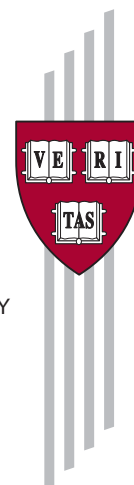


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G-24 Discussion Paper Series

Do As I Say Not As I Do: A Critique of G-7 Proposals on Reforming the Multilateral Development Banks

Devesh Kapur

No. 20, February 2003

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**Research papers for the Intergovernmental Group of Twenty-Four
on International Monetary Affairs**



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PREFACE

The *G-24 Discussion Paper Series* is a collection of research papers prepared under the UNCTAD Project of Technical Support to the Intergovernmental Group of Twenty-Four on International Monetary Affairs (G-24). The G-24 was established in 1971 with a view to increasing the analytical capacity and the negotiating strength of the developing countries in discussions and negotiations in the international financial institutions. The G-24 is the only formal developing-country grouping within the IMF and the World Bank. Its meetings are open to all developing countries.

The G-24 Project, which is administered by UNCTAD's Macroeconomic and Development Policies Branch, aims at enhancing the understanding of policy makers in developing countries of the complex issues in the international monetary and financial system, and at raising awareness outside developing countries of the need to introduce a development dimension into the discussion of international financial and institutional reform.

The research carried out under the project is coordinated by Professor Dani Rodrik, John F. Kennedy School of Government, Harvard University. The research papers are discussed among experts and policy makers at the meetings of the G-24 Technical Group, and provide inputs to the meetings of the G-24 Ministers and Deputies in their preparations for negotiations and discussions in the framework of the IMF's International Monetary and Financial Committee (formerly Interim Committee) and the Joint IMF/IBRD Development Committee, as well as in other forums. Previously, the research papers for the G-24 were published by UNCTAD in the collection *International Monetary and Financial Issues for the 1990s*. Between 1992 and 1999 more than 80 papers were published in 11 volumes of this collection, covering a wide range of monetary and financial issues of major interest to developing countries. Since the beginning of 2000 the studies are published jointly by UNCTAD and the Center for International Development at Harvard University in the *G-24 Discussion Paper Series*.

The Project of Technical Support to the G-24 receives generous financial support from the International Development Research Centre of Canada and the Government of Denmark, as well as contributions from the countries participating in the meetings of the G-24.

**DO AS I SAY NOT AS I DO:
A CRITIQUE OF G-7 PROPOSALS ON REFORMING
THE MULTILATERAL DEVELOPMENT BANKS**

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Abstract

The paper addresses three key issues raised by the G-7 in its proposals in 2001 to reform the multilateral development banks: (i) the restructuring of the International Development Association (IDA), with a part of its lending in the form of grants rather than loans; (ii) the harmonization of procedures, policies and overlapping mandates among multilateral development banks (MDBs;) and (iii) the volume of support by MDBs for global public goods (GPGs) and the rankings and priorities among them.

The paper argues that while in principle shifting a fraction of IDA's resources to grants can address some of the problems associated with loans, these gains are limited. At the same time it poses long-term political risks for the World Bank. Moreover, the paper cautions that the more fundamental problem with IDA is the manner in which the IDA Deputies – the representatives of the donor countries – have been making policy decisions relating not just to IDA but also to the institution as a whole. The result has been a creeping constitutional coup that has fundamentally subverted the role of the Executive Board in the institution's governance. The paper also questions whether developing countries in their quest for a larger IDA may not be sacrificing their larger interests in the global system.

*With regard to GPGs, the paper questions the degree to which the Bank's research contributes to GPGs. It argues that there is little analytical and empirical evidence that the G-7's priorities for GPGs would maximize the well-being of the poor relative to a host of notional alternatives. With regard to the harmonization of procedures and policies among the MDBs, the paper supports the harmonization of **procedures**, especially those related to procurement and financial reporting, while arguing that harmonization of **policies** and overlapping of jurisdictions should **not** be formalized. The paper further argues that increasingly stringent compliance standards of the international financial institutions are imposing high financial and opportunity costs on their borrowers. It is easy for the major shareholders to insist on standards whose costs they do not bear. The most inimical aspect of this pressure is that it has forced the Bank to shift lending towards sectors where it has little comparative advantage and away from the very sectors where it does have comparative advantage.*

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DO AS I SAY NOT AS I DO: A CRITIQUE OF G-7 PROPOSALS ON REFORMING THE MULTILATERAL DEVELOPMENT BANKS

Devesh Kapur*

I. Introduction

In recent years, reforming the multilateral development banks (MDBs) has engaged the attention of a variety of blue-ribboned commissions and groups. The most recent of these proposals were made by the G-7 at its summit in 2001. A year later the G-7 finally reached a consensus on the most contentious of the proposals, namely the United States' insistence that IDA resources be provided as grants and not loans. Considering the source, the G-7 proposals are also the most noteworthy. While most of these reports and recommendations have focused on the key MDB – the World Bank – others have focused on the MDB system and, more broadly and ambitiously, the workings of the international financial system. The principal recommendations of these

2. Harmonization of procedures, policies and overlapping mandates among MDBs.
3. The volume of support by MDBs for global public goods (GPGs) and the rankings and priorities among them.

But like the dog that did not bark, the G-7 proposals are just as interesting for the issues they are silent on, as for those issues they emphasize. This paper highlights three omissions: (i) the Bank's research and whether it contributes to GPGs; (ii) the high transaction and opportunity costs of World Bank lending and their implications for harmonization of the MDBs procedures and policies; and (iii) issues of governance and accountability that fundamentally affect the "what" and "how" these institutions go about their business. Finally, the paper examines the

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