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International financial institutions
in the 21st century



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Contents

	4	Preface by Sir Brian Unwin, President
		International financial institutions in the 21st century
	7	Introduction by Massimo Ponzellini, Vice-President
Christopher Hurst & Eric Perée	10	Only a mid-life crisis? The future for IFIs in an integrated world
Michael Klein	30	One hundred years after Bretton Woods: A future history of the World Bank Group
Jannik Lindbaek, Guy Pfeffermann & Neil Gregory	60	The evolving role of multilateral development banks: History and prospects
Jean-François Rischard	82	Multilateral development banks and global public networks: Speculations for the next century
Pasquale Scandizzo	90	The purpose, management and governance of IFIs: A case study of ambiguity
Nicholas Stern & Hans Peter Lankes	102	Making the most of markets: The role of IFIs
Joseph Stiglitz	116	IFIs and the provision of international public goods
	134	A discussion between Alfred Steinherr and Jacques Attali



Jean-François Rischard

Jean-François Rischard was recently appointed the World Bank Group's first Vice-President for Europe, to act as the institution's senior representative and spokesman in Europe and the manager of the Bank's network of European offices.

He joined the World Bank in 1975, serving as a Project Officer until 1982, when he moved into the financial policy and asset/liability management areas, becoming Division Chief in 1984. After spending three years as Senior Vice-President of the Wall Street investment bank Drexel Burnham Lambert, he returned to the World Bank in 1989 as the Director of the Investment Department, taking responsibility for the USD 25 billion liquid assets portfolio of the World Bank Group. In 1993, Mr. Rischard was promoted to Vice-President, Finance and Private Sector Development, and built up this new vice-presidency to serve the Bank and its clients through its specialised expertise in these areas. In 1997, he became Head of the Finance, Private Sector and Infrastructure Network, which regroups, besides the staff of his original vice-presidency, all of the staff who operate in those areas within the Bank's geographical vice-presidencies.

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Multilateral development banks and global public policy networks: Speculations for the next century

Jean-François Rischard

1. Introduction

The next 20 to 30 years will be a period of unprecedented and accelerating change as a result of two powerful forces - the advent of a radically different world economy, and the explosion of the world's population. As these forces are unleashed, the world's nation-states - weakened by their increasingly unhelpful territorial and hierarchical constructs - will struggle hard to keep up with changes. Sooner rather than later, new trans-national governance solutions will have to be implemented. One among several solutions is the adaptation, or even re-invention, of multilateral institutions to support global public policy in the 21st century.

2. Forces for change

Virtually all countries now embrace market-oriented policies. More than five billion people live in market economies today, as against only one billion a decade ago. Entrepreneurship and the private sector are widely recognised as *the* dynamic factors of growth.

What this means for developing countries is now clear: year after year, the IMF's *World Economic Outlook* shows that developing countries as a group grow two to three percentage points faster than the OECD economies. This means that there is a massive shift of growth and business opportunities towards the South and East. The group of new players with high growth rates is expanding beyond the original group of China and a few East Asian and Latin American countries. For example, Uganda scored a growth of nearly six percent last year.

The distribution of world markets is about to undergo a massive shift as well. To pick one example, in 2010, the Asian middle class - crudely defined as people matching Portugal's GDP per capita today - will embrace 750 million individuals. The current East Asian crisis, hard-hitting as it is, will not affect this trend.

The global economy is also being propelled by a powerful cluster of innovations - centred on low-cost telecommunications and information technology. These innovations cover every possible area of human activity, including biotechnology, robotics, high-performance materials and, of course, software. Even mundane transport has been revolutionised through containers, hub airports and overnight shipping systems.

Much is yet to come:

- Over the next 20 years, the cost of telecommunications may well drop to a point where we have a free commodity. In a study the World Bank recently sponsored, it was estimated that the cost of a one-hour transatlantic call would be three US cents by 2010.

- New data compression techniques, smart combinations of fibre and wireless communications and the global satellite schemes in the making will eliminate bandwidth constraints and knock connection costs down to a few US dollars per station in about a decade - with a dramatic increase in connectivity everywhere, even in the most remote areas.

Unlike earlier industrial revolutions, this information revolution is not about the transformation of energy and matter. It is about the transformation of *time and distance*. It is about information flowing faster and more generously throughout the planet, with the result that *knowledge* has become a more important production factor than labour, raw materials and capital. These powerful forces are leading to a major revolution in business practices and even in society itself.

As these forces combine, a *new world economy* is emerging at a breathtaking pace. It brings unbelievable opportunities for new markets, new products and new ways of doing things, and unprecedented catch-up opportunities to developing countries.

But this new world economy will also be stressful. All firms, all sectors, all countries - rich and poor - will have to compete. The traditional distinction between rich and poor countries will be overtaken by new distinctions: between fast and slow, and learning and static countries.

And as the new world economy develops, the world's population will move in three to four short decades from six billion people today toward an eventual peak of about 10 billion people. The urbanisation rate will shoot up to over one-half. Almost everywhere, globally, regionally and even locally, there will be environmental problems. Congestion will multiply. Food production will have to triple just as agricultural land frontiers disappear.

The challenge of the 21st century will be foremost one of growing complexity.

3. Struggling nation-states

Nation-states will be increasingly overwhelmed by the new world economy and will have no choice but to devolve power to others.

While complexity increases, nation-states and their central governmental systems will remain by and large organised like a pyramid, with information flowing up the hierarchy to increasingly overwhelmed leaders at the summit. Moreover, the civil service culture, little changed over the past hundred years, will continue to promote the best process managers up the hierarchy, rather than the best leaders.

These structures worked well in periods of slow change, but will come under stress as the rate of change accelerates. For example, it is increasingly hard to see how nation-state governments will be able to cope with the complex governance, taxation and regulatory issues posed by electronic commerce.

In other words, nation-states and their central government apparatus are and will be increasingly overwhelmed by the challenges posed by the new world economy and population growth. Adding to this stress, ageing populations and exploding pension fund liabilities will build up budget pressures to ominous levels for many central governments.

The beleaguered central government core of nation-states will have no choice but to devolve power to others: vertically, to supranational bodies and subnational entities such as provinces, states and municipalities; and horizontally to other players empowered by the information technology revolution, including the private sector, non-governmental organisations (NGOs) and other parts of civil society.

Under the traditional territorial construct of modern nation-states, the political system, the economic system and the environment are all superimposed. Powerful forces are now dragging these three factors apart. The new world economy is pulling the economic system outside the territorial boundary of the nation-state. Global and regional environmental problems are increasingly shifting control of the environment outside territorial boundaries. The result: an erosion of the sovereignty of the nation-state. This is one cause for malaise in the now *disconnected* political systems - with distrust almost everywhere of the capacity of the political leadership to cope with the great changes ahead.

4. Global public policy networks

A promising strategy differentiates between governance and government.

If public policy is to sustain the new world economy, preserve the environment and manage major risks rather than merely react to them, it must avoid the pitfalls of territoriality. Forming a world government would be one response, but such a solution is clearly unrealistic. And while it may transcend territorial boundaries, there is little reason to believe that a global government would be better equipped to deal with the technical complexities of public policy than its national counterparts.

A more promising strategy differentiates between *governance* and *government*. Elements of governance would be de-linked from their formal territorial foundation (the nation-state) and hierarchical structures (the government); global public policy issues could then be tackled more along functional lines and more proactively. Pursuing this idea, one could think of several complementary trans-national governance solutions. The following discusses four such tracks.

A first track is to replace the weak, reactive G-7/8 type of consultations with *Bretton Woods-style brainstorming sessions*. Through such venues, world leaders would identify and formulate strategy on issues of global concern.

But regular brainstorming venues alone cannot provide the continuous technical consultations needed to address global public policy issues. In addition to Bretton Woods-style sessions of top leadership, there is therefore a need for a second, complementary track: *trans-governmental networks*, that is, permanent channels of communication linking national bureaucracies to facilitate the open exchange of information. There are quite a few examples of such networks, but they are still in embryonic form. The financial crisis in Asia has alerted policy makers that such links are long overdue. But there should be no doubt that functional trans-governmental networking has to go far beyond global capital markets to cover a broad range of policy issues - among them, intellectual property rights, environmental degradation and taxation in the age of information.

Establishing trans-governmental networks would help nation-states to catch up with a private sector which is not territorially-bound. However, these networks will not be able to fully eliminate such

asymmetry. If these networks include only government players, they will continue to lack the dynamism, agility and knowledge base that characterise global economic networks. Such adaptive and intelligent systems can be achieved only if they seek the active participation of non-state actors, thus turning these trans-governmental networks into our third track: true *global public policy networks* - of government departments, the corporate community, non-governmental organisations and other interested civil society participants, such as foundations.

All these actors have a direct stake in the outcome of public policy. Equally important, their range of activity is not trapped by political boundaries. On the contrary, their legitimacy and success often come from their ability to cross territorial boundaries with ease.

To garner credibility, trust and eventually success, these networks must be grounded in an international legal context. The World Trade Organisation's dispute resolution mechanism comes to mind. However, here too change is under way, as the international community has begun to opt for non-binding international legal agreements. Not only are these agreements more flexible, they are also open to non-state parties, reflecting the mixed composition of actors in global public policy. Although these agreements are characterised as 'soft' international law, the empirical evidence suggests that compliance is quite high.

5. Re-inventing multilaterals

Multilateral institutions could play a leading role in nurturing global public policy networks.

The vision laid out above implies a considerable change in our understanding of multilateralism and leads to the fourth, highly complementary track: *re-inventing multilaterals*. The idea: multilateral institutions could play a leading role in nurturing the much-needed global public policy networks alluded to above. Let us illustrate this here with respect to one type of international financial institution (IFI): those involved in multilateral development finance.

First, these institutions could be charged with supporting the participation of developing countries in global public policy networks. This includes a focus on institution-building, the promotion of good governance, the widespread dissemination of information and the establishment of a knowledge base that permits all interested parties to contribute to the debate over a particular public policy issue.

Second, IFIs are in an ideal position to kick-start such policy networks. Unlike countries, private players and NGOs, these institutions do not represent particular interests. Instead, their mandate is to promote the deeper integration of the world economy and to ensure that this can be achieved on socially and environmentally sustainable terms. Thus, IFIs could well take the lead in identifying those public policy issues that require a global commitment. They could then provide an institutional umbrella for policy formulation by mediating between the various stakeholders involved. Lastly, they could assist in monitoring the application of global public policy and, if mandated, support its enforcement.

Based on these two roles, IFIs would need to evolve well beyond their original role as we enter into the next century. Think of IFIs as part of the fabric of the global public policy networks of the future. In that role, they would provide not just finance but three sets of essential services:

- **Global knowledge services.** The World Bank, like all the multilateral development banks, has vast experience and knowledge of a full range of development policies from fiscal stabilisation to the design of handpumps, from civil service reform to traffic management. It also has a reputation for providing high-quality, disinterested policy advice.

However, IFIs could improve knowledge dissemination, replacing the traditional, voluminous economic and sector reports (which are often outdated by the time they go to press) with short, timely, accessible articles on best practice or targeted topics of immediate interest and rapid referral to the relevant internal or external experts. The internet is a logical vehicle for this (1).

In addition to disseminating best practices, IFIs can do more to help individual governments implement country-tailored programs for institutional development. Light on reports and long on results, this involves helping countries obtain the help they need to reform their civil service, update legal/commercial frameworks (e.g., concessions for public-service provision, mechanisms for corporate governance and regulations) and improve such social services as education. The key is to establish governance mechanisms that are flexible enough to respond to shifts in the new world economy, and to equip developing countries to become active participants in global public policy networks.

- **Global partnership services.** Through their experience, multilateral development banks have developed credibility as 'honest brokers'. Simultaneously, they have developed strong working relationships with clients, NGOs and other stakeholders in public policy issues. These qualities position them to assume the role of convenors of partnerships and dispassionate trustees for the formulation and implementation of global public policy reforms beyond the purview of individual governments.

IFIs are already convening professional organisations and others to develop global technical standards or to pursue the resolution of key issues. The World Bank, for example, has partnered with the World Conservation Union to establish the Global Commission on Dams to set standards on the planning, design and operation of dams world-wide. It has developed an alliance with the World Wildlife Fund to promote the conservation and sustainable use of forests. It also manages the *infoDev* program to help developing countries realise the urgency of addressing the Year 2000 computer problem.

The role of trustee and partnership facilitator could be broadened to tackle the critical issues of world energy, food security and environmental degradation as well as specific initiatives such as improving corporate governance and banking supervision, controlling money laundering and other forms of corruption and stemming trade in nuclear and other dual-purpose technologies. By providing these platforms for debating, developing and implementing global public policy, IFIs are in a privileged position to kick-start and sustain individual global public policy networks.

- **Global financial services.** Multilateral development banks still have an important role to play in financing investment in developing and transition countries, or even in backward regions or sectors of more advanced countries. This role has been transformed in the past decade as foreign

1) See, for example, **Viewpoints** at <http://www.worldbank.org/html/fpd/notes/notelist.html>.

direct investment has risen eightfold, eclipsing official development assistance. But since this foreign investment has generally been concentrated in the wealthier developing and transition countries, these institutions' role as lender in the weaker countries remains. In re-invented multilateral development banks, loans and credits would focus on support for macroeconomic stabilisation, assistance with privatisation and handling post-privatisation issues, improving legal and commercial frameworks and direct investment as minority shareholders alongside private partners. These institutions' modified financing role is therefore linked closely to their role as policy advisers.

IFIs are limited in their ability to embark on ambitious reforms on their own. Their shareholders must take the lead.

However, as inter-governmental organisations, IFIs are limited in their ability to embark on such ambitious reforms on their own. Their shareholders - the member countries - must take the lead in proposing an international architecture that can respond to the demands of the new world economy and embrace the vision of global public policy networks. They should also reconsider the current division of labour among global and regional multilateral development banks, make their operations dovetail and re-think their links to other multilaterals and global players. One of the first Bretton Woods-style sessions alluded to above should be devoted to this.

6. Conclusion

Some are likely to reject an agenda as ambitious as the one laid out here. They might argue that the formation of global public policy networks transfers too much power to IFIs and undermines the sovereignty of nation-states. However, one must realise that nation-states have *already* lost sovereignty and that the establishment of global public policy networks is *a collective way to regain it*. This does not mean that local actors may not play an important role in enforcing and monitoring globally-agreed rules and standards. By ensuring that these networks are based on partnerships with civil society and the private sector, they provide practical meaning and guidance to the oft-quoted line: *Think globally, act locally*.

The basic role of these institutions in this agenda would change, but not their ultimate goal - reducing poverty. To the contrary, it is a recognition of the fact that despite all their efforts, this task remains a formidable one. But if IFIs join forces with others and focus on their comparative advantages, the new world economy offers a unique opportunity to bring us all closer together.

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