

ARIF

Advocates for the Reform of International Finance

Third Meeting

Thursday, September 10, 2021

Summary of Discussions

On behalf of the co-hosts (LSE, The Brookings Institution, and CGD), CGD President Masood Ahmed welcomed the participants to the virtual meeting. In his introductory remarks, Ahmed invited the participants to discuss the most immediate financing issues confronting developing countries. Notably, the response to and recovery from the Covid-19 pandemic, taking into account the discussions in different fora on the financing of and governance for the prevention, preparedness, and response to future pandemics.

Participants highlighted that the immediate challenge of financing for development was well described in the most recent action plan by the IMF, WHO, and WB: \$50 billion to get 40% of the population vaccinated by the end of 2021 and 60% by mid-2022. The lack of supply capacity and insufficient incentives for the private sector to invest in vaccination efforts underscored the need for a new public-private partnership to develop manufacturing capacity for a range of vaccines, therapeutics, and medical equipment to respond to this pandemic and prepare for future ones.

Facing this future challenge will require substantial international public and private financing in advance and thus new financing mechanisms, supported by strong cooperation between key actors. Participants highlighted that financing by international organizations for supply capacity is very limited. Effective systems require surveillance, early warning systems, and national capacity building in manufacturing and health. In order to rely on existing global health organizations to deliver, there needs to be a global mandate that addresses systemic fragmentation, deploying the necessary resources, and scaling up the systemic capacity.

In addition to the resources needed to fight future pandemics, the group has emphasized that other global public goods (GPGs) are in dire need of financing that is not being met, especially climate change mitigation and adaptation efforts and education. There is a need to push on investments in GPGs with a special focus on sustainable infrastructure, agriculture, forestry and other land use, and human capital. Estimates suggest investments needs of about \$1.3 trillion, half of which could come from domestic resource mobilization. Some of the structural proposals presented to the G20 to increase the volume and effectiveness of global public goods financing include developing a new multilateral funding mechanism and a governance mechanism for financing global health security. Moreover, at least \$326 billion would be needed from the private sector, followed by \$99 billion in non-concessional MDBs loans, \$84 billion in ODA, and \$31 billion in bilateral non-concessional assistance. Consistent with these numbers, it was suggested that advanced economies could afford to do more in terms of aid.

Furthermore, the group observed that unfavourable debt levels could accentuate the need for concessional financing. For instance, developing economies –excluding China- owe \$1.5 trillion in debt service over the next five years. Of that, \$850 to \$900 billion are owed by economies that either are in or near debt distress. Coupled with the serious debt situation is the diminished prospect of continued financing if the status quo continues -DFIs at large are running out of headroom. There is a risk that IFIs' finance will decline just as after the 2008 financial crisis, leaving developing countries with limited access to debt relief, grants, or additional finance.

The group also considered the prospect of repurposing MDBs and Development Finance Institutions to focus on spurring private sector finance for development through, for example, improving the use of their balance sheets and gearing capital adequacy rules to spur private finance capitalization. It was agreed that any new policy framework should address existing power imbalances within the MDBs and give low- and middle-income countries (LMICs) a greater role, as the general feeling among developing economies is that current institutional arrangements are not inclusive enough given the global nature of the challenges being faced.

Regarding climate financing, members of the group highlighted that given the urgency and the scale of the challenge, increasing investment and accelerating the green transition processes are vital. The group noted that to finance such endeavour, doubling bilateral and multilateral climate finance by 2025 and scaling up non-conventional and private finance should be a priority. Currently, for every dollar of public finance spent, we use 0.25 dollars of private finance -the reversal of this trend should figure prominently in the plans coming out of COP26 later this year.

The group also raised the issue of fragmentation in climate financing facilities, a phenomenon that has recently accelerated, undermining the clarity and effectiveness of the facilities used for climate financing. Group members called for a reorganization of green and climate funds (currently, there are about 96 of them), and others noted that DFIs are also becoming important players in climate finance (not just MDBs). Some members noted the risk of focusing too much on climate financing to the detriment of other key development sectors like education, health, and social infrastructure.

To address the considerable challenges ahead, the group stressed the essential role that MDBs have in bringing additional resources for a sustainable recovery and building back better. The role and capabilities of MDBs should be revisited to promote a focus on the provision of global public goods. There would be a global benefit to increased cooperation among MDBs. And changes in the financial models for mobilizing capital are needed. MDBs' role in capitalizing the private sector will be fundamental for supporting a green transition. MDBs also should create partnerships with DFIs and National Development Banks to help bridge the gap between international institutions, governments, and the private sector.

On Fragile States, considering the situation in Afghanistan, the group stressed the need for IFIs to discuss the risks of increasing investment in fragile states as there has not been any progress on this important discussion despite increasing support in the international fora.

On SDRs, the members of the ARIF discussed the SDR allocation of \$650 billion that recently took place and examined the uses that some developing countries have given to this resource, such as reinforcing central bank reserves and possible fiscal adjustment plans. The need to promote an SDR reallocation from advanced economies to LMICs was noted by different members of the group. Participants argued that one of the limitations that alternative reallocation mechanisms face is the need to preserve its value as a reserve asset. Any reallocation must ensure that SDRs remain relatively risk-free and easily convertible to hard currency. In this respect, CGD highlighted that it had convened a group of experts to explore and assess viable mechanisms for an effective reallocation of SDRs.

It was argued that the only existing available mechanism for an effective reallocation is through the IMF's Poverty Reduction and Growth Trust (PRGT), which has already benefitted from an SDR allocation in the past. However, the IMF is currently working on creating the Resilience and Sustainability Trust (RST), which will extend the eligibility criteria for countries that currently do not benefit from the PRGT. In this respect, it was noted that the IMF had stressed their interest in setting the RST, and there are different ongoing efforts taking place to push this proposal forward and to encourage more developed countries to donate SDRs.

In addition, it was argued that MDBs are well-positioned to be vehicles for SDR reallocation, vis-a-vis the IMF. It was noted that some part of the new SDR allocation should be reallocated to increase MDBs' capital base, allowing the SDRs to be leveraged for more development assistance. Some participants noted that the recent SDR allocation is, in fact, a temporary relief measure, and the MDBs need to step up to develop long-term solutions that allow countries to rebuild their economies sustainably.

Points to go forward on SDRs include calling on countries to make sound use of their new SDR allocations; going beyond the \$100 billion reallocation goal; using SDRs to expand the existing international financial architecture, which provides for the conditions to ensure that SDRs will be used transparently; and exploring alternative ways to use a dormant set of international reserves and leverage them without taking too much risk.

The hosts thanked participants and announced a future discussion of the conclusions/topics discussed in the Fall 2021 annual meetings, as well as to plan for activities in 2022 to push individually and collectively on the agenda.