ARIF

Advocates for the Reform of International Finance

Eighth Meeting

Wednesday, November 15, 2023

Summary of Discussions

On behalf of the co-hosts (The London School of Economics, The Brookings Institution, and the Center for Global Development), CGD president Masood Ahmed welcomed the participants to the meeting. The themes of the gathering were the reform of the International Monetary Fund (IMF) and an update on the status of the reform of the Multilateral Development Banks (MDBs).

The discussion underscored the timeliness and the importance of the IMF reform conversation, citing a growing number of proposals for change. The evolving global landscape and the adequacy of the IMF toolkit to respond effectively were central points of the discussion. Participants also noted the keen interest of the IMF Managing Director in IMF reform and stressed the need for a forward-looking conversation.

Participants stressed the importance of the Fund providing liquidity promptly during crises. Concerns were raised regarding the Fund's response during crises, with observations that developing countries did not receive adequate liquidity despite comparable needs. A proposal from a group of economists suggested the creation of an Emerging Markets Fund (EMF) to address liquidity issues during crises. The EMF aims to make temporary secondary market purchases of sovereign debt of a group of emerging markets countries subject to contagion, or, alternatively, purchases of an emerging markets' bond index such as the Emerging Market Bond Global Diversified Index.

The conversation broadened to include the role of the IMF in supporting Multilateral Development Banks (MDBs). Suggestions were made for the IMF to provide a liquidity backstop for MDBs, but there are a set of technical challenges associated and increased liquidity does not obviate the need for increase capital.

The group also discussed the need for reform of Special Drawing Rights (SDR). After emphasizing how crucial the 2021 allocation was for low-income countries and developing economies, the members also raised the issue that most of the allocation went to high-income countries that didn't need them. Although the G20's commitment to recycle US$100 billion worth of SDRs from advanced economy countries to vulnerable economies in October 2021 was seen as an important step, the failure to meet that pledge after two years was disappointing.

ARIF members highlighted the potential of recycling SDRs to MDBs, particularly the African Development Bank through hybrid capital, which can leverage the SDR by 3 to 4 times. The group mentioned that advanced economies and their central banks, should display greater ambition and speed recycling SDRs via MDBs. Commitments from countries were expected for COP28 in the next few weeks.

The discussion shifted to the intersection of climate and the IMF's mandate and the role of the IMF in the climate finance architecture. Questions were raised about whether climate should change the IMF's mandate and its role in minimizing risks associated with systemic instability.

The meeting redirected the focus to MDB reform post-Marrakech and its implications for COP. Discussions on MDB reform highlighted key points from the Independent Experts Group (IEG) reports. The reports aimed to extract more value from existing MDB mechanisms, focusing on plausible financing scenarios to address a $1 trillion external financing gap annually. The goal was to triple MDB resources to $390 billion per year, with $300 billion non-concessional and $90 billion concessional, aligned with the private sector's expected annual investment of $1 trillion by 2030 in aggregate, reflecting an increment of $500 billion.

While the Capital Adequacy Framework (CAF) reforms were acknowledged as a significant contribution, concerns were raised about shareholders' reluctance to set stretch targets. Efforts to explore new instruments and expand lending capacities were noted, but discussions on fresh capital among the Group of Seven (G7) remained subdued.

The need for a comprehensive finance approach, especially in the context of climate and broader development finance, was emphasized. The meeting recognized the importance of a global financing pact, emphasizing the crucial role of the private sector. The Africa climate summit and the Indian G20 presidency underscored the integration of development, climate finance, and MDBs in shaping a stronger roadmap. Four pillars of finance, focusing on Domestic Resource Mobilization (DRM), private finance, the role of MDBs, and expanding concessional finance options, formed the basis of discussions.

Challenges with rating agencies, particularly in Africa, were acknowledged, and the need for an incentivized system with transparency for private sector participation was highlighted. Concerns were raised about the uncertainty surrounding the World Bank's actions, particularly regarding the E/L ratio and callable capital, driven by the credit rating change of the African Development Bank (AfDB). The discussion touched upon potential risks associated with hybrid capital approaches and the concern about turning MDBs into vertical funds.

CGD also shared plans to take forward IMF reform work in 2024 in which they invited ARIF members to participate in joining the advisory group.

The ARIF will meet again for the ninth time at the time of the Spring Meetings of the International Monetary Fund and the World Bank in April 2024.