MDB Reform and African Priorities

The State of Global Concessional Finance

May 29, 2024

AMY DODD:
We are streaming the session online, just so everyone knows. And also welcome to all our online participants. (AUDIO DROPS), key topic and one that we know is a pretty pressing one. And we talked a lot today about kind of growing needs, a much more complex landscape, a lot that's changed in the last few years, including all the different crises and challenges that we're facing, some really interesting views on kind of recipient perspectives on what donors are doing in this space. But one thing we do know, one thing that came through pretty clearly was we need a lot more of it and it needs to be a lot better. So, here we have an excellent panel, expert panel, who are going to answer those questions for us and come up with those excellent answers to take us forward. So, starting on my left, we have Valerie Dabady from the African Development Bank, who's division manager there. Next to her, Daouda Sembene, who is the CEO of AfriCatalyst, a global development advisory based in Senegal. And last but obviously not least, Clemence Landers, who is a senior policy fellow at the Center for Global Development.

So, I'm going to go through a couple of rounds of questions, and then hopefully we'll have time for a little bit of discussion and questions from the floor as well. So, bank your questions if you've got them as we come through. Daouda, I'm going to start with you with maybe a sort of question, a leading question. Are African finance ministers generally happy with how the concessional finance system is working in Africa? And sort of thinking outside of the rather pressing issue of increasing the amount of financing, how can these sort of concessional windows, of which there are a number, how could they work better for countries on the continent?

DAOUDA SEMBENE:
Well, thank you very much, Amy, and it's good to be here. And good afternoon, everyone. I think the simple answer to your question is no. If you ask me whether African finance ministers are happy with the allocation of and volume of concessional finance. Of course, you're not going to be talking about the volume. I think, as you indicated, everyone knows that it's not enough. We've been witnessing the continuing decline in ODA trend over the past several years. And right now, I think, if I'm not mistaken about, it's about 65 billion for low-income countries, least developed countries, which is very, very little compared to their need. But I think actually the question that you ask is much more interesting is what to

do to make it more effective from the perspective of finance ministers, or not just finance ministers, but African countries in general? I think one of the co-hosts of this event, ACET, has been sort of supporting the finance ministers in what they call the Marrakech agenda for global financial architecture reform.

If you look at that declaration, ministers of finance in Africa were actually advocating for more concessional finance. And I think if you ask me what [we need] is perspective—what we are talking about compared to what we have right now. So, that's the first thing. Increasing the volume of concessional finance. And what you also need is within concessional finance, I think African countries have been also calling for more climate finance. And more climate finance, it means, first of all, making sure that advanced economies meet their commitment to sort of mobilize $100 billion for developing countries. Yes, it's been reported it has been met. So, hopefully, the question is continuing under that trend, but not just under that trend, but also I think the call by many African finance ministers is for that money to come more in the form of grants rather than in the form of loans, which is currently the case. Especially when we talk about climate, I think the expectation is more concessional resources would be used for responding or for funding adaptation and mitigation policy.

And one other call by African countries is within climate finance to give room for more adaptation finance. I think there has been some global targets on this front, and I think they're looking forward for those targets to be met, including those targets set by the G20 in that area. I think that's very much critical. And I think if you ask me also one other thing that certainly African countries would want to see in order to feel like concessional finance is very much responding to their need is to try to think also, when you get the volume of concessional finance, how best to use it. And how best to use it means—I give you the example of IDA. You can either use it in the form of loans, or you can use it in the form of guarantees or in the form of some other thing. It is shown—and I'm sure Clemence and other CGD colleagues actually have really very much published a lot on this—that the leveraging effect of dollar, of concessional finance used for guarantees or risk mitigation might be much more important than loans.

Of course, I think this is a personal view because it depends on the country. Some countries would want to tell you, well, we want more loans. But I think at the end of the day, when you want to look at the impact of development finance, maybe it's better to allocate it where the leveraging effect is more important. But in any case, I think even the World Bank has recognized that they need it to increase the amount of resources used for guarantees. I think even [World Bank President] Ajay Banga was even talking about tripling, which actually would be quite [INAUDIBLE]. So, I think it's something that's very much important.

So, just one last point, and I think it's critical, is when we talk also about concessional finance, what we may need to keep in mind is we need to avoid a situation where there could be a group of countries actually that would be sort of at risk of crowding out of the concessional finance going to low-income countries. The reason why I'm saying that is if you look at the pool of concessional finance as given, if you give more to some group of countries, it means that also it might come at the expense of others.

Why it is important is when we are talking about the same pie being sort of the same and not increasing, maybe we're not… It's less of an issue if we are talking about additional concessional funds. But if we don't make a good job of increasing that volume, I think the risk might be for those low-income countries to pay the bill. I can just give you one example. You have at the IMF, the RST, which is very concessional. But the IMF, I think you have more than 130 or 40 countries that are eligible to the RST, including, of course, low-income countries, lower middle-income countries, upper-middle. Of course, all of those countries deserve it. The question is not this country doesn't deserve. But I think at the end of the day, also, what you want to try to do is to make sure that as you allocate those resources, that you don't forget about those countries that may actually need it more than others in the sense that they might not have, like others, access to markets to get some affordable funding, and they might not also have some… I mean, they primarily rely on concessional financing to meet their needs.

I think those, for that reason, I think we need to be careful about how to allocate those resources. I think that's another critical issue. But I stop here.

AMY DODD:
No. That was amazing. Thank you. And I think you really pointed out that real challenge we have between growing needs, a shrinking or at least the same part of finance and lots of different countries who need lots of different things and sort of how we how we square that circle is not going to be easy. You picked out IDA and some IMF funds, but obviously we are sitting here at the African Development Bank meetings, and the ADF replenishment is coming up next year, which is going to be a pretty important one. And we are hearing this morning from some of the speakers about a pretty high ambition ask, which is great to hear. So, I guess it'd be great to talk a little bit about what are the priorities for the African Development Fund replenishment? What are you guys focusing on over the next year or so, I suppose?

VALERIE DABADY:
Thanks. Thanks very much, Amy, for the question. And thanks also to CGD for allowing us to talk about this. So, the ADF, the current two pillars, we like to call them hard and soft infrastructure. But essentially, the first is sustainable climate-friendly infrastructure, and

that's what we call the hard. And the soft infrastructure is on governance, debt management, and capacity building. So, in the soft is in people, investing in people and upskilling and education and the like. Now, those aren't the only two things we do. I think you've also heard about our high fives—to integrate Africa, to provide energy to Africa, to industrialize Africa, to feed Africa, of course, and Pres. Adesina being a former Ag Minister of Nigeria, agriculture, I think, is a very big part of also what we do. And the last bit would be also simply to improve the lives of Africans. And there you put in education and water and sanitation and the like. I think what's important to retain about the African Development Fund is that we're a fairly focused institution.

Not much has changed since ADF 15, ADF 16, in terms of our orientation. I also don't believe that for the next cycle, ADF 17, that there will be significant change in that. I think infrastructure, particularly regional infrastructure, has been one of our main strengths, and I suspect that it will continue to be that. And of course, there is a lot of need to invest in people as well. You've got AI, digitalization, new economies, and so that's going to be education, I think, for sort of the next frontier.

AMY DODD:
Awesome. Thank you. That's a big tick list to make your way through. But I think a really interesting one. And as you said, I think a little bit more focused on some of the other MDBs out there potentially. But looking to the challenges of the future and colleagues this morning, we're talking a lot about the kind of new job market and the challenges in creating jobs. That's definitely an interesting piece. And I think this does point to though, a bit of a… We've talked a lot as a community over the last little bit. There's a bit of a replenishment traffic jam. There's a lot of calls on money beyond the things that you were both highlighting already. We know there's Gavi. Global Fund is coming up. IDA, as we've rightly highlighted, is a pretty important one. But maybe Clemence I could come to you to sort of zoom out and map us a way through that traffic jam and the kind of donor landscape and what's happening there and this sort of increasingly messy environment, I would say.

CLEMENCE LANDERS:
Well, thank you, Amy. And thanks for using the term "traffic jam." That's what I was actually going to start with because earlier this year at CGD, I and a couple of colleagues, Nico Martinez, who's in the room and Janeen Keller, put out a paper called "The Upcoming Replenishment Traffic Jam: Are We Headed for a Roadblock?" And one of the things that we noted was over the 2024-2025 period, about 12 major concessional finance windows—these are windows that are heavily reliant on donor resources—are coming forward for replenishments, or their versions of kind of funding asks. And we estimated that these 12 funds are going to be collectively asking for about $100 billion, which is a record. The last

time we had a similar event kind of occur where a lot of funds came together and asked for funds, it was in 2018, 2019, and the ask ended up being about $60 billion. So, we're in much bigger territory. But as a lot of the speakers have noted, this is kind of hitting against some stark political and economic realities.

A lot of donors are pointing to the fact that they are very cash constrained, and a lot of major donors are actually going through election cycles over the next 12 months. We found that about six of the ten largest donors are going through election cycles. And why do I mention this and why does it matter? It's one of the things that's happening now, that election cycles can yield much more radical outcomes than they have historically, and radical outcomes in terms of rethinking ODA and rethinking how much money is allocated to foreign assistance. And this is notably the case in the United States, for instance, where you have very two radical alternatives for the path that the United States could take forward over the next four years, and which would have extremely stark implications for the foreign assistance agenda. And I don't need to elaborate on that any further because it's very clear what I'm referring to. I would like to kind of maybe dispel a couple, though, of myths that are a leaving donors a little bit off the hook right now.

One is—and I have a great colleague from Gates who's constantly reminding me of this—that ODA overall is going up. We're not in a world where for the most part ODA is going down. It's going up for a lot of the major donors. But what's happening is ODA is increasingly going to upper middle-income countries. So, ODA for low-income countries and lower middle-income countries is indeed going down. And then when you look at a lot of the bigger donors, ODA is increasingly being channeled bilaterally. And I think this is kind of one of the big challenges that a lot of the concessional windows have coming up is to kind of reaffirm the importance of aid for development. And I thought the conversation earlier about development effectiveness was extremely important and kind of a stark reminder of, yes, we don't talk about this anymore because, in fact, one of the core advantages of an ADF or an IDA is that it is so embedded in the country model. I mean, it is demand-driven use of country systems.

I mean, these were part of the core kind of principles of aid effectiveness of IDA country decide how I'm going to spend my aid resources. So, that's one point. And then the second point is the multilateral financing aspects. And Daouda was pointing out this out earlier, but when you put a dollar into a multilateral fund, it just simply leverages a lot more than you do bilaterally. Now, that can vary tremendously across different funds, and there's a lot of really interesting analysis to be done about that. And I think a lot of donors need to do their homework a little bit more, about really thinking about how to put their funds in funds that are actually leveraging more and how to get the funds that they're putting their money in to be better at leveraging. But that's another a separate point.

I do want to make two more remarks, because I think… I think, you know, the concessional architecture is obviously not really an architecture. It's not really operating as a system. And what you lose out there—and I think someone was making this point earlier today—is these grants. And, you know, concessionality is the scarce resource in the system. And when you don't have a system operating and allocating resources strategically, there's a problem with how resources get allocated. And so, for instance, at CGD, I and my colleague Nancy Lee looked at the different concessional climate finance entities. There was really no correlation between the countries that were getting mitigation finance being the biggest emitters or the ones that had the highest level of country risk, and so, ergo, needed concessional or grant financing. And then on the flip side, countries with the biggest vulnerabilities to climate change weren't getting the most adaptation financing. So, you realize that is not operating as a system because the grant and the subsidy is not being allocated strategically.

I can't help myself, I also want to just make another little point about this traffic jam, and this kind of lack of strategic-ness that I see in the system. And I think this has been said a couple of times earlier, so I won't elaborate on this. But one of the bad behaviors I think that the donor community has gotten into is creating new institutions instead of capitalizing the ones that already exist. And so this year alone, over the past 12 months, we have the loss and damage funds, and now we have this new Livable Planet Fund at the World Bank. Just as we're saying, you know, capitalize our existing institutions and kind of recognizing that we're in a tight donor environment, you're potentially creating these very unhealthy paradigms for donors where it's “Do I contribute a dollar to the Livable Planet Fund or do I contribute a dollar to ADF or IDA?” And you really are setting up, then, that kind of tension between financing for low-income countries and financing for upper middle-income countries, which is exactly the tension that we want to avoid.

I'll stop there, but happy to elaborate further later.

AMY DODD:
Thank you! There's a lot in there to unpack, but I think that $100 billion number is a kind of stark, stark reminder of where we are. And I'm excited that we have another $100 billion funding target that'll be helpful. But I think it does, yeah, point at this sort of challenge around how do we actually think about prioritization within that list as well. So, Valerie, we talked a bit about obviously, priorities for the African Development Fund next year. But thinking about that, and I don't want it to be competition—I think as you were saying Clem, you want to be thinking about best use of resources—but how are we going to kind of

demarcate that a little bit from IDA, and make the case to donors? Preparing for this session, you were talking a lot about—I'm going to paraphrase a little bit, but kind of shifting geopolitics and shifting power, and shifting tensions. So, yeah, how are we going to be talking about ADF in a way that's going to make sense to folks in capitals where (INAUDIBLE) live?

VALERIE:
Yeah. So, let me start off by saying or sharing that yesterday we had an incredibly important session with ADF beneficiary countries, and we don't often have all of them in the room at the same time to hear from them. And what came out from that, and particularly, at my level, because, you know, I'm working on documents and things. I meet mostly with donors, but not beneficiaries. So, it was really useful. And what came out of that is to hear them say the impact that ADF has had on their growth and development, and give concrete examples. So, let me just share with you a couple. We have the ministers of finance, of course, that were in the room. The minister of finance from Central African Republic, which is a country that has a small allocation—this allocation is 27 million (INAUDIBLE), so, let's say it's like $35 million over three years, yeah? But we have an envelope called the regional operations envelope that allows a country with a small allocation to essentially leverage [it]. So, putting in about $2 million, they were able to participate in a $200 million regional infrastructure project.

They call this a multimodal… It's (SPEAKS FRENCH), which is river, road, and the like, but allows CAR to have access to the port in Congo-Brazza essentially. And that's the kind of, if you will, advocacy, right? So, the question was, how do we differentiate sort of ourselves? Well, we, of course, can tell the story, and I can sit here before you and say, we're great, I do great things. But it's more important to hear from our clients when they say, you're great, you do great things. And this is really in concrete terms what you've meant for me, right? Another testimonial came from Niger. So, Niger as you know, went through a coup, and it's a little bit tricky politically, right now. But we were able to broker a deal with Togo to allow Niger to use the port in Lomé for shipping through essential materials, medicines, and the like. And that's also, I think, an important part of our brand. It's not always money, I think, that makes the biggest impact. And in this case, it's about trying to find a solution, a very practical solution to an issue, and that, I think, was also amazing.

And finally, to hear from Mozambique, the Nacala corridor that we financed. And their minister of finance essentially said a million people now have greater access to products, to, you know, food, and the like, that they're able to transport on this corridor. And I think that's the kind of testimonials that we will be relying on as we go into the replenishment. So, that's the first thing.

I think the second thing is to also speak about, again, our focus. We are a regional development bank. We're only working in Africa. And, of course, it's a big challenge. And Africa, I think, is also incredibly diverse. The fund also only works on the 37 low-income countries that qualify for its concessional finance, right? And out of those countries, you have an ability to have or to allocate resources. So, many of you would have heard about the performance-based allocation, the PBA. But beyond that, we have other windows, the regional operations window, the transition support facility, which, you know we've been working in transition countries now for about 20 or so years. And this is a facility that allows—out of the 37, about 21 countries qualify for TSF, and TSF provides you additional funding on top of your PBA. And it was created specifically, to recognize that if you have a system based on performance, and yet you are a fragile country, typically, you're not going to perform very well. But your needs will still be fairly stark. And so, it allows this sort of dynamic balance, if you will, between performance and needs, which I think has worked very, very well. It's also the same window through which we clear arrears of countries. So, a country can come into arrears, essentially, be late in servicing of its debt, then it goes into all sorts of issues, if you will, with a AAA-rated institution. And so, the credit rating agencies don't look too favorably, if you will, when countries are in arrears. We still continue to engage with them. But we've essentially cleared arrears through this funding window for about 15 or so countries, with only one remaining, and that being Zimbabwe.

And so, in the last two years, Somalia was cleared, Sudan was cleared. And now, I think our most complicated case is going to be Zimbabwe. So, that's the second- or maybe third-level answer to your question. You know, what are we doing to differentiate ourselves? And I think finally, it's also about innovation. We don't have the biggest balance sheet in the room. And I think that forces us to be innovative on how we can provide products that will still meet our clients' needs. So, let me just give you two examples. We have something called a partial credit guarantee that allows countries who want to issue on the capital markets to have the benefit of this guarantee. So, it's partial because it covers up to, I think 75% of the face value of the emissions. They give 25% of their PBA. And the most recent example is Benin. They went to the capital markets late October. And on face value, I think about 300 million euros, a Eurobond issue, because of our guarantee they're able to save 90 basis points, which is not a small, insignificant amount, you know, when you're talking about those amounts.

So, guarantees. And then also in ADF 16, we put into place something called the climate action window. Again, just for ADF countries. And we got 429 million from four donors. And that's also for 75% adaptation, 15% to mitigation, 10% to TA. And we, two days ago, met with the donors to vet a pipeline of about 40 projects. And all ADF countries were, in fact, covered by this. And it's, again, our way of working both with our donors, because we set it up because of a particular constraint that some of our donors had. But at the same time, we're always looking to meet the client's needs. We already do a ton of climate finance. And I want to say that, if memory serves, the AfDB group has—what it does is about 55% climate finance. But this is, again, very specific to ADF countries. So, I'll stop there. Thank you!

AMY DODD:
Thank you! And I think those are three really important points for us, and for those of us who work on politics and advocacy in the room as well to kind of take away. And I think your first point sort of answers some of Clem's question about, what does strategic allocation look like? It has to look more like, what is a country's value? And what sort of funds do they value? And we know ADF, and things like IDA sit pretty high up that list. So, I am going to move to you, Daouda. And I guess we've talked a lot about the bank, and well, other banks as well. So, we were thinking about… You mentioned the sort of IMF, PRGT, RST coming along. Where do you see them sort of sitting in this picture? What should they be doing into the future?

DAOUDA SEMBENE:
Well, I think definitely, the IMF has a big role to play here. Right now it is estimated that it has more than $1 trillion sort of lending capacity. Of course, this can make a big difference. So, let me remind you. At the onset of the COVID crisis, the IMF mobilized $9 billion of PRGT lending to countries. $9 billion. For those who don't know much about the IMF, that was a big jump from previous work. When I was executive director there, there was a so-called PRGT self-sustainability principle, which actually was barring the fund from sustaining lending of over 1.25 billion SDRs over a period of time. So, it was—when you're talking about—that's less than $2 billion. So, going to lend more than $9 billion in a year in 2020, that was a huge thing. So, the idea or the question is… I think the IMF would be very well advised if it was to continue at least sustaining a large amount of lending, of course, depending on the needs. Coming back again and reminding you what was said here during the Africa Climate Summit, there was a proposal by the president of—by the African head of state for a request for the IMF to issue 650 billion SDRs every year to help address the climate crisis.

My guess is, it's never going to happen. (LAUGHS) It's never going to happen, of course, for many reasons, of course, especially, at this stage also, given the politics in the US, and others. But I think the point that I want to make here is, I think if they're asking for that, it means that there is a need, there is a demand for IMF support to help address those crises. They talked about the climate crisis, but people would tell you also about the security crisis or the security tension. You see in many African countries military spending exceeding into double digits, and that's a lot. Other people would tell you also about, you know, other type of crises that would bring some need—you know, the pandemic is not too long [ago], and we're also at risk of other similar sorts of health emergencies. So, for all of those reasons, there is a need for the IMF to support. Of course, the RST is meant to be there. So, one first thing that needs to be done before I get back to the PRGT, is, of course, to make sure that the pandemic closed window is sort of activated as soon as possible.

But to come back to the PRGT, I think if you want to sustain large amount of lending under that trust, you need to have both adequate loan and subsidy resources. I think for the going-on you know, the current cycle, it was back in 2021 that the IMF actually had initiated this round of replenishing the PRGT, and it was seeking about, something like $16.6 billion in loan resources and about $3 billion in subsidy resources. And those targets were met. The problem now, the issue is now for the next round, how you can mobilize enough? And, of course, to get also to the type of volume that we're talking about, the issue there is less so mobilizing the loan resources, but more of the subsidy resources. And I think there needs to be some sort of innovative solution for the IMF to be able to mobilize the type of resources that we're talking about. I think there has even been calls for the IMF to sell part of its gold so that it can sort of fund that type of subsidy resources.

When you want to do that, you face some opposition from the gold market participants. But I think if you really want to help vulnerable countries address the many crises they are facing, I think we need to not only be innovative, but we also need to be bold. And of course, being bold also means, you know, having to address the potential challenges. And of course, you can always do off-market sales if you want. But anyway, so it's just one proposal.

But I think I talked a lot about raising the resources within the PRGT. You can do that. But at the end of the day, you don't want the IMF to do so and then keep the resources in its coffers or actually to allocate to some of those countries that need it the most the less. Because, as you know, when the IMF provides lending, they do it in proportion of the quota of the country. So I talked about being on the board. The countries that I represented, there were 23 of them. I think it was only three or four that had a quota share that was more than 0.1. You can imagine—so what it means is if you don't have, first of all, a very flexible and bold sort of access limit policies from the IMF, chances are, even if you mobilize so many resources, they may not end up actually helping address the needs of those countries.

So you need flexible and adequate access limit policies. And for those who don't know, when you talked about access limit policies at the IMF, it applies both to the annual limits—so what countries are entitled to get in proportion of their quota every year—but also cumulative limits. It means what they are entitled to get over the course of the program. Usually, it's a three-year program under the PRGT. I think both need to be flexible enough and large enough. So to the credit of the IMF, whenever there has been some crisis, there has been the board allowing or approving temporary increase in access limit. But I don't think it's enough. If they feel the need of doing that, that is because, first of all, they're resource-constrained, and they also understand that the access limit policy was not adequate. So it means that you need to really find a hopefully permanent solution to this. And the best way to do it is to have adequate loan and subsidy resources.

And finally, I think what I would want to say about this is you also need to make sure that at the, you know, the board level, you also have enough, and I think it's not a call for the IMF, it's more for, you know, countries also to have the best adequate voice and representation as possible. And when we talked about voice and representation, of course, it means having low income countries and lower-middle-income countries having enough say at the IMF. But it is also mean also having adequate gender diversity at the board. Because just always to give an example, again, when I was there, we were 24 executive directors, and there were only two women. So it's that type of issues that also needs to be addressed. And I think if we don't do that, I hope the issue that we are talking about, about the adequacy of the IMF concessional lending policy, would continue to be unsolved.

AMY DODD:
Thank you. Again, a lot of concrete stuff for us to take away, and always in favor of a little bit of gender diversity. We appreciate you being the token male on our panel. That was very kind of you.

DAOUDA SEMBENE:
(INAUDIBLE)

AMY DODD:
I know that's what I'm saying.

DAOUDA SEMBENE:
I better be careful about what I said.

AMY DODD:
Yeah, we were worried we wouldn't have any men up here. No, but I think that's great. And there was a lot of concrete stuff there around, you know, you were talking about quota share, and that's a conversation that's come up a lot today, this kind of power imbalance and what it means in practice, including when you get to things like quota rights. You were also sort of pointing out what the board should be doing. And I think that's actually going to point a little bit towards Clem. So short question, but a big one. What should donors be

doing about this? What would we be telling donors to do if we could or encouraging them to do?

CLEMENCE LANDERS:
So I guess this is the fun part where I get to make a bunch of Olympian pronouncements. So let me go, let me go. I have three. So first of all, I mean I said this earlier, but I think the international community just needs to get out of the bad habit of creating new instruments and new funds every time there's an international crisis, for politically—I think, often very politically expedient reasons. We have very good institutions. We need to capitalize them adequately. And when they're not, you know, fit for purpose or where they're slightly missing in the moment in a crisis, we need to work with them to help them be more nimble. But the bad habit of creating new institutions every time there's a crisis is one that we need to break. The second is, and I'm going to go back to my point on multilateralism versus bilateralism. I would simply like to see donors transferring a lot more of their money multilaterally. And I'm going to pick on—you know, I used to work for the US government and I'm going to pick on the US a little bit in my next comments, which I know is always very popular.

So I'm pandering a little bit here. But, you know, the US is one of the worst at this. 15% of the funding it provides is multilateral. That really is deviating in very significant ways from the norm. And this is actually going down, not going up, in relative terms. And I simply think that's a big problem. But, you know, this is something that other countries are doing as well. There are a number of other countries, like Germany I believe, like the UK, which are really channeling less to the multilaterals in relative terms. So I would like to see a big donor commitment to really look at foreign assistance, at development, at climate as a multilateral challenge and to be funneling much more money through the multilateral system. And that gets us out of this kind of zero-sum competition between these different funds—which can only lead at the end of the day to negative outcomes—to a bigger pot of resources. And again, this is a little bit more of a US-focused comment because it's the donor that I know the best.

But, you know, I think donors need to just think much more strategically about how they allocate resources across institutions. And here again, I mean, I think for a long time the UK kind of stood out as a model here of really thinking strategically of like “how do I allocate resources across institutions?” and UK colleagues can correct me if I'm wrong about this, but I understand that you know, you used to have something called a MAR where resources would be allocated, looking at where's the most financially efficient and policy efficient mechanism, and then what are the mechanisms that are the most aligned with our own development priorities and then kind of allocating resources based on that. That is not how the US allocates resources at all. The US system for allocating resources is much more ad hoc, much more political in a lot of ways. And as a result, when you kind of look at how the US allocates resources across the different multilateral funds, it really looks very un-strategic and not something that has been kind of thought through at a very high level.

And so I would like to see the US adopt something much more similar to the MAR, to kind of orient itself as a donor and be a much more predictable one, a much bigger one, and a much more strategic one.

AMY DODD:
Thank you. And you're right, we did use to have a MAR and in fact a BAR, a multilateral aid review and a bilateral aid review. But I think you're right. It was political, but it was evidence-led in terms of allocation, which was a model we might have drifted away from. Maybe it's a call to the potentially new government coming in the UK as well. So that's enough from us for now. I'd love to come to those in the room if we have any questions, comments are very welcome or just thoughts on these questions we've been discussing as well. Great. And we'll start back there. And if anyone else has questions in the interim, just pop your hand up and we'll come around.

VIVEK MITTAL:
Thank you very much. Vivek Mittal from Africa Infrastructure Development Association. Debt-for-nature-swaps, are they part of your toolkit? Good? Bad? What do you expect of them?

AMY DODD:
Great. That's a good question. Short and pithy as well. Any other questions before I come back to the panel? Jeff, please.

JEFF:
So it sounds like there's ground support for ADF and IDA, and I guess I'm just curious, does anybody want to make an enemy and say who they'd axe? Like, which concessional funds do you want to get rid of and fold into IDA and ADF?

AMY DODD:
Julie, it looks like she's volunteering to answer that question, so.

AUDIENCE:
No, no, I actually had a totally opposite question. Yeah. We've talked a lot about the need for more coordination among the MDBs and different approach to Jeff's question, perhaps, curious about whether there's room for any more coordination around replenishment,

specifically among institutions. We've talked about, you know, reaffirming the importance of multilaterals through IDA and ADF replenishment. It seems like there could be potential there for coordination among the institutions. Just curious if that's something you're thinking about. And I think related maybe a question for Daouda: Is there more potential for coordination among borrowers on that front? And also maybe to climb on the donor side, are there any champions, perhaps, that we can really highlight as donors that have really leaned into the multilateral space, perhaps?

AMY DODD:
Great. Thank you. So three—some slightly tricky, thanks Jeff—questions there. What would we axe, better coordination on the multilaterals, and thinking about our kind of replenishments and debt-for-nature swaps. So I might start with you, Clem. Anything you'd want to pick up from those? I feel like you might have pointed at an institution you would chop already, but.

CLEMENCE LANDERS:
I feel like I can only get myself into trouble today. Let me start with the debt-for-nature swap question, which is a really interesting one, and it's actually one that we're researching currently at CGD. And maybe just we don't yet have ourselves a kind of a fully formulated response to that yet. We're kind of crunching a lot of the numbers, but a couple of points, because the debt-for-nature swaps do use credit enhancements. And Valerie made a really important point on the partial credit guarantee instrument at the ADF. And we did a study on partial credit guarantees writ large at the MDBs. They're very underemployed instruments, but we found that on average, they can help lower countries borrowing costs by about 300 basis points. So, you know, it really depends on market conditions and on the country's macro. But these are 90 basis points, 300 basis points—these are really big numbers. And they're very significant in terms of debt service costs saved.

But they are very underemployed instruments. I mean, IDA hasn't used one for about six years. It's great to hear ADF is back using those. I understand that countries' demand for them is very strong. And so that does link a little bit with the debt-for-nature-swap point. One thing that I will, you know, say about the debt-for-nature-swap is, you know, I think there are real questions about their financial efficiency. And I think there are a lot of really legitimate questions around the conditionality tied to them. And, you know, if a country is reprofiling or restructuring debt and creating savings, is it not that country that should then be using deciding how those savings are used, rather than sometimes having bondholders sort of dictating the terms of how a country uses its savings after a reprofiling. And so I think that is an important question. And then when you look across the different instruments, you know, there's not a taxonomy yet for these kinds of things. So in some contexts, you see a very strong verification system set up. And in other contexts, there's really nothing. So, you know, these are still new nascent instruments and with I think some potential but a lot of question marks still.

And then, you know, I think Julie, on the point of donors, I mean, I think one of the things that we're seeing in IDA, and I hope we'll see in ADF as well, is I do think this is an interesting moment where you are seeing some newer donors kind of coming up and taking on a bigger role. So I was extremely excited to see Korea announcing that it would be hosting the IDA replenishment. Korea is the 15th largest donor in IDA, but if it doubled its IDA contribution—and that's something that often countries that are hosting replenishments do, you know—it could be in the top ten. It's the same donors that have tended to dominate the concessional window space. And that's one of the things that makes the concessional window so vulnerable to shifts in the political environment in donor countries and shifts in the budgetary environment, that, you know, a couple of donors have bad elections, and then all of a sudden there's an existential threat for some of the concessional windows.

So I think it’s diversification and bringing in new donors—and it's not just Korea, obviously, China has been absolutely remarkable in how it's really stepped up its increase in IDA. And those are just two examples. I know Brazil is part of the G20, and it's very eager to reengage in a big way with IDA and hopefully with ADF as well. So these are just a couple of examples. But I think, you know, moving a little bit towards that reality of a bigger donor landscape is an important one.

DAOUDA SEMBENE:
OK. Maybe just to add to what Clemence said about debt-for-nature swaps, we at AfriCatalyst did some research on that and it's available on our website. Definitely, there is room for having more of those type of innovative financial solutions for countries that are debt-trapped. If you take this continent, we have many countries that are either at the high risk of debt distress or in debt distress, about 21 of them. I think for those countries, there could be very much an appetite for this type of swap. Of course, you have to address all of those sorts of potential issues that Clemence raised. But I think these are very desirable financing tools. And I think if we really sync it with some adequate and political commitment, maybe we could even think about something like the HIPC at that time for those type of countries so that they can have a multilateral initiative that could really facilitate this type of initiative. So, definitely. On the issue of IDA replenishment and the importance of borrowers’ coordination, I fully agree with what Julie said there.

The best advocate you can have for a historic and ambitious replenishment of IDA, or of ADF, is to have borrowers make their view well known, [that are] very much knowledgeable about the issues and actually have the right tactics and strategy for that. And I think that you cannot get it if you don't have adequate borrowers' coordination. You cannot get it if those borrowers' reps that are sitting around the table on behalf of borrowing countries are not necessarily well prepared to really discuss with their counterparts from donor countries. Donor countries have already their coordination mechanism, very well designed. They meet very regularly ahead of the replenishment cycle and the negotiations. And they coordinate their views and they come to the table well prepared. This has not been the case, unfortunately, for borrowers, particularly from Africa. So this is the reason why we also at AfriCatalyst are thinking about, and working with—it's not just AfriCatalyst, there are a number of African organization and advocacy partners that are really thinking about that. We have very regular meetings where we meet and discuss about how to support those borrowers and particularly the representatives, so that they can really help achieve those goals that all of us have in terms of either replenishment, but also hopefully replenishment of ADF, and I think this is something that certainly requires not only coordination among the borrowers, but also among partners, among advocates, and among, of course, philanthropists here, whether it's the, you know, foundations—the Gates Foundation or OSF or the philanthropists that are here and that are not here—but also, you know, multilateral development [banks]. I think people like Valerie certainly would very much welcome having support about how to really get the best of the borrowers, and it requires, of course, having coordination and discussing between us. And we are committed at AfriCatalyst to work on that, along with other partners—I can talk about ACET here, (UNKNOWN) and all of those organizations that are very much working day by day to support this, and we will continue to do so.

VALERIE DABADY:
Super. Thank you very much. So I'm going to use a little bit of executive privilege and answer a question that wasn't really asked, but is related to, I think, something really important. There's a question about, you know, which institutions would you axe? And I think the question or the answer I want to provide is, what are the things you can do to remain relevant in this space if you have an institution which, like the ADF, is 50 years old, essentially, right? So we were created at a time when there wasn't really foundations or philanthropies, or really vertical funds. You didn't have a shareholding structure that's tiered like the Trade Development Bank has and the like. And I think what's required is to really assess the landscape, the context every couple of years and decide what are the things that would be required to be relevant in today's landscape. So I'm going to go on a little bit of a limb here, and none of this has been checked with management or anything.

But, you know, we have a shareholding structure where only sovereign countries can come in.

Right? And if we're out talking to, let's say, Gates Foundation or Rockefeller, as if we want them to participate in the climate action window, they'll say to us, OK, that's fantastic. We can do that, but what do we get in return, right? And we'll say, well, you know, we'll finance climate for you, but they don't really get a seat around the table. They're going to stay in what things we finance because that's just not our setup, right? So I think that's the first thing that we would say. I think the second thing that we would say, and this is something that we're in the process of changing our charter. ADF does not allow us to either borrow or lend on anything other than concessional resources. So after about a 15-year conversation, we've gotten the approval to go to the markets and to issue, OK? And that's going to be another source of, I think, income, much needed income for us. It's about $5.5 million every three years. But that was something that we did because well our charter didn't allow us to do it, and so we had to actually change the charter. We're in the middle of doing it. It's a very long political process.

But we took a look at what's happening around us. IDA went to the markets, and they also didn't have the same prohibition. And in order for us to at least have more funding for our clients was something that we felt we needed to do. So we have the ability to do that now. We have the, I would say, the OK from the donors. We'll put in place the necessary sort of, you know, ALM guidelines and adopt the right framework. And we have to get a credit rating. So it's not, you know, an automatic sort of deal, but at least it allows us to go towards something which is new. And that's this idea of what am I doing to meet my clients' needs. What can I be doing more to do so, OK? And then, to really hunker down and to do that, it's the same thing with the SDRs. So what about two weeks ago? Finally, the IMF board agreed that SDRs were to be considered as reserve assets and they could be channeled through MDBs. That's the fruit of about three years of work with the Inter-American Development Bank.

And the first response was, can't be done. And so, OK, you go back, and you say, alright, can't be done. So on what conditions do you think you could ever be done? And what do you think we could do? When you go back and you engage and you continue this dialogue because ultimately, I want to always be reminded and remind others that development is a service. Right? I mean, you're doing a service for others, and that's how it should always be looked at. Let me switch now to this debt for nature swap. So I'm not aware that we've done any in Africa. I think we've read… we've done a couple of maybe in Ecuador or something, but here are the things that would be relevant for that. I think, first of all, issues of sort of valuation. What you're going to maintain, I think, as you know, environmentally maintained and the like, I think if, for example, the Congo Basin forest, the second largest sort of lungs of the world after the Amazon. Right? If you had to do something and, you know, forgive the debt of either Gabon or DRC or what have you… what's the valuation?

What does that mean to the world? What's the value of keeping that intact? Right. And I think that even the US, about a year or so ago worked with DRC, so it wouldn't exploit the forest, but it had to actually give something in return. And so when you're talking about that, but that's a global public good. I mean, that's the subject of all of our discussions right now. Right? How do you finance global public goods? What's the benefit to others, and what are we willing to pay for it? Right. So that it can be maintained? I think it's an incredibly important debate because those who bear the burden sometimes of maintaining these are not appropriately compensated for maintaining them. And I think, frankly, if the Congo Basin were to disappear tomorrow, it would be a huge disservice to everybody on the planet. So I think I'll end there.

CLEMENCE LANDERS:
Thank you very much. No, that was, I mean, that was a great practical example at the end there. I think that it does cost something to maintain these things. I think we're pretty close to wrapping up. So I'm going to say thank you to my panelists. There's a lot to take away from this discussion, but I think fair to say we all agree we need more money. It needs to be definitely a little bit better, more aligned with what countries are doing. Less fragmentation of resources into lots of different parts, but also, I think, some real tensions in the system around. You're talking a lot about competition over concessional resources—who gets what? And yes, we need to grow the pie, but that competition is still there. I really liked your point about, you know, the impossible is actually possible. This whole MDB reform agenda, outside of actually the African Development Bank, people said was impossible a few years ago. So maybe that's my final thought for the day. So I'll ask you to give my panelists a round of applause.

Thank you. And I'm going to invite you all to leave the stage. Thank you very much. And Mavis is going to come up…

MAVIS OWUSU-GYAMFI:
And by saying that there's been numerous efforts to reform the multilateral development banks over the past few decades. And much of those conversations in the past have been really dominated by global partners. We haven't seen an active voice by the South, most populated—what's the term we're using these days? I'm never sure which one, but we haven't—pardon.

SPEAKER:
Global South.

MAVIS OWUSU-GYAMFI:
Global South. OK. So, we really haven't seen a lot of a very strong voice from the Global South in the past, but this round of discussions are different. The voice of countries that are working with multilateral development banks are a lot stronger than we've seen in past reforms. And today's discussion is part of that voice. It's part of the thinking, the analysis that is needed to inform those discussions. The analysis that is needed to provide our political and policy leaders with the information and evidence they need to engage strategically in those conversations. So today we've spoken about the MDBs. We've talked about... we've spoken about climate, we've spoken about debt, the G20. We didn't talk about the G20, did we? Sorry. We didn't talk about the G20. But we spoke about climate finance, and we've talked about concessional finance. We've had a very deep conversation on what Africa needs from all the MDBs to make progress. So the first panel this morning, I took away four points, and where is our excellent convener of the panel? He's not here. OK.

We got to four points eventually out of the 60 or so we started with, and it was voice and representation. The importance of African countries not just having a voice but also having representation and a vote at these MDBs. We talked about the importance of volume. How do we get the money we need. So we spoke a lot about volume on concessional finance and innovating. And we said everything from we need more IDA, but we know it's going to be a lot harder. We need more ADF, but we know it's going to be a lot harder. But illicit financial flows should not be that hard. We should be able to get some of that money back. So we looked at a much wider pool of how we get some of that money back. And then we talked about the importance of regional collaboration and the continent of Africa in particular, as we're thinking about MDB reform, as we're thinking about our asks, we need to work together to make this a reality. So that was a really big part of the conversation. And then finally, we talked about the importance of investing in economic transformation.

We did say that. I'm not just saying that because it's my pet subject, is it? We did agree on economic transformation. Yeah. So we need to invest in economic transformation. And then this afternoon, there were a number of different conversations. So there was a conversation around, you know, how do we ensure—what are the roles for the different financial institutions as part of this reform process? So it's not—we often talk about, you know, MDBs as being the bank, etcetera. But actually, Africa has a lot of MDBs. So how do we ensure that in the discussion on reforms, we are also talking about the role of African MDBs in that discussion. We talked about development effectiveness. How do we ensure that the money actually works for development? I remember when, you know, at some point in defeat when I was an ex-civil servant. When I was a civil servant—I'm an ex-civil servant now—development effectiveness was everything. It's kind of like seems to have disappeared. OK? So how do we get back to the importance of development effectiveness?

And on one of the panels, I think the question was, if for every dollar that is spent on bilateral aid, we only actually maybe get 60 to 70 cents. And for every dollar spent on the MDBs, we can leverage it ten times. I think we are missing a trick here. So how do we leverage? But it's pointless leveraging ten times if it then takes three years to release the money. You know, so there's a lot around the development effectiveness discussion that we have to look at very carefully. We talked, you know, this afternoon sessions also touched on concessional finance, the ADF partners. Of course, we talked about domestic resource mobilization and the role of African countries in driving their own development, the importance of fiscal responsibility, the importance of debt. And I'm not going to be able to cover everything but my summary from all of this, which the great thing about being the last speaker is you get to summarize what you want. My summary from all of this is number one, we need to collaborate.

We need to work together. And I think these efforts are making a huge difference in the influence we have. The fact that we are all sitting around the table, Africa, Asia, Europe, North America having a conversation about how we change the global financial architecture is the first step in how we do it. We're not kind of like competing amongst ourselves. The fact that African policy institutes are now collaborating on key messages and getting those messages to their governments are making a huge difference. So that for me, was the first takeaway. The second takeaway was, don't get tired and quit. Systemic reform, focus on systemic reform. We almost have to go back to focusing on that systemic reform at every level within the MDBs, within our government. And the research will come from us. The policy advice will come from us. The advocacy to hold them to account will come from us. So I hope that we continue this partnership not just for the next 12 years, but this is the beginning.