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International financial institutions' reform: where do we stand?

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The Annual Fall Meetings of the World Bank and the International Monetary Fund open next week in Morocco. More than a year after the first calls for ambitious reforms of the international financial architecture, these meetings are a new milestone of a particularly rich year on this issue. Beyond the important political signal of relocating the Meetings to Africa, the assessment of the actions undertaken over the last few months should demonstrate, against a backdrop of geopolitical conflicts and social and environmental emergencies, the capacity of the international financial institutions to respond to the high expectations expressed by the most vulnerable countries in particular.

Capitalising on an increasingly diverse political support

For the first time in 50 years, the Annual Meetings are returning to the African continent, to Marrakesh. This relocation illustrates the evolution of the political support for the reforms over the course of 2023. Discussions that were originally and more traditionally held in Washington, New York, Paris and other European capitals are now finding a strong echo on other continents. The Africa Climate Week in Nairobi and the Finance in Common Summit (FICS) in Colombia contributed to give African and Latin American voices an unprecedented resonance in a reshaping world order: while divergences persist, even within the same continent, concerns and expectations are shared.

On this new geopolitical basis, political “champions” such as Kenyan President Ruto must work together to make debates less divisive and ensure that reforms are implemented quickly and effectively. In this context, the role of civil society and think tanks is important in continuing, from the outside, to instil change within the banks, their shareholders and decision makers at large.

Making the "new global financial pact" a reality

The Marrakesh Assemblies will provide an opportunity to review some of the commitments made by political and financial decision makers, but which are still slow to materialise. For example:

- the 2009 commitment to reach \$100 billion per year for climate finance in developing economies: this amount was announced as having almost been reached at the [Paris Summit for a New Global Financial Pact](#), but no detailed figures for contributions and allocations have yet been made available;
- the reallocation of \$100 billion in special drawing rights for vulnerable countries, via the regional development banks: technical solutions put forward by the African Development Bank and the Inter-American Development Bank have so far gone unaddressed, blocking the issue for an indefinite period. A collective effort by shareholders is needed, but it is not likely to happen in Marrakech.

In addition, discussions should naturally focus on the evolution of development banks, in particular the World Bank, which presented its [roadmap](#) a year ago.

Concrete progress is also expected in the wake of the [commitments made at the Paris Summit](#), for which the deadline for implementation was specifically set at the Fall Meetings.

The evolution of the World Bank

Commitment: by the Fall Meetings, "the World Bank Group should aim to pursue continued ambitious reforms through the end of the year and beyond to better equip the Bank to respond to global challenges quickly enough and on the scale desired".

Since he took over as head of the World Bank last June, Ajay Banga has been expected to demonstrate the Bank's ability to adapt to the needs expressed and to bring other players (banks, governments, private sector) on board. [Initial steps](#) were taken at the Spring Meetings, followed by further announcements in Paris concerning, for example, the creation of a [Private Sector Investment Lab](#) dedicated to mobilising private finance. Ajay Banga has since [reiterated](#) his desire to see “a better bank before a bigger bank”, pointing to further areas for improvement, some of

which will be presented for adoption in Marrakesh¹ : clarification of impact measurements; use of the Bank's research work; scaling-up of certain operations incorporating common goods. But, as Ajay Banga himself admits, these measures will eventually have to be accompanied by additional financial mobilisation if we are to rise to the challenges. While the tripling of funding indicated in the [Independent Experts Group report](#) seems difficult to achieve in the current context, [new measures](#) could be adopted in Marrakesh to enable the Bank to increase its lending capacity to \$100 billion over 10 years. This \$100 billion would come in addition to the \$50 billion announced at the Spring Meetings, bringing it closer to the \$162 billion identified in a [Risk Control](#) report as being available to the IBRD (the branch of the World Bank that operates mainly in middle-income countries) without affecting its AAA rating (which it has held since 1959).

The role of the regional banks

Commitment: *"The regional development banks should implement the reform programme".*

Organised this year under the aegis of the Inter-American Development Bank and Bancoldex (a Colombian development bank), the FICS is specifically aimed at improving the links between the various development banks in order to maximise their impact on the ground. Since the abovementioned commitment was reiterated in Paris, it has helped to sketch out a more clearly the contours of these possible forms of cooperation. In particular, the FICS continues to emphasise the need to work as closely as possible with national and sub-national banks, which are closer to the reality on the ground and therefore better able to respond to needs and adapt financial instruments accordingly. The IEG progress report also recalls various initiatives taken by regional banks to contribute to the reforms. The Asian Development Bank has indicated its intention to [mobilise an additional \\$100 billion over 10 years](#) after reviewing its risk policy.

All these initiatives are necessary, but they do not yet allow us to act on a large scale. They would also benefit from being implemented not on an *ad hoc* basis, but as part of a concerted effort to ensure that the funding mobilised actually goes where it is needed and expected. It is on this basis that the private sector will then be able to respond more adequately to expectations. Similarly, detailed discussions have yet to take place on the way this additional financing fits into the pathways designed by the beneficiary countries themselves, thus ensuring that the financial system is better adapted to their needs.

In addition to these developments, two other major commitments were included in the Paris roadmap for the Fall Meetings.

Commitment: *"All donor countries are invited to contribute to efforts to guarantee an adequate level of concessional resources for development operations."*

This demand is ever stronger, and has grown over the course of the year as voices on reform have become more diverse, from Nairobi to Cartagena, Rio to Dakar. The negotiations promise to be difficult, but these discussions are inevitable, particularly in the fight against poverty. As for the World Bank, new resources are needed for the International Development Association (IDA), the Bank's concessional facility for the poorest economies. The Risk Control report identifies additional existing financing of \$21-27 billion that could be mobilised without affecting its triple A rating. This amount far exceeds the target of \$6 billion set for the establishment of an IDA crisis facility by the end of 2023 to meet the urgent needs of the countries concerned. But discussions on replenishing the IDA are taking place in a broader context marked by multiple requests for concessional financing, whether for the Green Climate Fund or the International Fund for Agricultural Development, while traditional high-contribution supporters such as the UK are reducing their amounts.

Commitment: *“The Multilateral Investment Guarantee Agency (MIGA) will be able to report on concrete actions to improve the use of its range of insurance instruments in coordination with other risk-sharing instruments in order to optimise their effects”.*

While MIGA seems limited in its ability to respond to the desired improvements, questions relating to the cost of capital and the instruments to be mobilised to reduce it have become central to the discussions. Governments from countries in the South have reiterated their desire to see measures put in place to facilitate access to capital, whether by updating the methodologies of rating agencies, which are still too rarely seen around the discussion table, or on the opportunities to mobilise multilateral banks and their national counterparts for the development of local markets and operations in local currency, thereby minimising exchange rate risks.

Setting clear deadlines for longer-term structural reforms

The Marrakech Meetings should make it possible to anticipate other important deadlines to come between now and the end of the year, and to continue to make progress on reforms that go beyond the banks and affect the structure of the international financial system.

The debt issue remains underlying all the reforms, and the IMF is playing a leading role in that matter. The progress made on the common framework at the Paris Summit is encouraging, but the situation in certain countries (as recently in [Angola](#) and [Sierra Leone](#)) is evolving critically much faster than the discussions within this framework. Other measures can be discussed in parallel to prevent the debt situation from having a negative impact on the proposed reforms if the recipient countries are simply unable to absorb the new funding.

All the changes discussed must also continually question the interaction with climate and biodiversity issues, which will be discussed at Climate COP28 in Dubai in December. The current discussions on the evolution of banks and the place of the poorest countries in this new architecture are echoed in the debates in the climate and biodiversity spheres on the [definition of so-called vulnerable countries](#) and eligibility for the future [loss and damage fund](#) or the [Global Biodiversity Framework Fund](#).

Finally, profound changes are expected in terms of governance. Adapting financial institutions to the challenges of the 21st century also means ensuring a more diversified and equitable representation of today's geopolitical and economic realities. [Emmanuel Macron](#) and [Kristalina Georgieva](#) have indicated their support for the opening of these discussions in response to requests from various countries in the South and emerging countries, without ignoring the geopolitical issues underlying these decisions. The planned change of leadership at the IMF in 2025 will provide an opportunity to turn these changes into reality. But other opportunities will arise between now and then within the international financial institutions, starting with the World Bank, and why not right now at the Marrakesh Assemblies.

¹ <https://www.devcommittee.org/content/dam/sites/devcommittee/doc/documents/2023/Final%20Updated%20Evolution%20Paper%20DC2023-0003.pdf>