Critique and Alternatives to "Making the Global Financial System Work For All" (October 2018 report of the G20 Eminent Persons Group on Global Financial Governance)

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I. Summary and context of report by the G20 Eminent Persons Group on Global Financial Governance (hereafter EPG-GFG report or report)

G20 Finance Ministers and Central Bank Governors established the EPG-GFG in April 2017. The group was charged with three tasks: analyzing current and possible future challenges and opportunities confronting the global financial and monetary system and global financial governance; considering the role, performance, and relationship among key international financial institutions (IFIs) and their capacity to catalyze private capital flows and domestic resources; and recommending reforms aimed at improving the governance and functioning of the global financial and monetary architecture in the service of economic stability and sustainable growth and considering the role of the G20 in supporting these outcomes (G-20 2017).

The EPG-GFG report was released in October 2018. The report makes a bold and correct claim that reform of the global financial architecture (and the governance thereof) is both overdue and urgent. The report further (and correctly) argues that the need for fundamental reform is driven by several challenges. One challenge involves promoting economic and financial stability in a world that is becoming increasingly financially fragile and vulnerable to cross border spillovers. Other challenges include the need to secure vast financial resources to support economic, social, and human development; to make progress towards the sustainable development goals (SDGs); and to develop frameworks for the cooperation necessary to address complex problems in the global commons (involving, e.g., global pandemics, climate change, forced displacement of peoples, tax evasion, and cyber related risks). The ability to respond to these (and other) challenges is complicated by recent changes in the political and economic climate. We now confront a world in which the unipolar economic dominance of the US and Western-led multilateralism increasingly appear as vestiges of previous eras. At the same time, growing economic, political, and social divides in many wealthy economies have undermined the consensus around post WWII social compacts. The key headline messages of the report are that "there is no going back to the old multilateralism," and "our central challenge is to create a cooperative international order for a world that has changed irreversibly: one that is more multipolar and decentralized in decisions, yet more connected, and with challenges ahead that are much larger and more pressing than we have seen in decades" (G-20 EPG-GFG 2018, 4). The analysis and strategies outlined in the report are deeply deficient despite the appropriateness of the headline messages.

The report outlines 22 proposals (and numerous subsidiary proposals) across three broad areas. These involve (1) reforming the governance and functions of the IFIs to enhance their collaboration in ways that catalyze *new private capital flows* and domestic resources to respond to development challenges; (2) harnessing the opportunities presented by interconnected financial markets to promote economic stability and sustainable growth; and (3) developing a new global financial and monetary architecture (involving the IFIs and other actors such as the Bank for International Settlements, BIS, and the Financial Stability Board, FSB) that works together as a *coherent, integrated system* to maximize development impact and economic stability.

The arguments and proposals advanced in the report are simultaneously quite radical *and* unsurprising. The report advances a radical case for changing the business model of the multilateral development banks, MDBs; reorienting development finance around private flows (especially those that are securitized); and increasing systemic coherence. The unsurprising nature of the report stems from the fact that several of its key thrusts (especially the emphasis on private financial flows) extend directions that the legacy IFIs, especially the World Bank under former President Jim Yong Kim's leadership, have been moving with limited success since 2015 and which the G20 has been actively promoting since 2014.[1] This is perhaps to be expected in the current climate. The Trump administration and leaders of several European countries have little appetite for scaling up financial support for the IFIs with public resources. Indeed, US Treasury Secretary Steven Mnuchin previously argued for reductions in US support for MDBs and US National Secretary Advisor John Bolton earlier advocated that the IMF be shut down and MDBs privatized (Callaghan 2017). As of this writing, the US administration has put forward David Malpass, long a critic of the World Bank and of multilateral institutions, to lead the bank.

II. Critical Analysis of EPG-GFG Report

The report advances some useful ideas. Most useful are its calls to create a standing IMF liquidity facility to offer temporary liquidity support; to build out the IMF's "Institutional View" on the control of international capital movements; to deepen and stress test the global financial safety net, identify developments that increase risk levels, and create mechanisms to analyze policy spillover effects for both sending and receiving countries; and to modernize IFI governance. Notwithstanding these points the report is marked by a number of deficiencies in relation to the challenges it seeks to address. Moreover, moving forward with some of the proposals advanced in the report is very likely to induce new or aggravate existing challenges for developing countries and could threaten progress on some of the SDGs. In what follows I outline key concerns with the report.

1. The report emphasizes the importance of expanding existing and developing new strategies that mobilize public resources (such as taxes, pensions, user fees, and official development assistance) to leverage and crowd in large new and heretofore untapped pools of private investment, especially in relation to the financing of social and economic infrastructure. More generally the report emphasizes the role of private financial flows as a source of development and SDG finance (including in relation to the global commons).[2] Indeed, the report sees

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[1] The World Bank's decided turn away from the view that public investment is central to development and its emphasis on private and securitized development finance was among the most important and problematic legacies of Kim's leadership. This emphasis is clear in a range of recent World Bank initiatives, such as the program for "Maximizing Finance for Development," "Cascade Approach," "Billions to Trillions," and the promotion of blended finance, public private partnerships (PPPs), and the private participation in infrastructure database. Note that (unless otherwise indicated) World Bank refers to the World Bank Group.
[2] The emphasis on the transformative role of private financial flows has become an article of faith in many quarters beyond the G20 EPG-GFG. Two major multilateral agreements in 2015—the Addis Ababa Action Agenda (AAAA) and the Paris Climate Agreement "were all premised on private financing" (Kwame Sundaram and Chowdhury 2019). The AAAA claimed that private capital has "the potential for scaling up to achieve the

private flows as the main source of finance to address these challenges. At the same time the report pays scant attention to increasing and improving the quality of public investment in relation to these challenges.

There is little in the way of empirical evidence to support the arguments around the vast developmental potential of private financial flows and the use of public resources to leverage and crowd in private investment. Indeed, the opposite is true: there is abundant empirical evidence that domestic public finance has long played the central role in financing infrastructure. This is unsurprising since infrastructure necessarily has a long maturity profile and is not attractive from the perspective of private investors because of its high risks and relatively low economic returns (especially in relation to the opportunities available to investors in other realms). There are extremely limited opportunities for purely commercial infrastructure projects and most necessarily require significant public investment (Griffiths and Romero 2018). The case for private financing in relation to the global commons is similarly without merit.

There is unambiguous evidence that private investors have demonstrated little appetite for infrastructure investment despite a panoply of initiatives by the World Bank, G20, and national governments. Public incentives aimed at encouraging private investment in infrastructure over the last several years (e.g., through subsidies and risk guarantees) and efforts to marry public and private resources (through PPPs and blended finance) have failed to unlock massive pools of private capital. In fact infrastructure with private participation has been falling markedly in recent years--in 2012 private participation in infrastructure was valued at US$210.6B, in 2013 was US$155B, in 2014 was US$165.8B, in 2015 was $US117.8B, and in 2016 fell to US$76B (Lee 2017, 8).

Public programs to catalyze or crowd in private investment in infrastructure (and other projects) have proven costly in numerous respects. Subsidies and risk guarantees to private investors use scarce resources of MDBs and/or host governments. In many cases the public sector and host government have often perversely assumed the risks that should be borne by private investors in infrastructure when projects go off track, even though returns remain in private hands (Griffiths and Romero 2018). And even the World Bank has acknowledged that despite its efforts PPPs have attracted very little private investment, and when they did the risks of development projects were borne by the bank and host country governments (IEG of the World Bank 2014). PPPs in infrastructure have undermined transparency and public accountability since they frequently appear as "off book" transactions. Infrastructure by its nature needs to be broadly accessible. But accessible and inclusive infrastructure may conflict with the objectives of private investors who seek to recover up front investment costs through user and other fees. Blended finance introduces additional opportunity costs. It is increasingly being used as aid, which typically favors private partners from donor countries (while being driven by profit rather than public interest)(Economist 2016).

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demands of the SDGs" and this was reflected in its promotion of PPPs and blended finance arrangements (ibid.). The Agenda 2030 Reflection Group criticized this premise and argued for public financing instead (ibid.).

Private participation in infrastructure is not only extremely low, but it is also highly concentrated geographically and sectorally. It clusters in commercially attractive sectors and in countries that are more likely to offer what is termed "bankable" opportunities (which are rarely low income countries, LICs) (Tyson 2018, 11).[3] Middle income countries (MICs) have received an estimated 98% of all private infrastructure financing between 2008 and 2017, and of this 63% went to upper MICs (ibid.) LICs, which have the greatest need for infrastructure development, have received less than 2% of total private investment financing for infrastructure in the last decade (ibid., 12.). From 2011-15 International Development Association countries received less than 4% of the value of infrastructure projects in developing countries with private investment (Lee 2017, 7). Private financing for infrastructure has also been heavily concentrated in certain sectors. Energy/information and communications/technology received 37% and 30% of total funding flows, respectively, between 2008 and 2017 (Tyson 2018, 11). Water and sanitation only received 7% of total private financing in the decade to 2017 (ibid., p. 12). This is a particular concern in those countries experiencing urbanization, most notably LICs (which have difficulty attracting private finance) (ibid.). Much the same can be said of roads in developing countries, where private investors have been far less active than in other areas. There have been three times more PPPs in the power sector than in the transportation sector. In fact, private investment in roads has been declining to a 10 year low and is highly concentrated in MICs. In LICs fewer than 1% of all road projects involve private participation (Pulido 2018).

A final concern about reorienting development finance around international flows of private capital is that it is highly volatile and pro-cyclical. The optimism around private capital that marks the EPG-GFG report (the World Bank, and others) likely reflects the conditions of the global financial crisis when the "search for yield" drove international capital flows into developing country markets. In the unique environment of 2008-14 private funding to infrastructure averaged $150 billion a year (Tyson 2018, 12). Since monetary policy in wealthy economies (and especially in the US) "normalized"[4] in 2014 investors have turned away from developing country markets (including infrastructure, which halved to an average of just US$75 billion annually (Tyson 2018, 12).

2. The report emphasizes not only the necessity of unlocking private capital to support individual development projects, but also and more importantly the need to unlock large pools of capital amassed by institutional investors (e.g., mutual funds, pensions funds, and life insurance companies). It is understood that this goal can be accomplished by creating "portfolios," that is, project bundles in which the future revenue streams of underlying projects are securitized. These bundles can then be bought and sold on global capital markets

[3] Tyson (2018) presents a wealth of data that should cast doubt on the EPG-GFG's faith in private capital. Nevertheless and oddly she advances an unambiguous case for the essential role of private financial flows in infrastructure finance. I thank Daniel Rinner for this point. Tyson strongly endorses the need for syndication and securitization and use of "mega funds" to crowd in institutional investors, and the need to reorient the IFIs business models to focus on early stage financing, project development, and development of "originate to distribute" models (e.g., see p. 8).
[4] In March 2019 the ECB moved away from normalization when it announced a return to expansionary policy.

by institutional investors. This financial innovation would make infrastructure an "asset class" that the EPG-GFG sees as potentially attractive to institutional investors. The arguments around bundling and institutional investors intensify the process of the financialization and securitization of development finance that is already underway.

The OECD estimates that institutional investors in member countries hold estimated global assets of US$92.6T (Lee 2017, 8).[5] Given the vast size of this asset pool it is not surprising that the EPG-GFG (and other sources) place so much emphasis on capturing even a modest portion of this resource for development finance. As a recent report notes, "investment of only 1% of those funds in developing country infrastructure would go a long way" (ibid.). Estimates of the resources of institutional investors in developing countries are harder to come by. But one study reports that African pension funds hold an estimated US$350B in assets, and goes on to note that with the exception of Kenya and South Africa these resources are not invested on the continent (ibid.).

Securitized instruments were at the heart of the global financial crisis. This alone is sufficient reason to reject the arguments advanced by the EPG-GFG about their developmental potential. As the global crisis made clear, securitized assets—even when they involve assets bundled in the highly developed financial markets of the USA—introduce severe fragility to the financial system. They also pose profound challenges of transparency that frustrate assessments of the true risks of the assets in securitized instruments. And the bailouts that inevitably follow the explosion of these bundles have perverse distributional outcomes since they usually result in the socialization of private risk. All of these are problems that developing countries can ill afford.

In the broadest terms, the report furthers the financialization and securitization of development. Daniela Gabor has argued that these processes are unfolding in a number of ways. These include (but are not limited to) making infrastructure an asset class; creating liquid assets (i.e., revenue flows) out of currently illiquid assets; transforming the basic business model of the MDBs and systematizing it across institutions (as discussed in point 4 below); promoting "shadow banking" to create investment opportunities in economic and social infrastructure; promoting the privatization of public services (by normalizing the idea that public goods such as education, water, and health care can be provided by private investors); and reengineering developing country economies around open, liquid capital markets that are attractive to global investors (Gabor 2018c, b, a). All of these undermine resilience; expose developing countries to the global financial cycle; and increase the risk of financial crisis and raise the specter of constraints on policy autonomy (ibid.).[6]

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[5] By comparison the World Bank Group's assets are US$491B, compared to US$957B in assets held by Goldman Sachs or the US$2.3T in assets of the China Development Bank (Kenney 2019). Net financial flows to LICs and MICs from all sources were US$773B in 2016, compared to about US$15B from the World Bank Group (ibid.)

[6] The financialization of development and even foreign aid is apparent in other ways as well. For example, in 2017 the Bank sold its first pandemic bonds, raising $320M from private investors in a deal that was seen to help developing countries facing serious outbreaks of infectious diseases. Former Bank president Kim said they were a way of "leveraging our capital market expertise" …"to serve the world's poorest people." The

3. The report calls for the development of core standards and the standardization of transaction and contract platforms to facilitate securitization and the development of infrastructure as an asset class.

The report emphasizes the importance of developing core standards and standardized transaction and contract platforms. It also calls for risk exposures to be standardized and pooled across the MDB system into securitization or fund structures that enable easier investor access. This standardization is seen to facilitate "adoption of common core standards to ensure sustained development impact and lower the cost of working with a range of partners"(G-20 EPG-GFG 2018, 35). These core standards could relate to debt sustainability; environmental, social, and governance standards; and coherent pricing policies, local capacity building, procurement, transparency, and anti corruption (Alexander and Rowden 2018, 3).

The proposals for core standards and the standardization of risk exposures emphasize protections for investors (Alexander and Rowden 2018, 9). It is unclear how these core standards would be established (ibid., p. 3). Moreover, the call for standardization is not accompanied by meaningful social and environmental benchmarks that might raise the needle on social and environmental sustainability. In remarks to stakeholders the chair of the EPG-GFG raised the specter of downward pressure on standards. He emphasized the need for flexibility in implementation of new common core standards noting that "not all countries are Denmark" (Alexander and Rowden 2018, 3). It bears mention that the call for flexibility in standards (which in other contexts is desirable) sits uneasily against the report's emphasis on standardization and coherence.

Securitization complicates the issue of safeguards. It is unclear as to whether the environmental and social safeguards attached to individual loans made or co-financed by MDBs will fade away once these loans are bundled as securities and actively traded (Alexander and Rowden 2018, 5). Will host country governments and civil society actors even know whether the new holders of the debt and equity are responsible for enforcing the environmental and social safeguards associated with the underlying projects (ibid., pp. 1-2).

4. Standardization is a feature of the report's boldest call, which involves rethinking the basic "business model" of the MDBs away from direct lending and toward risk mitigation.

The most striking proposal in the report involves standardizing the transactional approaches of the MDBs. MDBs would move from their traditional (and central) role in the

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Democratic Republic of Congo experienced a severe Ebola attack a year after the first pandemic bonds were sold. But the bonds have yet to pay out a penny because the bond included a requirement that a disease must spread across an international border before an affected nation receives a payout (and this has not occurred) (Allen 2019). Other bonds in this vein include vaccine bonds and catastrophe bonds. There is a general trend of replacing disaster aid with private finance (Ralph 2018).

provision of direct lending to a new role in risk mitigation aimed at mobilizing and crowding in private investment. In this new role the MDBs would standardize contractual provisions for PPPs, develop system wide political risk insurance, and expand the use of private reinsurance models. It is reasonable to assume that the SDGs and environmental or social safeguards would become secondary were the MDBs to adopt a business model centered on risk mitigation (Alexander and Rowden 2018, 4).

Even if one accepts the EPG-GFG's case for reorienting the MDBs in the direction of engaging institutional investors it is worth noting that the World Bank and the G20 have been trying to do precisely this for several years. But the participation of institutional investors in new infrastructure investment remains very low—a recent study by the World Bank finds that institutional investors account for only 0.7% of total private participation in infrastructure investment in developing countries (World Bank 2017). And given that private investment in infrastructure has fallen in recent years, there is reason to be skeptical that new efforts along these lines will catalyze new resources (Griffiths and Romero 2018).

Undaunted by empirics, the EPG-GFG (the World Bank, and other actors) continue to try to find ways to overcome the reticence that private investors have when it comes to infrastructure and other development finance. This has led to discussions of "de-risking" investment, a term that both applies to securitized infrastructure bundles and to the investment environment. De-risking involves a greater scope for a variety of public guarantees, insurance programs, and other mechanisms that provide the opportunity to shift risk from the private to the public sector, often in ways that are non transparent and compromise public accountability (Alexander and Rowden 2018, 1-2).

De-risking should more accurately be referred to as "risk shifting." Notably, private investors seem to have little engagement with the risk shifting instruments already offered by the MDBs. A survey by the World Economic Forum of 40 major infrastructure actors shows a lack of enthusiasm for risk sharing tools—fewer than 20% perceive the risk mitigation tools deployed by MDBs as successful for both public and private partners in infrastructure projects (Lee 2017, 13). Thus the expansion of such instruments is not likely to bear fruit, especially in what are seen as the riskiest environments (namely, LICs). And were risk shifting to work as the EPG-GFG envisions the outcome might be that a greater number of ever bigger "mega projects" receive financing. But there is no sense is which this would improve the quality, inclusiveness, or the environmental or social footprint of the projects that are financed.

5. The report is guided by a common, incorrect understanding of the role of infrastructure in development.[7]

Infrastructure is quite obviously essential for economic growth, development, structural transformation, and human welfare. There is something of a cottage industry focused on

[7] See UNCTAD (2018, chap. IV) for a thorough discussion of infrastructure in development and structural transformation.

estimating the size of the "infrastructure finance gap." UNCTAD (2018, 115-6) estimates that for developing countries infrastructure investment needs are in the range of US$1.6T to US$2.5T per year between 2015 and 2030, against current actual investment of $870B. Estimates for the cost of low carbon infrastructure range are in the range of US$7 billion per year. Even if private finance were to expand in the coming years there is no reason (as discussed above) to assume that public flows will become less important in the financing of infrastructure.

What UNCTAD terms the dominant "financing gap narrative" (which underpins the EPG-GFG report, World Bank efforts, etc.) is premised on several unhelpful assumptions, particularly the immutability of national constraints on public finance and the ability to "unlock" private capital (that would otherwise be invested in other projects) and steer it toward infrastructure. The idea of "bankability" (i.e., assuring the repayment of loans taken for infrastructure projects) is also central to the dominant narrative on infrastructure. Bankability focuses primarily on financial viability and the business environment rather than on broader strategic objectives, structural transformation, and spillovers.

Drawing on the seminal work of Albert Hirschman, UNCTAD argues that policymakers should first articulate a diversified, unbalanced growth and development strategy, and then examine the type of infrastructure needed to support the strategy and how best to secure financial support for it. To the extent that private finance has a role to play in supporting the strategy (and it does) it is to be crowded in as part of an unbalanced, holistic, and thoughtful development strategy that involves significant public investment in infrastructure and which generate the kinds of backward and forward linkages that are key to structural transformation. Hirschman also argued that the knowledge and even the failures associated with such endeavors could have side effects that were valuable in subsequent efforts (Grabel 2017, chap. 2). Hirschman describes large-scale infrastructure planning as "a matter of faith in the development potential of a country or region" rather than something that autonomously arises when an infrastructure finance gap is identified and then addressed through a singular set of incentives aimed at stimulating private investment (Hirschman 1969[1958], 84). Hirschman saw the tendency to locate what is anointed as the latest "essential obstacle to development" as a particular pathology of development economics (Hirschman 1965, see Grabel 2017, chap. 2). At the present time infrastructure and the financing thereof play precisely this role in development discourse {Grabel, 2017 #1930}. For Hirschman, the success of infrastructure programs and indeed the success of development efforts more broadly are inexplicably linked to problem solving (as given in his idea of the "Hiding Hand"), experimentation under conditions of uncertainty, learning by doing and from others, and the right of developing countries to chart their own paths.

6. The report contributes to a narrative around an "infrastructure arms race." The outcome of the race to finance infrastructure (given present strategies) is not likely to be development, structural transformation, and progress on the SDGs. Rather the outcome is more more likely to be unsustainable debt levels and the degradation of environmental and social standards.

The race to fill the infrastructure finance gap is, in some senses akin to the "space race" of the 1960s—all bets are off and there is competition among great powers to the finish line. The emphasis on tapping the vast resources of institutional investors in the global north may be partly driven by the EPG-GFG's recognition that without these resources there will be no way to compete effectively with the Chinese-led model of development finance (Alexander and Rowden 2018, 9, Gabor 2018b). Competition between Chinese and Western-led institutions (and also with BRICS-led institutions, regional, subregional, and national institutions in the global south and east) may mean that environmental, social, and transparency standards are lowered as infrastructure finance increasingly becomes a diplomatic tool. In addition, national and regional mega projects through the regional platforms envisioned by the EPG-GFG or those that are a part of China's Belt and Road initiative raise concerns about debt sustainability, control over national resources, environmental and social standards, and the prioritization of infrastructure construction over other economic and social aims. Moreover, the infrastructure arms race could overtake the more urgent race to meet the sustainable development and climate goals (Alexander and Rowden 2018, 10)

7. In addition to transforming the business model of the MDBs, the report advances the case for another architectural transformation. This involves making the global financial architecture more coherent, streamlined, coordinated, collaborative, and integrated. The goal is a system that can "be governed as a system" in which the whole of the system is greater than the sum of its parts.

The call for a more integrated system involves involves several changes. The report envisions an ambitious role for the G20 as a site for developing forward thinking on global financial governance and operationalizing many of the proposals in the report in conjunction with other other actors, such as the IFIs, FSB, BIS, and representatives of key (but unspecified) non-G20 constituencies.

The report calls for establishment of new country and regional platforms that would coordinate and encourage collaboration among development finance institutions (which includes the MDBs and bilateral donor agencies) to promote the collective financing of development. While coordination and collaboration of institutions is of obvious benefit we should be aware that there is a real risk that developing country agency may be challenged by large, increasingly coordinated actors (Alexander and Rowden 2018, 3). In this sense the call for greater coherence raises the specter of power disparities, the potential for group think, the reduction in opportunities for forum shopping, and the elimination of competitive pressures on BWIs. On this matter, see Grabel (2017) on the benefits of "productive incoherence" in global financial governance and developmental finance. It also appears from the EPG-GFG report that the UN (which is more inclusive and often offers a perspective that is quite different from that of the G-20, FSB, BIS, and IFIs) could be subordinated to more powerful institutions and confined to roles in fragile and conflict-affected states (Alexander and Rowden 2018).

The report calls for each MDB to undertake fundamental governance reforms to streamline decisions within a more integrated system. Specifically, it proposes that MDBs abolish the traditional role for their Executive Boards in voting on individual loan operations and devolve such operational responsibilities to Management. Interestingly this moves in the direction of the governance structure of the Asian Infrastructure Investment Bank (Alexander and Rowden 2018). Executive Boards at the IFIs do reduce institutional agility and use far too many resources. But it is conceivable that some degree of accountability and transparency may be lost if this change is made.

There is one sentence at the end of the report that calls for welcome governance reforms at the IFIs that involve implementation of an open, merit based leadership selection process. There is nothing said regarding increasing the voice and vote of developing countries at these institutions.

7. The report calls for strategies that secure the benefits of interconnected financial markets.

The report in general terms calls upon the IMF to extend its "Institutional View" on the management of international capital flows to enable receiving countries to benefit from capital flows while managing their risks. There is nevertheless a troubling presumption that the ultimate long-term goal is capital flow liberalization, though to be fair the report is clear that developing countries should pursue this long term goal "at a pace that enables them to preserve financial stability" (G-20 EPG-GFG 2018, 55). The report is inflected with the more nuanced view of capital controls that emerged at the IMF and in the neoclassical heart of the economics profession during the global crisis[8] (Grabel 2017, chap. 7). It would nevertheless be appropriate for the report to evidence more clarity and less equivocation on the matter of capital controls.

The report calls on the IMF (in conjunction with national authorities and the BIS) to develop a policy framework for sending countries that enables them to achieve their domestic objectives while avoiding large international spillovers from their policies. Emphasis on the development of policy thinking that incorporates the needs of both sending and recipient countries is welcome as is the discussion of the bilateral aspects of policy spillovers. The report calls for analyses of spillovers to be integrated into Article IV consultations of key systemic countries.

As part of the coherence agenda that the report advances it calls for integrating the surveillance efforts of IMF, FSB, and BIS (with input from national authorities) through a variety of means, most notably by creating a "global risk map." The risk map would expand the existing early warning system and stitch together the various layers of the global financial safety net, including regional and trans-regional liquidity support arrangements with the goal of creating scale, predictability, and consistent actions during a crisis. Interestingly the report calls for the systematic incorporation of contrarian views in risk surveillance through incorporation of views from the non-official sector; however, nothing is said about how this would happen. Surely it is important to increase cooperation among a wide set of players and to negotiate the rules of engagement among institutions that are part of the global safety net. This has in fact been happening in the last several years

[8] Though note that the EPG-GFG report does not use the term capital controls.

(Grabel 2017, chaps. 6). But the report raises concerns about something that goes much further, which might involve the concentration of influence and the centralization of analysis capabilities. Moreover, reducing fragmentation in the global financial architecture may not actually result in better outcomes from the perspective of development, financial resilience, and policy autonomy (Grabel 2017, chap. 6)

The report calls for shoring up the IMF's resources and creating a standing IMF Liquidity Facility to give countries timely access to temporary support during global shocks. These proposals are welcome. In this connection we note that the report does not discuss qualification criteria or conditionality in relation to this lending facility. Nor does it take note of the difficulties that the IMF has had in finding a modality for precautionary support instruments during the global crisis. It is troubling that the report calls for the qualification criteria that the IMF develops to be used by regional financial arrangements. This is objectionable and undesirable. Some regional arrangements, such as the Latin American Reserve Fund, have long used their own qualification criteria and have a sterling repayment record (Grabel 2017, chap. 6).

III. Alternatives to the EPG-GFG proposals

In what follows I outline directions for incremental and systemic change that would speak more directly to some of the challenges articulated in the EPG-GFG report.[9]

1. Sovereign debt restructuring

Over the last several decades there has been discussion of the need for a sovereign debt restructuring mechanism (SDRM). It is surprising that this matter is not raised in the EPG-GFG report. The Eurozone crisis underscores the continued salience of this void in the global financial architecture. The high levels of sovereign debt that prevail today may well mean that the consequences of failing to address this matter are realized sooner rather than later.

2. Expanded policy space for capital controls

The IMF's Institutional View should be clarified and made less equivocal in ways that maximize policy space around this instrument. A more expansive Institutional View should be informed by the following considerations:

> [H]istorical and recent experience indicates that capital controls on inflows and outflows should be thought of not as a last resort but rather as a permanent and

[9] See UNCTAD (2018, 121-6) for discussion of the conceptual components of an infrastructure strategy and a brief review of relevant country experiences. In addition to the discussion of infrastructure in development (see point 5 above), UNCTAD makes several observations that have important policy implications. These are as follows: public investment can crowd in private investment, fiscal space and borrowing limits are not fixed, and governments can increase revenues and central banks can channel resources to support public investment.

> dynamic part of a broader prudential, countercyclical toolkit to be deployed as internal and external conditions warrant, and that there are circumstances where controls may need to be blunt, comprehensive, significant, lasting, and discriminatory rather than modest, narrowly targeted, and temporary. Any governance regime that seeks to develop a framework for capital controls should err on the side of generality, flexibility, and permissiveness; should involve and promote cooperation by both capital source and recipient countries; and should embody an evenhanded acknowledgment that monetary policies, like capital controls, have positive and negative global spillover effects that necessitate some type of burden sharing (Grabel 2017, 226).

Moreover, it should be recognized that capital controls could enhance democracy, state capacity, and national policy autonomy. Using the language of Albert Hirschman's conceptions of exit and voice:

> [C]apital controls can to some degree rebalance political voice by limiting the entrance and exit options available to the holders of capital. As the 2016 release of the "Panama Papers" makes clear, massive offshore money holdings facilitate tax avoidance by the world's super-rich, a practice that both deprives states of badly needed tax revenues and enhances the political voice of investors vis-à-vis states and less wealthy groups within national economies (Grabel 2017, 227-28).

3. Voice and vote of developing countries at the BWIs

In addition to transforming the leadership selection process at the BWIs (as per the EPG-GFG report), steps should be taken to increase the voice and vote of developing countries at the BWIs that go well beyond the extraordinarily modest changes associated with the 2010 IMF Quota and Governance Reform Agreement.

4. A framework for the analysis and discussion of spillovers and risks

The discussion of spillover effects in the EPG-GFG report is welcome. However, the process by which spillover analysis would take place is rather thinly and unsatisfactorily specified. The framework for spillover analysis suggested by Raghuram Rajan is worth serious consideration (Rajan 2016b, 2016a). Grabel (2017, 227) describes Rajan's proposal in the following terms:

> He calls on the IMF (and possibly the G-20 and BIS) to develop a system for assessing the net effects of policy spillovers, in which spillovers would be graded on a color-coded traffic light type of system. "Green-rated" policies are those that are beneficial to domestic and foreign economies, have few adverse spillovers, or only have temporary negative spillover effects on foreign economies. "Orange" are those policies that should be used only temporarily and only with care. In contrast, "red" policies are those that should be avoided at all times because they are likely to have significant adverse spillover effects on foreign economies (even if they have small positive effects on the domestic economy) (Rajan 2016a; 2016b). For reasons of

expediency, a group of globally representative "eminent academics" (appointed by the IMF, G-20, and/or BIS) would measure, analyze, and grade policies in terms of their spillover effects. The next step would involve discussions within international organizations (such as the IMF Executive Board and the BIS) that would be based on background papers on spillovers prepared by the IMF, academics, and central banks in emerging market and developing economies. Following these discussions, policymakers would be asked to defend their policy choices when they are deemed to have spillover effects that are sufficiently detrimental so as to be graded red. Rajan notes that it would be necessary to consider how and if consideration of international spillovers aligns with the domestic mandates of individual central banks. He also observes that his approach might necessitate either a new international agreement or, at the very least, a change in the IMF's Articles of Agreement. There will clearly need to be a renewed attention to policy spillovers in 2019 and beyond if EMDEs, as expected, continue to experience fallout from a strengthening dollar and tightening U.S. monetary policy (or more generalized volatility in U.S. markets).

Rajan's proposal would be improved through the incorporation of representatives of liquidity support institutions based in the global south and east. In addition, the role of the BWIs in new types of spillover analyses is predicated on the modernization of leadership selection process and voice and vote reforms.

The EPG-GFG puts forth a proposal for the development of risk maps. This is a useful idea in a general sense. However, the inherent limitations of such an exercise must be recognized, along with the false confidence that can be provided by such endeavors. Risks can never be fully measured in a world of uncertainty. Moreover, risk maps--of any sort--cannot obviate the ineluctable risks associated with transformations in the business model of the MDBs as envisioned by the EPG-GFG report. Finally, any effort to develop risk maps must involve a broad range of actors holding a broad range of views.

5. Temporary liquidity facility

Qualification criteria for support from an IMF liquidity facility should not be a vehicle for constraints on national policy space and diversity. Liquidity support facilities based in the global south and east should not be obligated to utilize IMF qualification criteria or conditionality when making decisions about disbursements or when participating in co-financing arrangements.[10]

6. *Fragmentation of the global safety net*

It is important that networks among institutions in the global safety net continue to deepen

[10] Note that members of some liquidity support arrangements based in the global south and east have to this point opted to import IMF surveillance under certain circumstances (e.g. this is the case in the Contingent Reserve Arrangement of the BRICS and the Chiang Mai Initiative Multilateralsation (see Grabel 2017, chap. 6).

and, in doing so, provide an opportunity for knowledge sharing, cooperation, and backstopping of resources in the event of large scale or coterminous crises. But this is different from a coherence approach that seeks to reduce fragmentation and that involves streamlining *under* the Western based IFIs. The merits of fragmentation and incoherence should be acknowledged, even as efforts to facilitate communication and develop rules of engagement among institutions are negotiated prior to a crisis (Grabel 2017, chap. 6).

7*. Securitization, risk shifting, the enduring importance of public finance for development, and the traditional role of the BWIs*

To the extent that securitization of infrastructure loans is underway (with more on the horizon) it is essential that the development of core standards proceed in a transparent fashion that makes potential burdens clear to host governments, taxpayers, and vulnerable groups. It is also crucial that core standards offer minimal (rather than maximal) investor protections; offer protections to the public sector and vulnerable groups (e.g., in connection with budgetary implications, policy space, and access); involve developing country officials and civil society groups in the articulation of core standards; and that standards raise rather than lower environmental and social protections.

Securitization of infrastructure and other development loans should be approached with the utmost caution. Moreover, the private sector should only be relied upon in connection with infrastructure and other development loans when it can be shown that this serves the public good (Gabor 2018c). And as per Gabor (2018c), the securitizations of development related loans by MDBs should only move forward after the institutions develop a credible framework for project selection that is aligned with the SDGs, the Paris Agreement, and with efforts to manage volatile portfolio flows into local securities markets and create a resilient global safety net.

It must be underscored that international and domestic public finance is essential for infrastructure and other development projects. The IFIs should not radically transform their basic business model as envisioned by the EPG-GFG. And despite the inward political turn that marks sentiment in many wealthy countries, actors in the global development community should continue to articulate a case for the necessity of well-resourced IFIs that play their traditional role.

8. Local currency lending

MDBs should develop mechanisms that enable them to lend in local currencies. This would run parallel to similar efforts already underway in some institutions in the global south and east, such as those by the New Development Bank of the BRICS.

9. Domestic resource mobilization and global tax governance

The EPG-GFG report mentions in passing the need to address tax evasion, illicit financial flows, and money laundering. Addressing these issues (especially the former) and the taxation of multinational corporations (MNCs) has an essential role to play in domestic recourse mobilization. Tax evasion and the taxation of MNCs are being examined in two principal bodies, the OECD/G20 Base Erosion and Profit Shifting Project and the Independent Commission for the Reform of International Corporate Taxation (ICRICT, hereafter the commission).[11] The commission, chaired by José Antonio Ocampo, is a civil society organization seeking to identify and advocate for measures to improve global tax governance. It had it first meeting in 2015. To date its main tangible outcome is the creation of a body inside the UN to address tax reform, the UN Committee of Experts on International Cooperation in Tax Matters.

According to a January 2019 ICRICT report, revenue losses due to tax avoidance in developing countries are estimated at around 1 percent of GDP; and presently, in almost 30 of the 75 poorest countries in the world, tax revenues are below the 15 per cent threshold required to provide basic services, such as better road infrastructure, health care and public safety (ICRICT 2019, 4). The ICRICT report notes that "without a real global tax reform, the promises made in the 2030 Agenda would mean that the SDGs would be no more than a utopian dream" (ibid., p. 8).[12]

The ICRICT report advances detailed recommendations regarding global tax reform. Most important among the proposals is the proposal for a global minimum corporate income tax. This would mean that multinationals are taxed as single firms doing business across international borders. "If multinationals paid taxes as single, unified companies, the use of transfer pricing to shift profits would disappear, because their global income would be consolidated and they would not be able to shift profits through internal transactions" (ICRICT 2019, 11). Closing the opportunities for transfer pricing creates space for other reforms. In addition, a global minimum tax would reduce the incentive for countries to engage in tax competition.

ICRICT proposes that global corporate tax reform be guided by standard tax principles of simplicity, efficiency, and equity and provide an inclusive and transparent framework that takes account of considerations in relation to developing countries and not just the interests of large MNCs (Stiglitz 2019). The ICRICT report also calls for upgrading the UN Committee of Experts on International Cooperation in Tax Matters to an intergovernmental Commission and providing it with adequate resources.[13]

IV. Conclusions

The EPG-GFG report is motivated by durable and complex challenges. The report contains

[11] See ICRICT (2019) for a critical examination of the progress and thrust of the OECD/G20 project. ICRICT argues that to date the OECD/G20 project has proposed some helpful solutions for some of the most egregious tax avoidance mechanisms, but has failed to deal with the core mechanisms of tax avoidance—namely, transfer pricing system and other tax avoidance mechanisms (see also Stiglitz 2019).
[12] The ICRICT report (2019, 14) notes that the 2015 AAAA emphasized the importance of international tax cooperation that is "universal in approach and scope and fully take[s] into account the different needs and capacities of all countries."
[13] This is important because ICRICT argues that the OECD/G-20 project is not providing opportunities for meaningful engagement by developing countries (ibid., pp. 14-5).

some useful analysis and proposals. But the analysis in the report remains fundamentally misguided. The majority of the proposals offered are unlikely to address the challenges to which it seeks to respond. Moreover, implementation of many of the key proposals advanced would aggravate existing existing challenges in developing countries and indeed would introduce new ones. I've suggested above (see section III) that there are many ways that the global financial governance architecture can be transformed so as to enhance its potential to support development, sustainability, resilience, policy autonomy in the developing world, and the advancement of human welfare.

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