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International Financial Institutions and International Public Goods: Operational Implications for the World Bank

Ravi Kanbur

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PREFACE

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

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

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

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

INTERNATIONAL FINANCIAL INSTITUTIONS AND INTERNATIONAL PUBLIC GOODS: OPERATIONAL IMPLICATIONS FOR THE WORLD BANK

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Abstract

The global International Financial Institutions (IFIs) increasingly justify their operations in terms of the provision of International Public Goods (IPGs). This is partly because there appears to be support among the rich countries of the North for expenditures on these IPGs, in contrast to the "aid fatigue" that afflicts the channelling of country specific assistance. But do the IFIs necessarily have to be involved in the provision of IPGs? If they do, what are the terms and conditions of that engagement? How does current practice compare to the ideal? And what reforms are needed to move us closer to the ideal? These are the questions that this paper attempts to ask, in the framework of the theory of International Public Goods, and in light of the practice of International Financial Institutions, the World Bank in particular. For the World Bank, a series of specific operational and resource reallocation implications are drawn from the reasoning.

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Ravi Kanbur*

I. Introduction

When people talk of the International Financial Institutions (IFIs), they mean the two Bretton Woods institutions, the International Monetary Fund and the World Bank. Of course, strictly speaking, any multilateral organization with financial operations is an IFI – for example, the regional multilateral banks, regional monetary authorities, some agencies of the United Nations Organization that disburse funding, etc. However, in practice, by IFIs is meant the two global IFIs – the Fund and the Bank. In recent years there has been growing discussion of the role of these institutions in the provision of International Public Goods (IPGs). An aid fatigued public in the rich North, beset by its own internal budgetary problems (for example, the looming social security crisis of an ageing population) and convinced by tales of waste and corruption in aid flows, has grown weary and wary of conventional country-

an incentive to justify any activity by any agency as an IPG, and aid agencies have not been shy in doing this. At its most general level, development in poor countries is being argued to be an IPG, and hence an argument for continuing conventional aid – disenchantment with which turned the Northern public to IPGs in the first place. On the other hand, highly specific activities like research into vaccines for tropical diseases are also being labelled as the provision of an international public good. If we are not careful, everything will be labelled an IPG, and the concept will lose not only its analytical cutting power, but also its capacity to mobilize Northern resources.

This paper begins by carefully defining IPGs and characterizing their key dimensions (section II). It argues that the concept is subtle and multifaceted, and that in practice there are many different types of IPGs. The mechanisms for provision of these IPGs need to be equally subtle and multifaceted. The IFIs