approach to allow a more active role for government where this was essential to facilitate private sector-led growth, and thereby providing countries with more overall policy space to reach growth, poverty reduction and employment results using heterodox policies.

Countries highlighted the problems the Fund faces working with countries undergoing or emerging from political crises or conflict. They urged it to tailor its policy advice much more closely to national circumstances for these countries, especially providing space for national reconstruction and reconciliation spending, making sure that conditionalities were realistic given a higher degree of political instability, and continuing to provide funds wherever possible during crises in order to minimise risks of further crisis and conflict.

Within fiscal flexibility, it was discussed that the LIC-Debt Sustainability Framework should be made more flexible to reflect financing needs for infrastructure and growth, the positive impact of borrowing on growth (especially for high-return projects which will have a major growth impact) and potential for borrowing less concessionally and non-concessionally, notably from non-OECD lenders. It also needs to drop or reduce minimum grant element limits in programmes, especially for countries with low risk of unsustainable debt. It was noted that there is a review of the DSF underway in the Bank and the Fund that will report to the Annual Meetings.

1.2 Facilities/Instruments/Procedures/Governance

Countries welcomed the streamlining of IMF facilities for LICs, and urged the Fund to apply them rapidly in countries. However, they noted that the mission and approval procedures of the Fund were too slow to enable rapid enough response to the crisis, and urged the Fund to increase its speed of response, including by allocating more staff to work on LICs.

Countries stressed that the fundamental impact of crises is on their budgets, but IMF instruments are not fundamentally tailored to help meet fiscal (rather than balance of payments) needs. They urged that IMF and other resources be mobilised to meet primarily their fiscal needs and financing gaps and protect MDG-related spending.

Countries underlined that the sharp “bifurcation” of IMF instruments and resources between LICs and LMICs meant that countries graduating from LIC status faced a far too rapid transition to higher conditionality, less focus on growth and poverty reduction, and more expensive resources. They urged that success should not be penalised, and there should be a more gradual transition in terms of conditionality, content and resource costs, and especially a continuing focus on growth and poverty reduction.

In the context of a greater flow of earnings by the IMF on its lending, countries strongly urged that IMF Technical Assistance and training for LICs should be paid for out of Fund resources, and the need for LICs to pay or for donors to fund it separately should be dropped. However, they also urged that IMF TA should be much more focused on long-term institutional capacity-building and facilitating direct learning exchanges among LICs, rather than short-term diagnosis and training.

Countries welcomed the Fund’s decision to suspend the closure of a number of resident

missions in countries which do not have active Fund programmes. They stressed the importance of keeping these open, especially given the Fund's greater resource flows from its new lending, so that the Fund can fulfill its functions of dialogue and policy advice even when there is not an active lending relationship. However, they also emphasised that decentralisation was useful only when it came with genuine powers and skills to listen to governments, adapt policies to local realities, and consult local stakeholders.

Countries stressed that the behaviour of the Fund was largely determined by its governance structure, and that therefore governance reforms to give more voice to least developed, low-income and smaller lower-middle income countries, and to ensure transparent selection of Fund senior management, should be pursued.

Countries suggested that more Fund staff should be recruited from LICs, but also that all Fund staff regardless of nationality should be recruited for more senior-level experience of LIC realities, rather than academic qualifications and studies of OECD economies. They also stressed the need to reform IMF promotion structures in order to provide more continuity of staff working on low-income countries, and for leadership and training by management which ensured consistent implementation of reforms in all countries.

1.3 Resources/Concessionalities

While welcoming the increase in IMF resources, countries stressed that the IMF's own resources for LICs (and overall) were insufficient. Resources available to individual countries are also excessively limited by quotas, especially for smaller countries, so resource availability should preferably be delinked from quotas and tailored to country need based on the scale of shocks they have suffered.

Nevertheless, barring a further large increase in IMF resources, its key role lies in catalysing funds through its signalling role, especially for post-conflict/fragile countries which cannot mobilise domestic resources. Countries urged the Fund to play a much more active catalytic role in promoting the successes of low-income countries and helping them to mobilise private and public sector external resource flows to support their development.

Countries urged rapid implementation of the SDR allocation in order to reinforce their reserve levels. However, they were also concerned that Fund resources should - to the maximum extent possible - be usable for fiscal responses to the crisis and not just reserve augmentation. In this context, SDRs should be more readily usable for fiscal purposes. Countries also urged G-20 and other developed countries to reallocate their SDRs voluntarily to LICs to provide a larger resource pool for them.

Countries suggested that regional reserve funds and credit lines from neighbouring governments and central banks had proven much more rapid, larger and less subject to political pressures or conditionality than IMF support, and urged G-20 to support the development of such mechanisms.

2) Role of the World Bank in Low-Income Countries

2.1 Overall Coherence

Countries welcomed the useful and appropriate role of the World Bank in supporting international development, the strength of World Bank programmes in various

development areas and the leadership role of the World Bank management more recently in standing up for the interests of developing countries. However, it was suggested that the World Bank had been less responsive in the wake of the crisis, and their actions less visible, than the IMF and other regional institutions, especially in Africa although the reverse may have been the case in Central America. It was suggested that the World Bank, and the IDA in particular, should have a crisis window, so that IDA could respond adequately and quickly in times of crises. Moreover, it was suggested that there should be greater clarification on the range of instruments available as well as the process of accessing them, because countries felt that there had been poor information dissemination and discussion of the new mechanisms established to respond to the financial crisis.

In comparison to the World Bank, countries felt that regional institutions including regional banks had responded more effectively to the crisis, largely because their response had been more timely. Countries recognized the strength of regional institutions – their flexibility, responsiveness and regional knowledge - and the benefits of greater regionalisation. However, countries stressed the need for this area, and particularly regional institutions, to be funded adequately. Countries indicated that greater partnership and coordination between the World Bank and regional institutions would be beneficial. Furthermore, it was suggested that it would be useful if the World Bank could develop instruments in collaboration with the regional institutions, to encourage regional integration as well as exploit the regional knowledge and timely responsiveness of regional institutions.

The effect of emerging donors was frequently discussed throughout the consultation and it was suggested that it would be very useful if there was a dialogue between the World Bank and existing and emerging donors around the total cost of lending to partner countries.

2.2 Frontloading, Flexibility and Leveraging

Countries reported mixed experiences relating to the timeliness of the World Bank's response to crises. Some countries had received financial support very rapidly, while others noted that World Bank support had been sluggish. It was suggested that although the World Bank responds quickly to crises, actual disbursement of financial support is often very slow.

In terms of allocating resources, it was suggested that World Bank funding should be allocated to areas of most need and with conditions that are achievable and implementable quickly. It was suggested that there seems to be greater emphasis by the World Bank on procedural correctness, rather than timely delivery and compliance. It was suggested that requirements for approving projects are very different for middle income countries compared to low income countries and conditionalities are often not appropriate or practical given country characteristics. Furthermore it was suggested that the approval process for programmes is very resource intensive for partner countries and should be streamlined.

It was suggested that the Debt Sustainability Framework should be reviewed and adapted to better facilitate government attempts to finance the basic needs of their citizens.

Countries also suggested that more help would be welcome with regard to public private partnerships.

2.3 Country Allocation/Tailoring

Countries felt that the IDA allocation process with the CPIA index as the basis for resource allocation decisions should be reviewed and improved. Countries suggested that the IDA allocation process is not particularly transparent and the criteria on which the CPIA scoring is based are not particularly transparent, objective or consistent. It was suggested that the CPIA should be extended to examine the performance of government systems beyond what were considered to be 'inputs' only.

Countries stressed that country ownership should be more central to World Bank programmes. It was suggested that this could be adhered to more meaningfully, by accepting government systems that are performing adequately. Furthermore, countries suggested that World Bank programmes often reflect World Bank priorities and resource constraints, rather than the priorities of partner countries. This point was frequently raised with reference to the World Bank's noticeable prioritisation of social investment over infrastructural investment – the latter often considered a key priority of partner countries.

Countries suggested that World Bank instruments should be more appropriately tailored to individual country needs, including those of post-conflict countries, and include instruments that can rapidly respond to the expenditure needs of individual countries, including post-conflict countries.

Countries supported the move by the World Bank to increase country presence and this was cited as a reason for the success of some programmes. However it was felt that the decentralisation of human resources needed to take place alongside the decentralisation of authority.

2.4 Private Sector and Infrastructure Financing

Countries recognised that the World Bank's provision of private sector support is useful and countries have benefited from IFC instruments. However, it was felt that the World Bank's private sector work has not been as successful as IDA programmes and the IFC is not responsive and flexible enough. Reasons cited for this included the view that IFC facilities tend to be tailored towards countries with better capacity to access the funds, and minimal differentiation of interventions according to country size access limits. It was suggested that a facility for refinancing or capitalisation of institutions, including Banks, would be useful.

Countries welcomed the design of the safety net programmes, but stressed that the timeliness of disbursements would be fundamental to their success.

3) Global Role of the IMF and World Bank

**G-20 CHAIR CONSULTATION OF LICs ON FLEXIBILITY AND ADAPTABILITY OF IFIs
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Countries stressed the importance of resolving issues of global macroeconomic coordination for LICs – the impacts on them having been severe and hence having a vested interest in the more advanced economies following responsible macroeconomic policy.

Countries agreed on the need for traction of policy advice with regard to the advanced economies and raised questions as to how to ensure any system could work effectively. It was recognised that this would be challenging.

There was general agreement on the need to increase the capacity of the IMF to provide policy advice. Many countries recognised that the Fund had a potentially very useful role to play here but that weaknesses in staffing and limited flexibility to take account of diverse country needs remained.

Countries also felt that there may be a need for more flexibility in IMF advice on fiscal deficits, recognising the importance counter-cyclical fiscal policies have played during the current crisis. Individual country macroeconomic circumstances were important, but there was potentially a mismatch between IMF fiscal policy advice for developing country governments and for more advanced economies pursuing fiscal stimulus policies during the current downturn. Countries questioned whether recent shifts in IMF fiscal advice to LICs in response to the crisis signified a permanent change in behaviour.

Countries briefly discussed the impact of commodity price fluctuations on developing countries, and whether there was a potential role for the IFIs to maintain stability of commodities in world markets. There was recognition that thinking is in its early stages. Some countries felt that this would be a difficult role for the IMF to play and outside its core remit.