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Spring Meetings in Washington: step 1 for the reform of the international financial institutions

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Momentum has been building for international finance institutions and their shareholders to demonstrate their ability to tool up and support countries facing ever more pressing international development and climate-related challenges. Next week's World Bank and International Monetary Fund's Spring Meetings offer the first opportunity to take stock on progress made on the reform agenda and proposals that still need further discussion. In this context, IDDRI and its partners are organising a closed-door workshop gathering high-level representatives of different communities to share views and agree on concrete proposals to move

the agenda forward. This blog post highlights the main issues at stake.

Making the Bretton Woods system fit to the 21st century

The post-World War II international financing system is in need of a serious revamp since its institutions are expected to deliver on an ambitious agenda: continuing the fight against poverty while also preserving global public goods, such as climate and biodiversity.

For the first time in a while, and initially propelled by the G20 Capital Adequacy Frameworks (CAF) review, the imminent change of leadership at the World Bank and the programme of reforms underway through the WB Evolution Roadmap process offer a first opportunity for a concrete breakthrough. The [updated version of the roadmap](#) published this month offers some signs of progress, at least on the financial side. Demonstrating the fact that the financial model of the Bank could indeed be improved within existing finance, an additional \$50 billion should be made available for the next ten years, mainly through a lowering of WB International Bank for Reconstruction and Development's equity to loan ratio. This is insufficient to be at scale but other measures remain under consideration for implementation this year. Moving the needle on the WB's Multilateral Investment Guarantee Agency (MIGA) and other banks with the potential to further support the derisking of operations (along with appropriate regulatory frameworks) for broader engagement of international and local private sectors to fund the transition should count among key priorities for reform since few of those banks have been initially designed for this. A key next step is also for some of these financial model reforms to be applied by other major multilateral development banks (MDBs) which are also directly concerned by the CAF proposals.

The discussion on how to use these additional sums of money and the need for the operating model of the banks to evolve remains fuzzier, both in terms of content (with various propositions for pilots, new criteria or indicators) and implementation, since no clear timeline is provided. While international financial institutions (IFIs) are exploring ways to repurpose in support of low-carbon and resilient development pathways, the decision-making process to set up priorities, be they thematic, regional or others, remains undefined. The proposed greater focus on impact and country-level engagement is welcome but would gain to be further defined to become actionable. This is key for example to ensure that increased lending and a focus on greener operations will not be done at the expense of low income countries (LICs), but will instead help moving from a project-by-project approach to support broader transitions and pathways. This includes re-evaluating barriers to access to finance, timelag between approval and implementation, conditions attached as well as perceived risks and criteria defined by the credit rating agencies which are also an important player in these discussions. Moreover, the operating model should explore concrete options for MDBs to work together as a system, seeking complementarity on the basis of their respective strengths. A stronger anchoring at country level also implies working with other stakeholders who are already there, such as national and subnational public development banks. The concerns, needs, and political economy of countries of operation should be more clearly taken into account as a starting point since reforms' success hinges on their implementation at country level for sustainable transformation.

Mobilising new forms of finance to implement the Bridgetown Initiative

Supporting countries facing multiple cascading crises while preserving existing global common goods also requires exploring new, untested options at scale. The Bridgetown Initiative has provided a roadmap for this, highlighting in particular the need for more concessional funds. This is essential given their current relative scarcity but also to ensure that the existing financial architecture does not further fuel a divergence but serves low income countries in an accessible and structured manner, while preserving existing goods.

At Climate COP27 in 2022, Parties agreed to establish a fund for responding to the adverse effects of climate change and associated costs with loss and damage for vulnerable countries. This fund and the still unmet \$100bn pledge for climate finance adopted in 2009 require unlocking new sources of finance. The Bridgetown Initiative has provided renewed space for discussions on a variety of options. Some of them, which could have the potential to free up most needed concessional (and hopefully mostly grants based) finance, are waiting for concrete political buy-in, including taxation on activities or products responsible for GHG emissions (Fossil Fuel Extraction Levy, Air Passenger/Ticket Levy, IMO Carbon Levy), also on benefits obtained from fossil fuels generating GHG emissions (Windfall Tax/Energy Profits); other options are also under consideration for their potential to mobilize significant resources (eg. Financial Transaction Tax, Financial sector tax for sustainable finance, Tax on stock buyback).

Similarly, in 2021, the G7 and G20 collectively agreed to relocate at least \$USD 100B in Special Drawing Rights (SDRs) to poorer countries, yet the pledge remains unfulfilled. The African Development Bank and Inter-American Development Bank recently provided a technical solution and developed a mechanism to allow countries to rechannel their SDRs to regional multilateral development banks, at zero cost for the taxpayers.

And the Bridgetown Initiative proposes including specific clauses in all sovereign debt instruments that “suspend the debt service for two years when an independent agency declares a natural disaster of a certain threshold has hit and extends the instrument’s maturity for two years at the initial interest rate.” This could allow countries in the South hit by climate impacts, which they did little to cause, to prioritise vital investments in disaster response and recovery.

Can a coalition of the willing emerge out of the Spring Meetings?

These points illustrate how leaders throughout the world find themselves at the centre of competing demands and narratives around the fight against poverty, the quest for economic growth and more sustainable transitions. The support for long-term transformation is one of solidarity and shared interests in preserving global public goods. In such a context, competing demands highlight the interdependency of all players involved.

To meet the objectives, significant efforts are required everywhere but in different ways, different scales, new partnerships, and various responsibilities. Some, as Barbados, have already established themselves as the champions of parts of this agenda. But others need to join their efforts and rally the coalition of the willing, as a stronger collective political leadership could help transformative measures emerge and be implemented. The June Summit in Paris on a new global financial pact is also a moment to gather political momentum on all these issues.

Such coalitions contribute to broader collective strategy building going beyond political and institutional leaders to include civil society organisations and local stakeholders, fostering coordinated interventions on the most important issues and envisioned deliverables. They should also define a timeline for action, articulating short-term priorities which require immediate action with longer-term options where further discussions are needed. With multiple proposals on the table already and several moments in 2023 to deliver, the expectations are high and not to be missed.

While still in process, the reform agenda appears more than ever ready for action. 2023 Spring Meetings are by no means the end game, but represent an important first step which should put various communities around the table in the right direction, and infuse a sense of much needed collective action. Other international summits and conferences later in 2023 will therefore be important opportunities, not to start the same conversation again, but rather to keep making progress and focus on specific points as the clock keeps ticking.

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