Shaping a future for the I.M.F.

Creating regional funds would allow lender of last resort to redefine its role

BY ESWAR S. PRASAD

As the world economy careens from one crisis to the next, the International Monetary Fund has become a key line of defense against the global spread of such crises.

At the same time, though, it has proved difficult to fix the I.M.F.'s governance structure and give emerging markets a greater say in the institution's management to match their rising economic heft.

These two seemingly disparate developments are in fact connected, and they point to a new approach that could generate better outcomes and add stability to the international monetary system: Give the I.M.F. more competition.

New regional development banks and foreign exchange reserve pools, like those planned by Brazil, Russia, India and China, the BRIC countries, could be brought into the picture, as could other lenders. That would relieve the burden on the I.M.F. and potentially improve the global governance structure.

Such competition could improve incentives for these institutions to devise more effective ways to forestall crises and cope with them when they do occur.

To square up the different perspectives on the right structure and roles of international financial institutions, it is useful to get back to basics.

An effective global monetary system needs three key elements. First, emerging markets want insurance against balance of payments and currency crises, with guaranteed access to funds in times of trouble. This would free them from having to self-insure by accumulating foreign exchange reserves.

Second, a bailout mechanism is needed for countries brought down by weak policies, but with a requirement that they tackle the root policy problems.

Third, an effective surveillance mechanism is needed to provide a critical and blunt evaluation of a country's, or economic area's, policies.

The I.M.F. now handles all three functions, making it less effective at each.

As part of their efforts to halt the spread of the recent financial crisis, leaders of the Group of 20 industrialized and developing nations increased the Fund's financial resources in 2009, solidifying its status as the crisis manager of last resort. In the euro zone debt crisis, the Fund has played a crucial role in forcing European leaders to confront tough economic realities rather than devise a series of interim, patchwork solutions.

But the I.M.F.'s rise in stature in the developed world has not been matched by similar gains in credibility in the developing world. Policy makers in emerging economies perceive the I.M.F. as playing by different rules with advanced economies. Early on in the euro zone debt crisis, many emerging markets felt that the Fund was being too generous — both in the loan amounts given to some of the euro zone countries in trouble and the treatment those countries got when they missed performance targets.

In more recent phases of that crisis, the I.M.F. has proved flexible in adapting to new realities and to new research findings. For instance, the Fund has contested Germany's focus on the fiscal austerity prescription for troubled euro zone economies, noting the risk that excessive short-term austerity could damage growth and make a country's fiscal situation worse. These actions have helped the I.M.F.'s credibility.

Still, emerging markets harbor a strong suspicion that they would get less favorable treatment, both in the loan amounts they could obtain from the I.M.F. if they were in trouble, and the conditions attached to such loans.

And when it comes to mediating currency wars — which are flaring up again as central banks in advanced economies rev up their printing presses to support growth — emerging economies see the I.M.F. as siding with the advanced economies' arguments that their unconventional monetary policy actions are good for world growth.

Policy makers in emerging markets, however, see those measures as generating short-term policy complications in their own countries, as well as longer-term risks to the entire global financial system.

Emerging markets do not trust the I.M.F. to provide unconditional insurance. Its surveillance programs are seen as tainted by political interference from big shareholders. And the conditions it sets when countries run out of options and come to it for financial assistance are seen as excessively harsh, even if essential for long-term stability.

The I.M.F.'s real strength is its ability to assess the macroeconomic and financial policies of countries or economic zones and to evaluate the global consistencies of those policies. Making such audits its central function could reduce the I.M.F.'s politicization and make it more effective in the role the Group of 20 leaders have ostensibly assigned to it.

A global institution like the Bank for International Settlements could manage a transparent insurance program. Countries would simply buy crisis insurance, with higher premiums for more insurance and with unconditional payouts during a crisis. The quality of a country's economic policies would affect its insurance premium. Clear rules for premiums based on standard indicators like budget and current account deficits would take the politics out.

Meanwhile, lending with conditions could be managed by regional insurance pools and backed up by I.M.F. lending, if needed. At a time of crisis, the I.M.F. would be called upon to develop a realistic plan for a country to rectify its policies. The country would simultaneously negotiate with the relevant regional monetary fund for a loan program.

ALKIS KONSTANTINIDIS/EUROPEAN PRESSPHOTO AGENCY

Poul M. Thomsen of the I.M.F. in Athens last month. The Fund's rise in stature in the developed world has not been matched by a gain in credibility in the developing world, where it is seen as playing by different rules.

Any watering down of policy conditions relative to the I.M.F. shadow program would make it obvious how much the country in trouble was being subsidized by others in its regional group. Or the different prescriptions could indicate how conditions imposed under one program were too harsh and unrealistic.

The solution would then, as always, be political, but with full information to other countries in the group about the costs of bailing out the one in trouble. This would create a powerful incentive for countries in the group to monitor each other's policies carefully through the regional monetary funds. Moreover, surveillance by regional funds would provide a crosscheck for I.M.F. surveillance, which is good but hardly perfect.

In general, a more competitive setup with lenders offering different terms and conditions might in some ways be better than having them negotiate behind closed doors about the terms of their joint loan offer to the country in trouble.

The risk of the I.M.F.'s losing its legitimacy and facing an erosion of its relevance as more competitors crop up could also prod the I.M.F.'s major shareholders into quicker action to reform the institution's governance.

In international finance, as in many other areas, cooperation is not all it is cracked up to be. The I.M.F. has long advocated the benefits of greater competition and market discipline. Perhaps the I.M.F. itself, and the governance system for global finance, would be better served by being subject to some of both.

Eswar S. Prasad is an economics professor at the Dyson School of Applied Economics and Management at Cornell University and a senior fellow at the Brookings Institution. He is a former head of the I.M.F.'s China division.

Kickstarting the drive for primary schooling

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number of countries for economic reasons have cut back'' on aid, Mr. Brown said in an interview by telephone.

''That means the search is on for new funders,'' he said, from the private sector and potentially through public fundraising efforts.

World leaders committed in 2000 to the Millennium Development Goals, eight anti-poverty targets to hit by 2015. They include halting the spread of AIDS, cutting child mortality and halving the percentage of people in extreme poverty, a milestone the United Nations says was reached in 2010.

On education, the leaders pledged to give all children access to primary education, and to bring girls' enrollment in both primary and secondary school in line with boys'.

The goals have been credited with leading to a huge effort and bringing real advances. Poor nations have instituted free, compulsory primary education, and built many new schools.

''It really got this idea out that education is every kid's right, and more parents are demanding it,'' Ms. Winthrop said.

Nonetheless, the education targets are proving tough to achieve.

''The progress has been very substantial, but the trend has tapered off in the last few years,'' Ms. Winthrop said. ''So it is one of the goals that is farthest off from being met.''

Experts have focused on obstacles including child labor, a worldwide teacher shortage and the effects of war and instability.

In many places, girls face particular troubles. An estimated one in three are married before the age of 18. Parents in some cultures value daughters' schooling less than sons' and keep girls home to help with chores, or send them to work.

Harassment and safety are also big problems.

The attack last year on Malala Yousafzai, a Pakistani teenager shot in the head by the Taliban because of her advocacy of girls' education, drew attention to the violence that female pupils face in some places.

Mr. Brown has also highlighted the killing in March of Shahnaz Nazli, a teacher at a Pakistani girls' school.

''This is urgent, pressing, a moral issue of huge concern when girls are being intimidated, maimed, killed,'' just for trying to learn, he said.

Adam Short, head of advocacy for the child rights organization Plan International, said he had spoken to girls in Sierra Leone who had reported being sexually harassed in school, sometimes by teachers demanding physical contact in exchange for good grades.

The United Nations reports that boys' and girls' enrollment in primary school has now reached parity. That goal has proved more elusive at secondary level, where enrollment rates in general are far lower.

In Bangladesh, studying can be precarious for poor children of both sexes, with boys often under pressure to earn wages instead of attending class, said Selina Amin, the Bangladesh manager for Plan International. During frequent natural disasters, schools become shelters and classes cease, she said.

With funding and initiative, there are ways of reaching almost all children, Ms. Winthrop said. Evening classes can enroll those forced to work in factories by day, and husbands can be persuaded to let young brides attend, she said. Study can continue even in war zones, although it may not happen in school buildings.

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''There are examples of kids continuing to learn in refugee camps, in displaced persons camps, sitting under trees,'' she said. ''There are models that work.''

When it succeeds, schooling makes a huge difference. In the Bangladeshi capital of Dhaka, Robina, 16, studies science and plans to become an engineer. Her mother, who works in a garment factory, and her father, who sells plastic goods out of a van, have always supported her studies.

''My teachers, all of them are very good,'' Robina said in a phone interview arranged by Plan International, which asked that her last name not be used. ''I can tell them anything.''

''My ambition is to finish my education,'' she added.

As the 2015 target date nears, education advocates are beginning to look farther ahead, and school quality is gaining more attention.

As the number in classrooms increases, ''the next thing that we really need to focus on is, 'Are they learning?''' said Alice Albright, the head of the Global Partnership for Education, a coalition housed within the World Bank. ''There, the story is more mixed.''

Mr. Brown said the 2015 goal was within reach. ''To get 61 million children into school does not require a medical advance, a technological breakthrough,'' he said. ''It needs pretty well-known and understood measures that include the political will'' to make it happen.