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To cope with a long and perfect storm, what evolution of international financial institutions?

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While the pre-COP 27 in Kinshasa is currently focusing on the issues of financing climate action in the countries of the South, particularly to cope with climate disasters, the next two weeks will be critical to identify solutions to the deep crisis (pandemic, war in Ukraine, and their economic consequences, impacts of climate change, etc.) faced particularly by the poorest countries of the planet and those that were about to emerge. The annual meetings of the World Bank and the IMF in Washington, then the 3rd edition of the Finance in Common Summit in Abidjan, will provide an opportunity to prepare for possible changes in the role played by these institutions, the only response that seems to be on scale in the face of the magnitude of the challenges. While the G20, an institution also created to ensure a coordinated response to economic and financial crises, is prevented from making significant progress by the conflict between Russians and the Western world, the breakthroughs that could be made in Washington and Abidjan would help ease the

outlook for the most vulnerable countries, but also provide a much more favorable context for COP27 on climate and then COP15 on biodiversity, as well as the mid-term review of the Sustainable Development Goals (SDGs) in 2023.

A long and perfect storm for developing countries, significant political risks for OECD countries

The accumulation of crises seems to have broken the momentum of lower middle-income countries that were on the verge of emerging economically, and the gap between these countries and the least developed and most vulnerable countries, on the one hand, and the countries that have the resources to finance their recovery, on the other, continues to widen. Moreover, these countries are both the most exposed to the already tangible impacts of climate change and the least endowed in terms of financial capacity to adapt to these impacts. The emphasis placed by the Egyptian presidency of COP 27 and by the G77 countries in the climate negotiations on loss and damage and the need for financing to deal with them is an expression of this challenge. And these same countries are also stressing their need for international financing if they are to meet the ambition of the new global framework for biodiversity.

On climate, the OECD indicates that financial transfers from the North to the South on climate have been stagnating for several years at around 80 billion dollars per year, whereas the 2009 promise was that these funds would reach at least 100 billion dollars per year by 2020, with a new floor to be discussed upwards for 2025. On biodiversity, the EU has just doubled down on its commitments for public financial flows to the South, and Germany has increased the amounts promised. But the promises of the OECD countries, even if the priority is obviously that they be kept, are constantly put into perspective by the countries of the South as being below what is at stake. As early as COP26 in Glasgow, the Indian Prime Minister stated that the 100 billion, a promise that is apparently so difficult to keep, was nothing compared to the 1,000 billion that India alone must invest annually for climate action, particularly for adaptation. And compared to the tens of billions of dollars commitments for biodiversity, the countries of the South are talking about the need for several hundred billion. Not to mention the enormous amounts that could be at stake if the loss and damage were to give rise to reparations from the countries that emit the most greenhouse gases, which the Paris Climate Agreement explicitly makes impossible, but which is nevertheless mentioned by some of the most vulnerable countries.

If they are not careful, between the climate and biodiversity COPs and the mid-term review of the 2030 Agenda in 2023, the OECD countries will be caught in a perfect trap with regard to the gap with the target set in 2015 for financing sustainable development. This gap has increased with the Covid crisis, and this trend is likely to continue (see [Global Outlook on Financing for Sustainable Development 2021](#)). However, the OECD countries have a strong strategic imperative to maintain the multilateral discussion with these countries of the South, and not to lose them as allies to China or Russia.

Assessments and thresholds of the amounts needed for transfers from North to South will obviously always be arbitrary, but the situation does require a response of a different order of magnitude than that which the OECD countries, individually, could provide through their public aid, even counting its capacity to leverage private financing. What should be done? Are we not experiencing the kind of historic moment that led to the establishment of the Bretton Woods institutions?

Rather than a Bretton Woods 2.0, pragmatic developments

The reform of the Bretton Woods institutions (World Bank, IMF) is a never-ending to-be process, despite the importance of the issues it could cover, and in particular a much more balanced representation of the balance of power in the world as it is today. But the most vulnerable countries, led by the Prime Minister of Barbados, Mia Mottely, have chosen a much more pragmatic, concrete battle, and are looking for short-term results, rather than a new Bretton Woods. Nevertheless, it announces nothing less than an overhaul of the international financial institutions, the only ones capable of deploying amounts and types of intervention up to the challenges. While this might have seemed unthinkable just a few months ago, today it is also Janet Yellen, the US Treasury Secretary, the most powerful player in this system, who is calling for the same thing. What is it all about?

A first issue, which is already the subject of lengthy discussions within the G20, concerns the use of the IMF's Special Drawing Rights (SDRs), and the reallocation of the rights acquired by the countries of the North for the benefit of economic recovery in the countries of the South and the financing of global public goods. This discussion seemed to stall mainly on the question of the instruments and channels for the use of these SDRs, and in particular to discuss the role that the IMF and the multilateral development banks could or should play in this perspective. It should now find a new framework in a broader debate on the evolution of the mandate of public (national and multilateral) development banks: what is proposed is nothing less than to commit them to take more risks, to broaden the diversity of economic actors with whom they can intervene (beyond sovereign States, local authorities or public companies, for example), and finally to invest much more heavily in global public goods (health, climate, biodiversity, food security, etc.).

This last point, which is essential for the countries of the North that are pushing for this reform, could also appear to be a condition for triggering massive interventions by the World Bank and the other multilateral banks in the countries of the South. This is where the experience of public development banks, in all their diversity (bilateral, national and regional banks), brought together with multilateral banks at the Joint Finance Summit, comes into its own, highlighting how climate alignment or alignment with the SDGs is not a conditionality preventing access to funds, but a factor in consolidating a trajectory, specific to the context of each country, of long-term transformation towards the achievement of economic prosperity, resilience and the ecological sustainability of the development envisaged. This is demonstrated by IDDRI's studies of bank practices in this regard ([IDDRI, 2020](#); [ETTG, 2021](#); [IDDRI-IDB, 2022](#)). Examples such as that of the Asian Development Bank are also extremely interesting: the mechanisms put in place aim to maximize synergies between the short-term investments needed to emerge from the current long crisis and the long-term transformational investments to achieve the SDGs, which constitute an agenda that countries have made their own.

For many of the questions raised in the climate, biodiversity or ocean negotiations, the multilateral development banks appear to be a solution, but also seem, for the time being and on average, to be the least agile in addressing them. For example, what are the multilateral development banks doing on biodiversity? Can they say what they finance that degrades biodiversity, and can they account for what they also do positively for biodiversity? For the moment, these figures are only partially accessible, even though their weight on different sectoral development models, particularly in agriculture and food, is massive, and therefore decisive for the state of biodiversity. Another example, in terms of [loss and damage](#): in addition to catastrophic events, one of the issues that is poorly addressed concerns the progressive changes in climate that in a few years or decades require massive transformations of territorial development models to adapt (abandonment of certain sectors in favor of new ones, abandonment of certain territories, etc.): this issue cannot be addressed without taking into account the actions and capacities of multilateral banks to intervene in the choice of infrastructures or the types of economic development in the land sector. Their responsibility is therefore major, *de facto* or intentionally.

The fall of 2023 will be marked by the mid-term review of the 2030 Agenda at the SDG Summit and the Global Stocktake of the Paris Climate Agreement at COP28. Progress on the multilateral bank and IMF front is therefore extremely eagerly awaited, as only these institutions are in a position to change the game for the countries that need

it most, and to pave the way for shifting the extremely tense political lines that call into question the agreements reached in 2015.

