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Where are the political champions to coordinate transformative change in the international financial system?

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The Fall Meetings of the World Bank and the International Monetary Fund are just over, linked with a last G20 finance ministers meeting under Indian presidency. The reform of the international financial architecture being championed for more than one year by different personalities, substantial progress was expected in Marrakesh. But the transformative steps that still need to be made have been hindered not so much by a lack of technically feasible options, but by the necessity to build political leadership at heads-of-state level. Who could step in and be in charge?

When there is a will, there is a way!¹

In 2023, efforts were made in Paris, Nairobi and elsewhere to break the deadlock on international financial institutions' reform discussions: by Barbados Prime Minister Mia Mottley, then a new political impetus given by French President Emmanuel Macron at the [June 2023 Paris summit on a New Financial Pact](#), and by Kenyan President William Ruto at the September 2023 Nairobi African Climate Summit; the Indian G20 Presidency as well as the new World Bank President Ajay Banga contributed to this leadership, and Brazil's G21 Presidency in 2024 is expected to do so as well. However important, those efforts were not sufficient, and might have come too late to create support from other countries and succeed on all fronts at the time of the Marrakesh meetings.

Nevertheless, the Annual Meetings of the World Bank were considered a landmark on this road to systemic change. As a matter of fact, they have shown that under political pressure, and with a new president, the World Bank (WB) has been able to support substantial changes: US\$50 billion over the next 10 years (by better use of capital) were announced at the Spring Meetings earlier this year; in Marrakesh, the Bank pledged an additional increase lending capacity of US\$ 157 billion over the next 10 years. This is a change in the order of magnitude, but still not at the scale of mobilizing trillions of private and public finance per year that are the assessed needs of vulnerable and poorest countries. The WB has shown that it can do better with the same capital, which was a precondition for many countries to also open the discussion on putting again more money into the system. And while the Bank will continue to explore ways to become a better, bolder and bigger bank, other MDBs are also expected to be part of that change.

Substantial but insufficient progress

For vulnerable and poorest countries, the replenishment of the grants and very concessional resources offered by the International Development Association (IDA, component of the World Bank Group) is going to be critical. The G20 International Expert Group (IEG)² insists that IDA resources are extremely crucial for these countries, but the amounts needed, while they need to be radically increased, are not necessarily as massive as trillions: by 2030, IDA replenishments over a three-year period should reach US\$279 billion, requiring around 0.04% of IDA donor gross national income in annual contributions. While their commitment is to aim at 0.7% of GNI for aid, donors have recently reduced the reality of their pledges (as in the UK), or announced reduction (in Nordic countries), for political reasons and for reallocation to other budgets including military, while public opinions in Western countries generally continue to support aid for most vulnerable countries.³ The new World Bank president insisted on *"making the next replenishment of IDA the greatest of all time"*. Which leaders in richest countries are in a capacity to champion such a collective effort and coordinate donors in that direction?

Deadlock in the geopolitics of recapitalization and governance changes

The French authorities have officially announced that they are open to discuss increases in support to the World Bank, opening the discussion of recapitalization of the International Bank for Reconstruction and Development (IBRD), the loan arm of the World Bank Group. This means opening to more capital from traditional donors but also from financial powers like China or the Arab Gulf countries, and as a consequence opening negotiations on the increase in their power of decision in the Bretton woods institutions; this discussion has already started as the IMF aims to complete a review of its quotas by mid-December. For the USA, which is the central power in these institutions, , the domestic political context and the rivalry with China makes it impossible to even open this conversation. For the Europeans, however, it would make sense to already have a strategic coordination to prepare

for the inevitable scenario of a reduction of their decision power in the international financial architecture, shifting from having a number of seats and around a third of the quotas that give them voting powers (which they often do not use in a sufficiently coordinated manner), towards a logics of strategic alliances with other regions, especially with the [extra board seat to be allocated to Africa](#) in both the WB and the IMF.

The discussions on the long overdue reallocation of special drawing rights (SDRs) to vulnerable countries further highlights the collective action issue at play among OECD donors. While Spain's announcement of a 50% reallocation of its SDRs to the IMF is a welcome addition, this does not solve the fact that the option of rechannelling through the IMF has reached its limits. The technical solutions put forward by the African Development Bank and the Inter-American Development Bank, while judged sound by the IMF itself, have also gone unaddressed. But Marrakesh helped exploring another technical option through the creative use of guarantees, to involve regional MDBs without requesting exceptions on existing rules from central banks. This option however requires broader collective support from shareholders, an opportunity Europeans can seize to move forward collectively and deliver on a long overdue commitment.

Lacking a sense of our common humanity?

As the minister of finance of Ghana Ken Ofori Atta expressed it, the catastrophic situation of indebted and vulnerable countries is a global risk for economic and financial stability, as was the situation of Europe for the world after World War II or the situation of Greece for the EU after 2008. Technical solutions have been explored and proposed, what is now lacking is the political leadership by rich countries in the G7 and G21 frameworks, showing that they have collectively understood the gravity for the whole world of the situation, beyond the moral argument to help the victims of the series of political, economic and climate crisis, but also preventing that the West is again perceived by Southern countries as lacking a sense that they belong to a common humanity.

With the US elections looming in 2024, all eyes are now on [Europeans to making reforms happen](#). An EU coalition of the willing would be needed to concretely and urgently implement some of the proposed actions and join progressive coalitions with countries from the Global South.

¹ <https://www.project-syndicate.org/commentary/imf-world-bank-annual-meetings-global-financial-architecture-reform-by-chrysoula-zacharopoulou-and-rania-al-mashat-2023-10/french?barrier=accesspaylog>

² Headed by Lawrence Summers (Former US Treasury Secretary, 1999-2001) and N.K. Singh (former Indian Administrative Service officer).

³ <https://www.opensocietyfoundations.org/focus/open-society-barometer>

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