MASOOD AHMED

President of the Center for Global Development, former Director of the Middle East and Central Asia Department of the IMF

Jean-Claude Trichet, President of the Académie des sciences morales et politiques, former President of the European Central Bank, Honorary Governor of the Banque de France

All that being said, I will, without further ado, give the floor to Masood.

Masood Ahmed, President of the Center for Global Development, former Director of the Middle East and Central Asia Department of the IMF

Thank you very much Jean-Claude. What I would like to do, given this is a very broad topic, is focus on the issue of financing for emerging markets and developing countries, L et me offer you two propositions, which I am not sure everybody would agree with but I want to offer them in the spirit of dialogue.

The first is that, after the World Bank/IMF annual meetings in Marrakesh and the sum of last year's efforts on development financing, there is a broad consensus that you need to scale up financing for emerging markets and developing countries, in part to continue to meet their own ongoing development needs, but also to enable them to deal with climate change, both in terms of adaptation and in terms of their contribution to mitigating the level of emissions going forward.

There are various numbers that float around: The Independent Expert Group commissioned by the G20 proposes that the MDBs should be three times larger by the end of this decade and they are also being asked to mobilize much more private financing to go with that as part of their mandate. So let me say two specific things in that regard. The first thing I would say is that the conversation about financing the climate-related part of emerging markets' needs is quite confused because we think of climate as being both mitigation and adaptation. In my mind, there are very different strategies needed for the two. Adaptation is just building into good development programs - of schools, of roads, of hospitals, etc. - the extra cost of making them resilient to climate. That applies to everybody, rich and poor, low-income countries, middle income countries, and this should just become part of the mainstream of good development strategies. The extra cost needs to be reflected in the estimates of development needs and addressed accordingly.

On the other hand, mitigation, which is the contribution to reducing global emissions that will come from the policies developing countries is really relevant only for about a dozen emerging markets and developing countries. What the vast majority of low income countries, mainly in Africa but also elsewhere, do will have little impact of any measurable quantity on global emissions. And, therefore, the only sensible way to allocate the financing for mitigation is to maximize its impact on global emissions by targeting the dozen or so countries whose actions will have an appreciable impact on global emissions. However, it is very difficult for the MDB system to be able to do this kind of targeting, and the real risk is that we will end up spreading mitigation financing all over the world with very limited impact on global emissions and therefore waste some of that money.

Therefore, my first proposition is that we should think very separately about how to support adaptation, which should be done across the board. In addition; and mitigation where we need to adopt a targeted approach which maximizes the emissions impact globally rather than thinking of this as a sort of add-on for the financing package for every country.

The second point I want to make is that there is an expectation that now the multilateral development banks and regional development banks will be successful in mobilizing much more private financing than they have ever done in the past. They have singularly failed to be able to do this at scale so far; they set targets but are almost never able to meet them. Now they are being asked to do so with new instruments and a new willingness to engage with the private sector, and the reason they are being asked to do that is because, even if you multiply multilateral development banks' own lending by three or four it is just not going to be enough. You have to bring in private capital because that is where the big numbers on financing are to be found.

In addition, people use numbers that become so large that they are not very meaningful. You can easily talk about hundreds of trillions of dollars that are sitting there waiting to be mobilized, but if you look at what is actually being mobilized, it is a few billions or even a few hundreds of millions.

My contention is that you can keep adding instruments and you can keep adding new initiatives, but the real problem why the multilateral development banks are not able to mobilize private financing is because they have a culture of risk aversion, so they are really not able to take on any of the risk that comes from doing things differently rather than just making loans and putting them on their own books. In addition, if you talk to anybody who is a private sector investor, and indeed there are some here in this room who talk regularly to the multilateral development banks, they will tell you war stories of how the culture of risk aversion makes it impossible to mobilize additional financing.

This culture of risk aversion comes partly from within the institutions, but it also comes from the instructions that they receive from their shareholders who at the ministerial level make proclamations about how the MDBs should be more risk tolerant but by the time those instructions filter down through the bureaucracy in each of those national systems to the directors who represent the same shareholders sitting on the boards of these institutions, the message becomes quite diluted and risk averse.. Given that we can spend many years trying to come up with numbers and plans, but unless we tackle the risk aversion issue, in my view we are not going to get very far in mobilizing private finance. That is the second point I wanted to make.

Let me just end by making a small side point which is the risk aversion problem affects the multilateral development banks, but it also affects almost every public sector institution. That is the nature of public sector institutions. They are penalized for making mistakes, but they are not rewarded for making returns. In some ways if you look at the IMF, and John and I were both in the IMF for many years, if you look at the IMF, we are saying to the IMF that it needs to play a much stronger role as part of a global safety net, financial safety net in a world where there are going to be many more shocks. However, again the design of those safety nets by the IMF runs the risk of being designed in a way that is so conservative that almost none of the potential beneficiaries of the safety net will be able to use it. I believe that this reflects the same excessive focus on risk aversion across the street, Let me stop with that, Jean-Claude.