

International Financial Governance: Toward the London G-20 Summit

Event Summary

On February 9, Brookings, along with two Canadian partners—the Centre for Global Studies and the Centre for International Governance Innovation—held a high-level seminar in London with the British government to discuss and debate the most critical issues for the April G-20 summit in London.

The purpose of the event was to exchange views with U.S., Canadian and U.K.-based experts and senior U.K. officials who are preparing for the April 2 G-20 summit (officially referred to as “The London Summit 2009”).

[View the event agenda.](#)

The event was subject to the Chatham House Rule (no attribution of any views to any individual). It was preceded by remarks during a one-hour session with Prime Minister Gordon Brown, which was open to the press, as well as invitees from U.K. academia and civil society.

This note briefly summarizes the main points of discussion for each session.

Session with Prime Minister Gordon Brown

Prime Minister Brown stressed that the current financial crisis was a global problem requiring global solutions, hence the importance of the G-20 summit.

On the domestic front, Prime Minister Brown noted that the U.K. is pursuing a four-pronged effort on the financial crisis: Stop banks from collapsing, push monetary and fiscal stimulus, resume funding for business and mortgages, and ignite export and investment-led growth. In this process, Prime Minister Brown commented that the “bonus culture” in banking has to be reformed: “no rewards for failure, rewards only for long-term success.”

Internationally, Prime Minister Brown commented that the G-20 faces the same set of problems: The need for recapitalization of banks, monetary and fiscal stimulus, and the resumption of financial flows to emerging market economies (EMEs) and poor countries which have been cut off from investment and trade finance (he cited a figure that net flows to the EMEs in the last few years had amounted to \$1 trillion per year, but would be cut to \$160 billion this year). He also cited the risk of new protectionism (not only in trade, but also in the financial arena), which must be contained.

In this context, Prime Minister Brown noted that the international financial institutions are critical actors but need to be fundamentally reformed. The International Monetary Fund (IMF) needs to strengthen its role in surveillance, akin to an independent central

bank, and needs new resources (loan facilities, trust funds, new Special Drawing Rights). The World Bank and regional development banks have to stretch their resources to support the EMEs and poor countries, and need to develop innovative funding approaches, including environmental bond facilities.

In response to questions, the Prime Minister made the following additional points:

- He sees four big global challenges on the current horizon: Financial supervision at a global level, environment, energy, inequality. Prime Minister Brown stressed the need for stronger global financial supervision and the need for an environmental funding mechanism.
- Regarding the G-20 versus other group formulations: He noted the gradual expansion of membership from G5 to G7 and G8 in the past; the G-20 currently is the widest possible group, now meeting for the second time; consultations are underway with all parts of the world to be sure the views of non-participants are heard; in the long term, need to table financial, economic and environmental questions. (He repeatedly referred to the London Summit as the “G-20 summit,” but did not address how it relates to the G-8, whether there will be subsequent G-20 summits or the specific composition of the London 2009 summit.)
- On international financial institution reform, he noted a need for progress on the increased representation and voice of poorer countries in these institutions.

Macro Themes

Consistent with the Prime Minister’s introductory remarks, overall during discussions at the forum there was general agreement that the G-20 summit had to address five key issues with specific measures and commitments and one critical unknown:

- Coordinate monetary/fiscal stimulus and effective bank recapitalization in the advanced economies and surplus EMEs;
- Introduce coordinated regulatory and supervisory reforms of the national and international financial system to install confidence and prevent future crises;
- Push back on rising protectionist threats on three fronts: traditional trade protection, exchange rate mercantilism, financial sector protectionism;
- Stem the dramatic contraction and job losses in the EMEs and poor developing countries, which will by far surpass those in advanced economies;
- Start a process of serious reform of the global financial institutions and their governance in terms of mandate; and,
- The position of the new U.S. administration on the role and issues to be addressed at the April G-20 summit is key and currently unknown.

(For additional detail on each of the sessions, please see the event agenda.)

Session 1: IMF Resources and Governance Reforms

There was a shared understanding of the key problems facing the IMF:

- Insufficient resources
- Stigma among the EMEs, which do not want to draw on the IMF now and in future would rather run persistent surpluses for self-insurance
- Lack of credibility/capacity in surveillance

In terms of potential response, proposals included:

- Develop a “grand bargain”: greater role for EMEs and poor countries in IMF and more access to financial assistance from the IMF in exchange for playing by the global rules and not trying to build up surpluses and reserves as self-insurance);
- A general Special Drawing Rights allocation of up to \$250 billion would provide a signal and incremental resources to poor countries (equal to annual International Development Association allocations); additional proposals by Prime Minister Brown for an increase of IMF resources need to be further explored;
- An announcement of IMF (and World Bank) leadership selection reform (merit-based selection); increasing accountability of IMF Board and management;
- Reopening last year’s agreement on IMF governance reform, or at least speeding up the five-year review cycle; consideration of an additional Board chair for Africa and/or reduction in Board chairs for Europe; and,
- IMF to play an active role in monitoring fiscal stimulus action world-wide; stronger exchange rate surveillance also necessary.

Session 2: Reform of Financial Oversight, Regulation and Supervision

There was broad agreement that the 47 actions envisaged in the Washington Action Plan of the November 2008 G20 summit were generally headed in the right direction. The discussion focused on the remaining challenges:

- How to get the big advanced economies (especially the U.S.) to accept that binding themselves into a global supervisory system is in their own long-term interest;
- How to strengthen the regulatory capacity of existing institutions, how to expand the representation of the Financial Stability Forum (FSF) and solidify its relationship with the IMF, and how to proceed with the idea of “colleges of supervisors”;
- How to define the perimeter of regulation (i.e., which financial institutions and/or functions to monitor);
- How to supervise/reform management incentives;
- How to stem tendencies toward financial protectionism; and,
- What specific announcements could be made by the April 2009 Summit that would signal a clear and strong commitment by leaders to reform in this area?

Session 3: Reform of the World Bank

There was broad agreement among participants that:

- The EMEs and poor countries face a huge external shock from the global economic crisis, which would be felt in full during 2009;
- The World Bank and the regional development banks have a key role to play in cushioning the impact of the global recession on EMEs and poor countries;
- This requires quick reaction by the World Bank and the regional development banks; a full utilization of their capital base and a front-loading of concessional resources flows; a temporary relaxation of their cumbersome processing and safeguard requirements (perhaps combined with ex-post audits to ensure continued minimum standards of quality); and,

- Governance reform in the World Bank needs to be accelerated, with merit-based leadership selection a clear opportunity for an up-front commitment by the G-20; the IMF and World Bank governance reforms need to be delinked.

Specific proposals and concerns included:

- The Asian Development Bank needs an early capital increase;
- The risks of front-loading disbursements and stretching the lending without additional capital (“sweating the balance sheets”) of the multi-lateral development banks need to be weighed, especially in terms of weakening their longer term resilience and ability to support poor countries in the absence of new capital injections or early replenishments of soft loan windows (International Development Association, etc.);
- Far-reaching proposals for World Bank governance reform were tabled by some experts, including a high-level non-resident board, double majority decision making, etc.; and,
- The role of the Europe Union, United Nations and Commonwealth in helping low income countries to respond also needs to be considered.

Session 4: The Role and Future of the “Gs”

There was general agreement in the meeting that the G-7/8 could no longer function as a global steering group. However, there was also a sense that there was no agreement among key governments (especially in Europe) on how to replace them. Hence, the London summit likely will be based on the G-20, but not necessarily restricted to only G-20 members; nor would it necessarily conclude with a commitment for future G-20 summit meetings. The position of the U.S. administration will be critical but is currently unknown.

The following issues were discussed:

- A G-20 is a good pragmatic interim step in summit reform; restoration of global confidence will be helped by a clear commitment of leaders to the G-20 summit as the key forum where the global crisis will be addressed; the G-7/8 could continue, perhaps best as a caucus within the G-20;
- While focused now on economic issues, its remit should be expanded to include environmental and other pressing global issues;
- A G-20 secretariat could provide technical and logistical support and continuity, but should be kept lean and subject to control by the Troika and sherpa process;
- The G-20 will have to reach out to those countries not included; eventually, a constituency approach (as for the international financial institutions) may have to be explored.
- 2010 will represent a key challenge and opportunity to Canada as the chair of the G-8, in determining the future of the G-8 in its relationship with the G-20.

Session 5: Concluding Overview of Issues, Needs and Gaps

This was a wide-ranging discussion that covered a number of issues previously addressed, including:

- Global institutions have a critical role to play during the crisis;

- Their resource bases needs to be strengthened (IMF) and stretched (multi-lateral development banks) to help cushion the shock of the recession in the developing world;
- Governance of these institutions needs to change so as to reflect the shifting weights of countries in the global economy and to give effective voice and vote not only to the funders but also to the recipients; and,
- We have to realize that the world will not return to the status quo after the crisis, but may see permanent shifts in the role of different countries, in the role of private versus public capital flows, and in other ways that have yet to be better understood.

Participants

The conference was initiated and organized by Colin Bradford, Nonresident Senior Fellow of Brookings and CIGI. It was funded by the Centre for Global Studies and the Centre for International Governance Innovation (travel of visitors) and the U.K. government (facilities and logistics). Participants included:

- United Kingdom: Gus O'Donnell, Cabinet Secretary; Jon Cunliffe, Jonathan Portes and Harold Freeman, Cabinet Office; Stephen Pickford, Treasury; Simon Fraser, Foreign Office; Rachel Turner, DFID; Lord Michael Jay, U.K. Parliament; Ngaire Woods, Oxford University; Alan Winters, DFID; Simon Maxwell, ODI and other U.K. government officials
- Brookings Institution: Colin Bradford, Nonresident Senior Fellow; Ralph Bryant, Senior Fellow; and Johannes Linn, Senior Fellow and Executive Director of the Wolfensohn Center for Development
- Center for Global Development: Nancy Birdsall, President
- Peterson Institute for International Economics: Senior Fellows, Morris Goldstein; Arvind Subramanian and Edwin Truman
- Center for Global Studies at the University of Victoria: Gordon Smith and Barry Carin, Director and Associate Director
- Centre for International Governance Innovation: Mohan Agarwal, Visiting Fellow
- G-24: Amar Bhattacharya, Executive Director of the G24 Secretariat
- Commonwealth Secretariat: Cyrus Rustomjee, Director of Economic Affairs