CENTER FOR GLOBAL DEVELOPMENT

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International Financial Institutions in a Time of New Challenges

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The escalating impact of cross-border problems like climate change and pandemics both heighten the urgency of investing in global public goods and underscore the unique position of the multilateral development banks (MDBs) in forging collective solutions. CGD's work on MDBs for a Global Future explores how the MDB system must change to ensure these challenges are met, with a key focus on ensuring the perspectives of borrowing countries—emerging markets and low-income countries alike—are central to the discussion.

In October, CGD held an event with finance ministers on MDB reform, and we now continue the conversation with this reflection from Michel Patrick Boisvert, Minister of Economy and Finance of the Republic of Haiti, and an accompanying piece from Nadia Al Fettah, Minister of Economy and Finance of Morocco. We hope to bring additional voices to the discussion in the months to come.

New challenges are emerging in developing countries, and are acute in more fragile countries. In recent years, the challenges of growth and development have amplified, bringing new challenges to light. These include, in particular, (i) the intensification of situations of violence and the development of global insecurity; (ii) worsening unemployment and erosion of income; (iii) hunger and food insecurity; and (iv) the acceleration of the effects of climate change. Providing countries with the necessary capacities to provide structured and sustainable responses to these challenges is one of the priorities in development forums today.

International financial institutions must readapt their instruments and broaden their initiatives

The resources needed to limit the reversal of development gains, mitigate the additional risks associated with recent shocks and global crises, and prevent the weakening of the resilience of populations to climate change, are estimated by the Organisation for Economic Co-operation and Development (OECD) at 4.2 trillion US dollars and remain gargantuan compared to the resources available to fight poverty and ensure sustainable growth. Faced with this alarming situation, which in most cases requires emergency responses, the international financial institutions (IFIs), including the World Bank, are trying to intensify their interventions, diversify the instruments, and initiate new actions. However, these seem to be blocked by the lack of resources and the deterioration of debt indicators. Beyond the increase in funding envelopes, which remains essential, policy changes both at the country level and at the level of international financial institutions are necessary. However, the lack of consensus at the international level on the new policies to be implemented constitutes a significant challenge to be overcome in order to make a decisive impact and achieve irreversible positive results on development.

Policies and actions to be undertaken by IFIs

Weak public governance and structural challenges contribute to amplifying the challenges faced by developing countries, particularly countries in situations of fragility and vulnerability such as Haiti. Our proposals pay particular attention to food insecurity, the negative consequences of climate change, and unemployment. The new policies to be defined must be adapted to the particularities of the countries; preserve global public goods; and address regional challenges.

Urgent actions to combat food insecurity

Today, food insecurity is one of the major challenges to be addressed. According to a UN report, it affects 29.1 percent of the world's population, or about 828 million people in 2021, mostly in developing countries. These concerns now compete with those relating to crisis preparedness. In Haiti, nearly half of the population is food insecure. This situation is the result of political uncertainty and fragility, which have intensified recently, as well as the recommended fiscal and trade policies. The almost complete liberalization of foreign trade with the setting of all customs tariffs in the range of 0-15 percent at the end of the 1980s, without adequate provisions to strengthen the competitiveness of national production, has greatly contributed to disrupting the national production system. The level of investment in agriculture has remained extremely low; aggravated by the absence of appropriate credit mechanisms to support agricultural producers and encourage agribusiness. To this must be added the consequences of climate change on the productivity of the agricultural sector. Phenomena such as drought, hurricanes, floods, etc., have reduced the productivity of the agricultural sector by an average of 20 percent, already confronted with the poor modernization of the equipment used, the absence of sufficient irrigation and road infrastructure, facilities for storing and transporting goods. Consequently, our farmers leave the land to offer their labor beyond our borders. These factors have contributed to the degradation of the national capacity to produce staple foods such as rice and beans, as well as poultry, livestock, and fish farming products. Traditional export commodities have also suffered: coffee, cocoa, mangoes, and essential oils have not reached their production potential, let alone export. To remedy this state of affairs, massive investments in agricultural infrastructure, sustained efforts to expand access to credit and a significant increase in the supply of public services in rural areas, in towns other than Port -au-Prince and its outskirts are necessary. To this should be added: (i) improving farmers' accessibility to domestic and international markets; (ii) support for small industry and processing industries; and (iii) increased regional trade. Moreover, already insufficient basic public services have not been adequately distributed or maintained. Combined with the erosion of purchasing power due to high inflation, an increasingly large segment of the population is exposed to the risk of food insecurity.

Today, it is clear that there is a movement towards increased protectionism which results not only in the cessation of exports of agricultural commodities by certain countries but also in the establishment of trade barriers which slow down or even annihilate the exports of certain countries. It is therefore very important to include in the international cooperation agenda the elimination of barriers to trade, the prevention of crises linked to disruptions in global value chains and the facilitation of exports from developing countries. In this context, the International Monetary Fund (IMF) and the World Bank should work together with the World Trade Organization (WTO) to reduce barriers to trade and strengthen the international trading system in order to help low-income countries income to take advantage of the opportunities offered by trade to rebuild, revitalize their productive system, increase the production of food and income, and thus protect their populations from the risks of food insecurity.

In addition, short-term responses to food insecurity must be combined with structural transformation efforts and take into account local preferences and habits. The modalities for granting emergency humanitarian aid must not thwart efforts to increase local production, nor weaken national institutions or increase external dependence. In Haiti, food insecurity causes an increase in imports of products that often compete with national production after natural disasters. With adequate planning, the concern to urgently address the primary needs of the population can be reconciled with the need to preserve and even reinvigorate national production. More generally, it is a question of observing the principle: do no harm ("Do no harm"). Development partners must strengthen their internal cooperation and seek more complementarity in their actions. This would result in greater efficiency and tangible results to sustainably reduce poverty and promote growth.

Coping with climate change

Climate change has become a real threat to the survival of many countries. By 2030, extreme weather events could cause considerable human and material damage in developing countries, estimated at between 290 and 580 billion US dollars. These losses represent approximately 2 percent of annual GDP in the Caribbean between 2012 and 2020.

Haiti is one of the countries most affected by the impacts of climate change due to its institutional, social and environmental vulnerability and its exposure to hydrometeorological events (tropical storm, hurricane, floods, drought, etc.). More than 93 percent of its area and more than 96 percent of its population are at risk from two or more natural hazards. The low diversification of the national economy and the limited access to modern/adequate production infrastructure add to climate vulnerability and constitute a major obstacle to the achievement of the Sustainable Development Goals for Haiti.

In the face of climate change, international institutions must help governments integrate risks and opportunities into their climate-related policies and decisions. With this in mind, it is important that international development cooperation is structured around the objectives of fostering climate-resilient development, taking advantage of risk-sharing and transfer instruments, and strengthening the resilience of populations and businesses to climate shocks. Thus, many countries highlighted the need for increased international support to implement their National Adaptation Plans (NAPs) and to increase ambitions for Intended National Contributions (INDCs). They also underlined the importance of financing to address the loss and damage from climate change already recorded.

The issue of climate change cannot be dissociated from concerns about maintaining macroeconomic stability. It is therefore important to define and implement instruments for resilience and adaptation to climate change. The Paris Agreement adopted at the 21st Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change (UNFCCC), clearly establishes the need to increase and direct investments towards a growth trajectory low-carbon and climate-resilient, and to ensure adequate financing for adaptation and building resilience. In view of these international commitments, international financial institutions must do more to mobilize financial resources to raise the level of ambition in financing for climate action on a global scale. It is about helping countries access climate finance, supporting innovative institutions and initiatives, and encouraging new partnerships at the regional level.

Actions in the face of fragility, unemployment and migration. The phenomenon of migration does not only concern agricultural labor. Among our nationals abroad, we count graduates of professional schools, construction workers, contractors and a good part of the Haitian intelligentsia. Job losses linked to the shrinking of economic activity and the disappearance of sources of income from informal sector activities coupled with political uncertainty and insecurity contribute to the creation of a poisonous atmosphere. A vicious circle is maintained: the economic contraction leads to the increase in endemic unemployment which, in turn, leads to insecurity and uncertainty which themselves cause growing losses of opportunity and the deterioration of the socio-economic and political situation. The increase in the number of refugees fleeing violence and/or in search of economic well-being is one of the results.

On the other hand, our expatriates provide unparalleled support to the country, particularly in the form of remittances which have averaged 20% of GDP annually over the past four years. However, the positive effects of the recent waves of brain drain could be substantially increased by adopting legal provisions to welcome our migrants with marketable skills in the host lands. Other migrants could also benefit from programs funded by Haiti's technical and financial partners to acquire new skills to be better equipped and respond to the shortages of skilled labor and expertise in the host countries. The creation of jobs on the national territory for a better equipped workforce with wages well above the minimum necessary for survival, would also be an appreciable contribution.

The challenges of fragility, unemployment and migration are closely linked. Concerns relating to migratory phenomena, including for economic reasons, are global in scope and require concerted and coordinated solutions. To date, the focus has been on the issue of refugees. The overall treatment of this phenomenon requires significant support to improve the internal conditions of the countries of origin. In addition, it is important to implement more flexible migration policies to make this phenomenon of population displacement a factor of collective development.

While diversifying instruments and initiatives to better adapt them to new challenges, greater funding must be mobilized to support the structural transformation of developing countries. The interconnection of economies requires rethinking the actions and solutions proposed to address the major development challenges. It is necessary to carry out regular consultations, and to promote a frank dialogue between the international financial institutions and the member countries or the countries receiving financial support. It is about reconciling country objectives with global and regional concerns.

In this process, new instruments and broader initiatives need to be adopted. We emphasize the development of climate insurance at the national and regional levels; the revision of conditions of access to international goods and credit markets; supporting developing countries to exploit existing niche opportunities such as organic markets; the sharing of technologies for processing and adding value to primary goods and the mobilization of financing from the private sector. These initiatives will make it possible to revitalize the national productive apparatus and promote income growth.

The role of international financial institutions is crucial in achieving development goals. They must promote access to funding of adequate size with terms that are "not suffocating for the beneficiaries". The capacities of developing countries to respond to recurrent crises have been extremely reduced with the worsening of debt situations and the exhaustion of safety valves. Rwanda's experience has shown that significant and sustained financial support combined with internal efforts for good governance can enable developing countries to quickly rise to the rank of intermediate economies and to shelter themselves from certain major challenges, including the effects are transnational. While encouraging the efforts already undertaken, substantial financial support is expected.

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