Monitoring Commitments and Compliance of
the G20 Framework for Strong, Sustainable, and
Balanced Growth

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Abstract

At meetings in London on April 2, 2009 and Pittsburgh, Pennsylvania on September 25, 2009, the Group of Twenty (G20) nations’ financial ministers and central bank governors agreed to an agenda—the Framework for Strong, Sustainable, and Balanced Growth—and announced a number of steps to stabilize both national and the international financial systems. This brief reviews the commitments made by the G20 countries, reviews the directives issued to the International Monetary Fund (IMF) and the Financial Stability Board (FSB) and reports on the G20’s progress in its actions to stabilize and rebuild the international financial system.

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1 Overview of the G20 Global Financial Agenda

On November 15, 2008 leaders of the Group of Twenty (G20) countries meeting in Washington, DC declared their intention to tackle head-on the unfolding financial and real economic crisis. In the year following, member-countries’ financial ministers and central bank governors articulated an agenda, called the Framework for Strong, Sustainable, and Balanced Growth to stabilize both national and the international financial systems.

In addition to committing a supply of substantial resources to private financial markets and sovereign borrowing, the G20 issued a number of directives to the International Monetary Fund (IMF), the multilateral development banks (MDBs), the newly created Financial Stability Board (FSB), and other international organizations with an aim to revamp the international financial architecture. The G20 framework comprises, broadly, the following components:

1. The collected G20 governments agreed to make available $850bn of financing and resources through the IMF and the MDBs.

2. The G20 issued a number of directives and refined operational principles for the IMF and MDBs that will govern how these institutions source and allocate capital resources, including by expanding financial instruments and engaging more with private capital.

3. The G20 formalized the FSB as a stand-alone institution and directed it to coordinate development of proposals on a range of financial regulatory and standards issues that will shape the resolution of present international financial instability and the structure of future governance of international finance.

This brief reviews the commitments made by the G20 countries and their directives to the IMF, the MDBs, and the FSB, and reports on progress in their actions to stabilize and rebuild the international financial system. (See the Appendix for a summary table of the commitments, directives, and progress made.)

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1For convenience throughout I refer to the people making up these summits collectively as the G20.
2Key meetings occurred in London on April 2, 2009 and in Pittsburgh, Pennsylvania on September 25, 2009.
3MDBs include the World Bank Group, the Inter-American Development Bank (IDB), the African Development Bank (AfDB), the Asian Development Bank (ADB), and the European Bank for Reconstruction and Development (EBRD).
4In addition to the new agenda, though not discussed here, the G20 voiced support to proceed apace with ongoing reforms to quota and voting share reforms at the IMF and MDBs.
2 G20 Financial Commitments to the International Financial Institutions

2.1 IMF

The G20 countries pledged a total of $750bn in increased financing to the IMF: with $250bn to be lent bilaterally from G20 member countries, $250bn to be raised through the “New Agreements to Borrow” (NAB) facility, and $250bn to be provided from the IMF’s SDR reserves. In addition, up to $6bn of concessional lending earmarked for low income countries will be financed over three years with previously planned IMF gold sales. Though the G20 and IMF highlight funds pledged by member countries meeting the target for new lending resources, the Bretton Woods Project (2009b) reports actually delivery of only $195bn.

Not all of the pledged money will necessarily make its way into circulation in the international financial system. The NAB funds, for instance, are, in essence, provisional lines of credit committed to the IMF, for the IMF’s discretionary use during times of financial fragility. The NAB has been activated only one time—for Brazil in 1998—since the facility’s creation following the 1995 Peso crisis. Over all facilities, the Bretton Woods Project (2009b) reports new IMF lending of only $173bn—much less than the $750bn headline figure.

In addition to additional pledged resources and new lending, the G20 framework dovetails with the IMF’s efforts to reshape its lending practices. The G20 indicated support for the IMF’s new Flexible Credit Line (FCL) for countries with “very strong fundamentals, policies, and track records of policy implementation.” On April 17, 2009, the IMF approved a $47bn credit line to Mexico—the largest funding arrangement in IMF history (IMF 2009d). Poland received a $20.5bn FCL on May 6, and Colombia received a $10.5bn FCL on May 11 (IMF 2009e, f).

The evaluation process for FCLs is part of broader IMF efforts at “modernizing” lending conditionalities, and complements directives from the G20 for the IMF to intensify monitoring and policy assessment as *ex ante* conditionalities for new lending discussed further in Section 3.2 below. The IMF explains that FCL “disbursements are neither phased nor conditioned on compliance with policy targets as in traditional IMF-supported programs;” only conditioned on sovereigns meeting “pre-set qualification criteria” (IMF 2009g). There is no indication that what constitutes these “criteria” or whether the IMF considers “strong fundamentals [and] policies” will change substantially to reflect the causal role of financial liberalization and other structural causes in what Bank of England economists have called the “Doom Loop” of boom-bust-bailout cycles (Alessandri and Haldane 2009). Conditions of the FCLs specify terms of $3\frac{1}{4}$ to 5 years.
2.2 MDBs

Though the IMF will take the lead role in lending to promote financial stabilization, the G20 committed an increase of $100bn in lending from the MDBs in the first year—supported in part by an increased capital base for the Asian Development Bank (ADB)—and a total increase of $300bn over three years. To date, the G20 has not specified how this new lending will be allocated across the MDBs, and the adequacy of capital levels for the other MDBs are currently under review (though no commitments have been made to increase their capital bases). It is believed that most of this increased financing will occur via IBRD lending to middle-income countries.

Independently from (though complementary with) G20 commitments, the MDBs have committed to increase support for trade finance. The International Finance Corporation (IFC) announced a new Global Trade Liquidity Pool that will provide $50bn in trade finance over three years; its goal is to crowd-in private sector trade finance through co-financing agreements and to increase existing trade finance from other MDBs to $250bn over two years. Four multinational private banks have agreed to participate in this trade finance facility: Standard Chartered Bank, Citibank, Commerzbank, and Rabobank (Bretton Woods Project 2009a). As of November, the G20 reports $65bn uptake of trade finance funding. The World Bank’s (2009) Global Development Finance report estimates that contributions to trade finance from the other MDBs will fall $12bn short of the $100bn target.

As with the IMF, not all new resources have translated to increased lending from the MDBs. The Uruguay-based NGO ITeM reports that although commitments to the International Development Association (IDA) increased $2.8bn to $14bn, disbursements remained level at $9.2bn—of which only $2.6bn was provided as grants (Romero 2009). Though aiming to “fast-track” $2bn of lending to IDA countries by front-loading up to half of country allocations, IDA delivered only only $990m by the end of the 2009 financial year (Bretton Woods Project 2009c).

Meanwhile, the IBRD will actually be increasing its loan pricing over the next three years.

3 G20 Operational Directives for the International Financial Institutions (IFIs)

3.1 IFIs are increasing leverage and engaging more with private capital

Beyond doubling-down on the international financial system with up to $850bn in new lending from the IFIs, the G20 agenda set out refined operational princi-
ples for the IFIs. Throughout their communiques and reports, the G20 repeatedly exhort the IMF and the MDBs to engage more directly with the private capital markets—to directly raise capital and to entice private capital with credit guarantees, bond insurance, and bridge financing.

The G20 raised the possibility for the IMF, if necessary, to borrow from private capital markets to meet financing demands in times of duress in the international financial system. Rather than having member countries borrow from private capital markets, the IMF would intermediate the funds between private lenders and crisis-threatened sovereign borrowers. By borrowing from capital markets and re-lending to sovereigns, the IMF would in essence insulate private investors from bearing the risk of sovereign default.

The G20 also encouraged MDBs to seek “full and exceptional” leveraging of their balance sheets to meet borrowing demands arising from the present crisis, and as a result most MDBs are considering or have begun increasingly leveraging their balance sheets to supply more finance (i.e., they will lend out more funds per a given unit of reserves). Specifically:

- the EBRD has approved increasing its “gearing ratio”;
- the AfDB approved an increase in its debt-to-usable-capital ratio in July 2009;
- the IDB has issued “temporary callable capital” in order to expand its balance sheet by $4bn;
- the ADB, though not approaching prudential minimums with its balance sheet, reallocated $400m of excess reserves to the Asian Development Fund, the long-term low interest fund available to the poorest borrowing countries.

Under the auspices of the World Bank’s “Vulnerability Framework,” the IFC has mobilized more than $10bn for initiatives in the private sector. The ADB has increased private sector lending by $2bn.

### 3.2 IFIs will intensify policy conditionalities

While expanding the availability of credit, the G20 also directed the IMF to step up surveillance of borrowing countries to ensure that lending effectively addresses “the underlying causes of countries’ balance of payment needs.” IMF surveillance entails monitoring of national, regional, and global economies to

5“Gearing ratio” measures the investor’s own-equity relative to borrowed funds; increasing the gearing ratio increases the banks leverage and risk.

6This means that member countries have committed more capital to the bank, without increasing the number of voting shares. On August 6, 2009, the IDB approved $4bn in callable capital from Canada.
assess the underlying forces—including institutional arrangements—of macroeconomic instability. At the country level, Financial Sector Assessment Program (FSAP) reports, conducted jointly with the World Bank, will be integrated more closely with the regular annual Article IV consultations on macroeconomic policy.

Increased surveillance and lending coincide with revised policies on lending conditionalities. IMF conditionalities will still include progress in implementing structural reform measures, although borrowing countries will no longer need to obtain waivers for failing to meet structural reform criteria. A greater emphasis will be placed on *ex ante* performance criteria conditionalities. In a recent study, the Center for Economic and Policy Research (Weisbrot, et. al. 2009) found that in 31 of 41 countries with current IMF agreements, conditionalities required pro-cyclical macroeconomic policies (overly restrictive monetary and fiscal policies) that would be expected to worsen the current economic slowdown.

4 Creation of the Financial Stability Board

In addition to committing resources and issuing directives to the IFIs, the G20 finance ministers and central bank governors also moved to institutionalize what was previously known as the Financial Stability Forum (FSF). The FSF began in 1999 as a “forum for cooperation” among G7 member country ministers and central bank governors on international financial matters. Reborn, formalized, and with expanded membership and enhanced capacity, the FSB has been tasked by G20 leaders, finance ministers, and central bank governors with identifying problems with and assessing the stability of the international financial system. Under this mandate, the FSB received several specific tasks for the near term:

1. evaluate compliance with policies and best practices for compensation of financial firm employees

2. with the IMF, report on “systemically important” financial institutions, i.e. those deemed “too big to fail” because their individual failure would threaten systemic instability,

3. with the IMF, conduct periodic macroprudential analyses and “Early Warning Exercises” (EWEs) to identify potential risks of financial instability

In addition to these functions, the G20 delegated to the FSB—and associated *ad hoc* working groups—most of the heavy lifting to develop proposals and policy recommendations for a number of key issues in prudential financial regulation. Though the G20 recognizes that present international financial instability is rooted in a “failure to regulate and supervise financial institutions effectively combined with weaknesses in internal risk management and control”
(G20 2009b), former IMF Chief Economist Simon Johnson characterizes the G20 approach as a “sophisticated delaying action” designed to water down proposals for reform while political will for reform recedes. Nonetheless, the FSB proposals will substantially affect the institutional structure and practices of the international financial system. International working groups, led and coordinated by the FSB, will develop recommendations for prudential regulations and international standards and best practices to address:

1. strengthened prudential regulations and standards for capital adequacy and risk management,

2. regulation of “too big to fail” financial institutions,

3. financial contingency plans and development of global (counter-cyclical) liquidity buffers,

4. an exit strategy from policies undertaken under the present episode of financial instability to limit moral hazard,

5. a cross-border bank resolution framework - by mid-2010, the Cross-Border Crisis Management (CBCM) Working Group should present a “contingency plan” for addressing extreme episodes of international financial instability,

6. with international standard setting bodies, coordination on taxation, accounting, corporate governance, and reporting standards, and,

7. international tax havens and non-cooperative jurisdictions.

Finally, the FSB has been tasked with orchestrating a series of “peer review” studies, with contributions from the IMF, the World Bank, and other relevant international institutions. Single-country peer reviews will examine regulatory and standards compliance, while thematic peer reviews will review specific issues in a multi-country context. These peer review are intended to be “candid” and “independent” reviews of member country economies and financial sectors and of the potential risks individual economies may pose to other countries’ economies.

The organizational structure and workings of the FSB remain opaque.
5 References


