THE PARLIAMENTARY NETWORK
On The World Bank & International Monetary Fund

NO TIME TO LOSE

THE BRIDGETOWN INITIATIVE AND THE TRANSFORMATION OF THE GLOBAL FINANCIAL ARCHITECTURE

A BRIEFING NOTE FOR THE PARLIAMENTARY NETWORK'S GLOBAL PARLIAMENTARY FORUM

AT THE

IMF / WORLD BANK SPRING MEETINGS

WASHINGTON DC, SPRING 2023

Rt Hon Liam Byrne MP
Chair, Parliamentary Network on the World Bank and IMF

SUMMARY

A perfect storm of challenges is now threatening the world's potential to reach the UN Sustainable Development Goals by 2030. Seven 'giants' now stand in the way of progress: Want, Hunger, Disease, Lost Learning, Conflict, Debt, and Climate Change. These cascading and connected challenges form a 'polycrisis', a cluster of related global risks with compounding effects, where the overall impact exceeds the sum of each part.[1]

Extreme poverty has risen for the first time this century[2] and on current trends, 600 million people will *still* be living on less than $2.15 by 2030.[3] Food and fuel prices remain high. Around 200 million children s lives are threatened by malnourishment[4] and learning losses amongst children during Covid could reduce future worldwide earnings by $21 trillion.[5] Fragility and violence is spreading. The external debt stock of low-income and lower-middle income countries has increased to nearly $2.9 trillion in 2021[6] and total gross debt in developing countries has reached the highest level for 50 years.[7] Debt costs are sharply rising, squeezing budgets.

This polycrisis is severely hindering Low- and Middle-Income Countries' capacity to target investment to where it is needed most, such as counter-poverty programmes, classrooms, clinics, and climate adaption.

And it is against this background that developing countries need to mobilise $5.8-5.9 trillion *before* 2030 to meet their emission reduction targets[8] while facing a cost of capital that is substantially *higher* than in richer countries.

Something has to change.

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[1] https://www.weforum.org/agenda/2023/01/polycrisis-global-risks-report-cost-of-living
[2] https://www.brookings.edu/blog/future-development/2020/05/06/turning-back-the-poverty-clock-how-will-covid-19-impact-the-worlds-poorest-people/
[3] https://documents1.worldbank.org/curated/en/099845101112322078/pdf/SECBOS0f51975e0e809b7605d7b690ebd20.pdf
[4] https://www.unicef.org.uk/what-we-do/life-saving-food/
[5] https://www.worldbank.org/en/publication/human-capital/publication/collapse-recovery-how-covid-19-eroded-human-capital-and-what-to-do-about-it
[6] https://publications.parliament.uk/pa/cm5803/cmselect/cmintdev/146/report.html
[7] https://www.worldbank.org/en/news/press-release/2019/12/19/debt-surge-in-emerging-and-developing-economies-is-largest-fastest-in-50-years
[8] https://unfccc.int/sites/default/files/resource/54307_2%20-%20UNFCCC%20First%20NDR%20summary%20-%20V6.pdf

At COP27 in Sharm El Sheikh, there was a clear call on richer nations and multi-lateral development banks to transform their ambitions and the quantity of financing available for Low- and Middle-Income Countries. Leaders from around the world have begun tabling proposals for reform, such as the 'Bridgetown Initiative'.

This year is shaping up to be a year in which the mission, the model, and the money in global development finance will be transformed. We must make sure that the voice of Parliamentarians, elected to serve the people, is heard in these debates.

This paper therefore sets out four points to inform the Global Parliamentary Forum in Washington DC in Spring 2023:

(a) The background to today's crises
(b) The call for change
(c) Options to consider
(d) Questions for Parliamentarians

A. BACKGROUND: THE 'POLYCRISES'

Seven 'giants' now block our path to delivering the UN Sustainable Development Goals by 2030 and the necessary action to keep global temperature rises to 1.5 degrees.

1. **Want**: Extreme poverty ($2.15 per day) has risen for the first time this century.[9] Covid-19 cost developing countries 5% of their Gross Domestic Product (GDP) in 2020, unraveling decades of development achievements and pushing at least 100 million people back into extreme poverty.[10] Yet on current trends, by 2030, nearly 600 million people – 7% of world s population – will *still* be living on less than $2.15 a day[11] and three billion people will *still* be living on less than $6.85 lacking access to quality education, healthcare, and jobs.

2. **Hunger**. In 2021, close to 193 million people across 53 countries/territories were acutely food insecure and in need of urgent assistance.[12] Around 200 million children s lives are threatened by malnourishment.[13] Global food prices, despite having fallen from historic peaks, remain high, and domestic food price inflation remains high around the world. New export restrictions could send prices soaring again.

3. **Disease**. Nearly seven million of the people we serve were killed by Covid-19.[14] In total, the disease could have contributed to around 17 million deaths and cost the global economy, by 2024, US$12.5 trillion.[15] But Covid-19 came in the wake of SARS and Ebola epidemics, which already cost thousands of lives and billions of dollars in lost livelihoods.[16, 17] Global pandemic prevention is estimated to cost just $10.5 billion each year – yet the world is still not geared up to prevent the next pandemic.

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[9] https://www.brookings.edu/blog/future-development/2020/05/06/turning-back-the-poverty-clock-how-will-covid-19-impact-the-worlds-poorest-people/
[10] https://www.worldbank.org/en/news/press-release/2020/10/07/covid-19-to-add-as-many-as-150-million-extreme-poor-by-2021
[11] https://blogs.worldbank.org/developmenttalk/stepping-fight-against-extreme-poverty
[12] https://www.wfp.org/publications/global-report-food-crises-2022
[13] https://www.unicef.org.uk/what-we-do/life-saving-food/
[14] https://covid19.who.int
[15] https://www.reuters.com/business/imf-sees-cost-covid-pandemic-rising-beyond-125-trillion-estimate-2022-01-20/
[16] https://www.adb.org/publications/sars-epidemic-2003-examination-economic-costs
[17] https://www.worldbank.org/en/topic/macroeconomics/publication/2014-2015-west-africa-ebola-crisis-impact-update

4. **Lost Learning**. School closures during Covid-19 interrupted the learning of millions of children and risk costing today's generation of students the equivalent of 14 percent of global GDP in lifetime earnings - around $21 trillion.[18] At least 763 million young people and adults lack basic literacy skills and 244 million children and young people are out-of-school.[19] In Low- and Middle-Income Countries (LMICs), as many as 70% of 10-year-old children cannot read and understand a simple text – up from 57 percent in 2019.[20] Yet transforming investment in education is mission-critical if LMICs are to reap the potential of their 'demographic dividend'.[21] Most LMIC countries have growing working age populations — but 40% of Low- and Lower-Middle-Income nations reduced spending on the education needed to unlock that potential.[22]

5. **Conflict**. Scarcity is contributing to violence. Since Covid-19, 20 million *more* people are living in extreme poverty in countries affected by fragility, conflict and violence; around 81 percent of the nearly 193 million people experiencing acute food insecurity were in countries affected by fragility, conflict, and violence (FCV).[23] In 2023, real income per capita is projected to fall short of pre-pandemic levels in almost 50% of lower-income economies affected by fragility and conflict.[24] About two-thirds of the world s extreme poor are expected to live in FCV affected countries by 2030.[25]

6. **Debt**. LMICs are now juggling the highest total gross debt for 50 years.[26] According to the latest World Bank International Debt Statistics, the external debt stock of Low-Income and Lower-Middle Income countries has increased to nearly $2.9 trillion in 2021, and Low-Income counties are now spending more on debt servicing as a proportion of Gross National Income (GNI) than at any point in at least the past 30 years.[27] External financing needs for

[18] https://www.worldbank.org/en/publication/human-capital/publication/collapse-recovery-how-covid-19-eroded-human-capital-and-what-to-do-about-it
[19] https://www.un.org/sites/un2.un.org/files/report_on_the_2022_transforming_education_summit.pdf
[20] https://www.un.org/sites/un2.un.org/files/report_on_the_2022_transforming_education_summit.pdf
[21] https://www.un.org/africarenewal/magazine/july-2022/world-population-reach-8-billion-15-november-2022
[22] https://www.worldbank.org/en/news/press-release/2022/06/28/financing-for-education-stagnant-or-declining-despite-chronic-learning-needs-post-covid-19
[23] https://www.worldbank.org/en/topic/fragilityconflictviolence/overview
[24] https://www.worldbank.org/en/publication/global-economic-prospects
[25] https://www.worldbank.org/en/topic/fragilityconflictviolence/overview
[26] https://documents1.worldbank.org/curated/en/099845101112322078/pdf/SECBOS0f51975e0e809b7605d7b690ebd20.pdf
[27] https://publications.parliament.uk/pa/cm5803/cmselect/cmintdev/146/report.html

developing countries are projected by the IMF to be up to US$700 billion a year through 2025 - with some US$450 billion needed in low-income countries.[28]

7. **Climate Change**: Now add climate adaptation costs to the bill. The World Meteorological Organisation reported that in 2020 and 2021 alone more than 30 developing countries experienced extreme climate events including extreme heat and wildfires, floods, drought and storms.[29] One estimate shows that 50% of the debt stock of Caribbean countries can be attributed to reconstruction needs after the storms of the last two decades. For the future, developing countries need to mobilise $5.8-5.9 trillion *before* 2030 to meet their emission reduction targets and the relative scale of finance needed by LMICs is far greater than in richer countries;[30] on average, countries need to invest 1.4% of GDP in climate adaptation — but that rises to 8% of GDP in low-income countries.[31]
The Report of the Independent High-Level Expert Group on Climate Finance found that 'Emerging markets and developing countries other than China will need to spend around $1 trillion per year by 2025 (4.1% of GDP compared with 2.2% in 2019) and around $2.4 trillion per year by 2030 (6.5% of GDP).[32] Yet, the cost of climate finance that is substantially *higher* than in richer countries. Governments that issue an international reserve currency borrow ten-year money at 1-4% per year today, while developing countries borrow at an average of 14%.[33]

Despite these crises, high-income countries are comprehensively *failing* to mobilise the scale of finance needed to deliver on key pledges, such as the UN Sustainable Development Goals, and keeping temperature rises to 1.5 degrees.

- The Group of 20 bloc of major economies has fallen well short of marshalling the $100 billion in 'recycled' IMF Special Drawing Rights, promised in 2021.[34]

[28] https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/world/G7-G20/G20-Documents/Italy/2021-07-10-g20-annex-l.pdf?__blob=publicationFile&v=7
[29] https://www.brookings.edu/wp-content/uploads/2023/02/Chapter-1.-Keys-to-Climate-Action-Overview.pdf
[30] https://unfccc.int/sites/default/files/resource/54307_2%20-%20UNFCCC%20First%20NDR%20summary%20-%20V6.pdf
[31] https://www.worldbank.org/en/news/feature/2022/11/03/10-things-you-should-know-about-the-world-bank-group-s-first-batch-of-country-climate-and-development-reports
[32] https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/11/IHLEG-Finance-for-Climate-Action-1.pdf
[33] https://www.un.org/development/desa/dpad/publication/un-desa-policy-brief-no-134-the-great-finance-divide/
[34] https://www.cgdev.org/blog/quick-rundown-where-we-stand-sdrs

- The $100 billion in climate finance promised annually at United Nations climate conference talks has also failed to materialise.[35]

- The promise of leveraging giant pension funds to help supply critically needed investment still looks distant.[36]

Hence the calls over the last year for urgent action.

[35] https://www.oecd.org/climate-change/finance-usd-100-billion-goal/
[36] https://www.pionline.com/esg/al-gore-calls-out-greenwashing-risks-funds-quit-gfanz

B. THE CALL FOR CHANGE: COP27

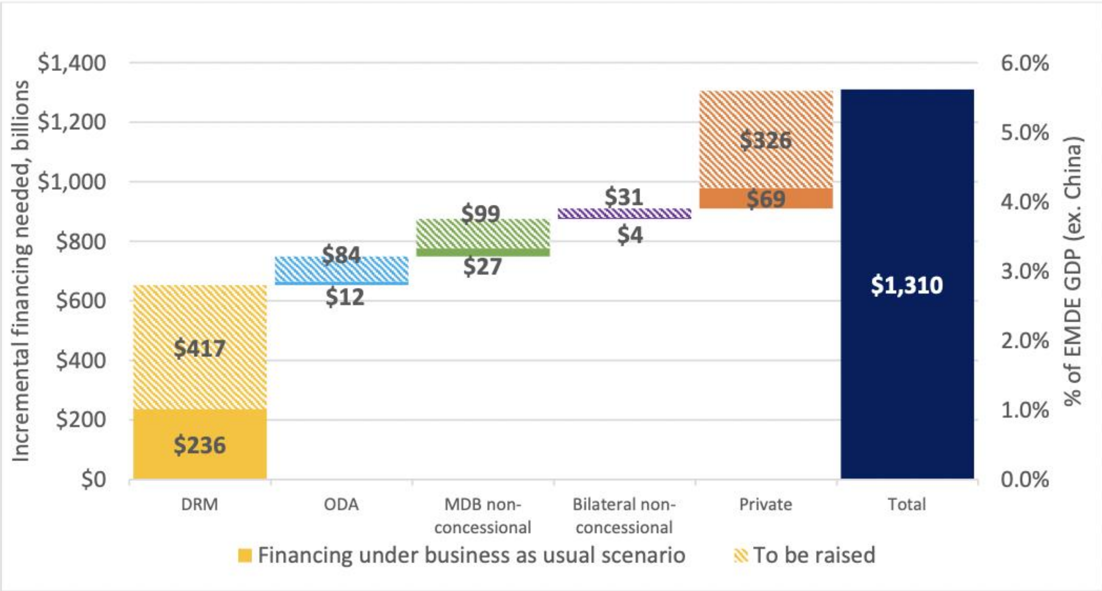
The Sharm el-Sheikh Implementation Plan (Decision -/CP.27), agreed at COP27,[37] included an extensive text on the need for the world to overhaul the availability of climate finance, at a time when development gains are imperilled, and debt costs are high.

The Plan 'note[d] with concern the growing gap between the needs of developing country Parties […] and the support provided and mobilized for their efforts to implement their nationally determined contributions' and concluded with 'serious concern' that the goal agreed by developed country to mobilise US$100 billion per year by 2020 had <u>not</u> been met, urging developed country Parties to 'provide enhanced support, including through financial resources, technology transfer and capacity-building'.

Reporting by the Grantham Institute on Climate Change and the Environment indicates that this $100 billion a year is absolutely vital to financing a 'big investment push' in emerging markets and developing countries for sustainable, resilient and inclusive recovery and growth

[37] https://unfccc.int/sites/default/files/resource/cop27_auv_2_cover%20decision.pdf

A 'Grand Match' financing strategy – incremental financing needed between 2019



and 2025 (billions 2019 US$)[38]

The Grantham Institute concludes that 'About half the financing needed [to tackle climate finance] could come from domestic resource mobilisation (DRM)' - but to unlock this would require 'A concerted effort…to boost and improve the effectiveness of tax mobilisation, especially in EMDEs, supported by strong international tax cooperation on tax rates, tax avoidance and equitable tax sharing.' Crucially, "Official development assistance (ODA) and concessional climate finance must be scaled up substantially at this crucial moment. We propose an incremental increase in ODA and multilateral concessional finance of $96 billion by 2025, a 50% increase over 2019 gross figures."

The urgency of this call echoes the call made in the Sharm el-Sheikh Implementation Plan which called;

> 'on the shareholders of multilateral development banks and international financial institutions to reform multilateral development bank practices and priorities, align and scale up funding, ensure simplified access and mobilize climate finance from various sources and encourages multilateral development banks to define a new

[38] https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/05/Financing-the-big-investment-push-in-emerging-markets-and-developing-economies-for-sustainable-resilient-and-inclusive-recovery-and-growth-1.pdf

vision and commensurate operational model, channels and instruments that are fit for the purpose of adequately addressing the global climate emergency, including deploying a full suite of instruments, from grants to guarantees and non-debt instruments, taking into account debt burdens, and to address risk appetite, with a view to substantially increasing climate finance'.

It concluded with a call 'on multilateral development banks to contribute to significantly increasing climate ambition using the breadth of their policy and financial instruments for greater results, including on private capital mobilization, and to ensure higher financial efficiency and maximize use of existing concessional and risk capital vehicles to drive innovation and accelerate impact.'

Parliamentary Network members have been amongst those calling for change. At our last Global Parliamentary Forum, we asked attendees for their top priorities for action. The results were as follows:

- Climate change (19%)
- Education (12%)
- Technology and automation (11%)
- Healthcare (10%)

However, it also worth flagging World Bank Country Opinion Survey (COS) using data collected from Parliamentarians in 21 countries produced a different list. The most important development priorities were:

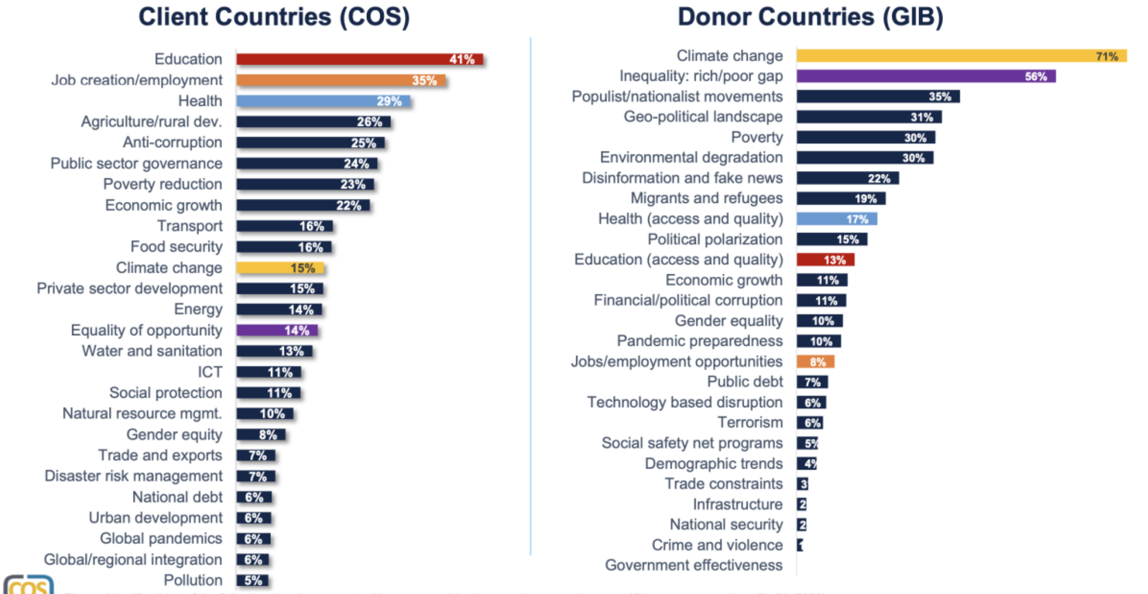
- Education (34%)
- Health (28%)
- Job creation/employment (25%)
- Agriculture and rural development (25%)

As such, human capital was accorded a greater priority amongst parliamentarians from borrower countries. This reflects data from the World Bank in 43 surveys taken in 2020 and 2021 with representatives from government, aid agencies, media, academia, the private sector, and civil society.[39] The survey team asked respondents to pick their top

[39] https://cgdev.org/blog/do-clients-want-world-bank-focus-climate

three out of a list of about 28 options. Across countries, education was most commonly picked as the top priority–in 24 out of 43, it was ranked among the top two development priorities. U.S. Treasury Secretary Janet Yellen has also noted that in recent talks, government officials were looking for reform of the World Bank and the multilateral development bank system that did not “see global challenges addressed at the expense of poverty reduction.”

Development priorities of stakeholders in client countries and "concerns about global issues" of those in donor countries are not aligned



COS *Please identify which of the following development priorities you consider the most important in ____. (Choose no more than 5) (N=7279)*

GIB *Which of these issues, if any, do you consider the most concerning for own country / globally? (Choose no more than 5) (N=283)*

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C. PROPOSALS FOR REFORM

Over the last three years, proposals for reform have been gathering steam:

- In July 2021, the G20 Finance Ministers and Central Bank Governors agreed an Independent Review of the Capital Adequacy Frameworks of Multilateral Development Banks which was presented and welcomed by G20 Finance Ministers and Central Bank Governors in July 2022.[40]

- In October 2022, US Treasury Secretary Janet Yellen declared that multilateral development banks cannot provide financing on the scale that is needed - but they are a critical part of the solution" and with others helped push a roadmap for reform.[41]

- At COP27 in November 2022, a series of proposals were presented in the context of debates on climate finance, which have become known as the Bridgetown Agenda[42]

- In January 2023, the World Bank board was presented an 'Evolution Roadmap' to advance proposals for reform[43]

- As this debate has unfolded, many - especially but not exclusively in Africa - argue that it is now vital to review the governance and vote shares of the IMF and World Bank, not least because there is an IMF quota review underway - most recently in the joint declaration of the UN Economic Commission for Africa Finance Ministers.[44]

[40] https://cdn.gihub.org/umbraco/media/5094/caf-review-report.pdf
[41] https://www.devex.com/news/us-treasury-secretary-asks-world-bank-to-think-bigger-and-lend-more-104155
[42] https://www.foreign.gov.bb/the-2022-barbados-agenda/
[43] https://www.worldbank.org/en/news/statement/2023/01/13/world-bank-group-statement-on-evolution-roadmap
[44] See Appendix 1

In essence, the proposals for reform fall into three categories: mission, model - and (new) money for the global development finance system.

Mission

There has been a wide debate about updating the World Bank's 'Twin Goals' of ending extreme poverty and fostering inclusive growth, to add a third goal relating to tackling climate change and a vision that stresses the need to work on global goals.

In February 2023, two World Bank Governors Mia Mottley and Svenja Schulze argued the World Bank needed a revised constitution that embraces building sustainability and resilience[45]; 'as part of the World Bank s evolution"' they wrote, 'we need to modernize its mission by elevating sustainability and resilience as core institutional goals, and by strengthening its analyses and operations to address new transboundary challenges'.

Models

Several proposals have been made about the need for new models of mobilising and supplying investment.

- **Investment Models**. Prime Minister Mia and Mottley and Minister Schulze have argued that, given that every $1 invested in sustainability and resilience today, yields "$4-7 in savings down the line", we need to "incorporate these principles into operational, lending, and debt-sustainability models with appropriate incentives and accounting standards. Many reforms and investments can have positive cross-border spillovers. But we will need new and stronger incentives – both analytical and financial – to promote national investment in global public goods, and to support countries with their conservation efforts." This argument underlines the need for incentives that do not simply incentives the *quantity* of lending but the *quality* and *impact* of lending in actually improving outcomes, such as the productivity of agriculture or incorporating the new insights from the World Bank's Country Climate and Development Reports (CCDRs).

[45] https://www.project-syndicate.org/commentary/global-financial-reforms-for-sustainability-resilience-by-mia-amor-mottley-and-svenja-schulze-2023-02

- **National, Regional and Global Operating Models.** Second, many have argued that MDBs must also use their balance sheets to catalyse private investment, effectively seeding funds which leverage substantial further investment from environmental, social, and governance (ESG) investors to support investment in low-carbon energy, transportation, and agriculture throughout the developing world. Today's multi-lateral development institutions work on country-by-country models. Yet many of the challenges we face today are best tackled regionally or globally through new mechanisms such as COVAX or the Green Climate Fund.

- **Middle income countries.** Traditionally, only the poorest countries have qualified for the most concessional finance. But much of the climate adaptation finance that is needed is in middle income countries. Hence**,** Professor Avinash Persaud has argued (Bridgetown #2) that we must widen access to concessional finance for the climate-vulnerable not least because "Much climate adaptation does not have the revenues private investors need, so indebted governments must borrow more." As such Bridgetown' "calls for a limited widening of the eligibility for concessional lending for climate-vulnerable countries investing in resilience in climate-vulnerable countries." Clear safeguards however are needed to ensure that the needs of Low-Income Countries are not displaced.

- **Cities.** U.S. Treasury Secretary Janet Yellen has proposed more flexible models, like lending to cities, which account for some 60% of carbon emissions.

Money: from billions to trillions

The biggest challenge however is the gap in climate and development finance which today is acute. There is a widespread consensus that we need to shift the available funds from the billions to the trillions of dollars. The question is how. Several ideas for reform have been proposed.

(1) Expand the capacity - and improve concessional lending terms - of Multi-Lateral Development Banks with improved Capital Adequacy Frameworks

An independent study commissioned by the G20 has produced a road map showing how smarter use of existing balance sheets could unlock several hundreds of billions of dollars” for development finance — though this estimate may be somewhat optimistic. At the core of the report were five key recommendations:

1. Adopt a more efficient management of MDB capital and risk, including by further reflecting on the approach to defining risk tolerance.

2. Give appropriate recognition to callable capital. Callable capital is capital which is subscribed to MDB’s but not actually paid in unless absolutely needed. It is a powerful instrument expressing the commitment of shareholders to stand behind MDBs. The Review recommended that MDBs should incorporate these financial benefits in MDB capital adequacy assessments, as is already the practice in some MDBs and in credit rating agency methodologies.

3. Expand uses of financial innovations by adopting a more strategic, cooperative, and proactive approach to innovations that can improve the use of existing capital and free additional financing.

4. Enhance dialogue with credit rating agencies (CRAs) to improve mutual understanding.

5. Create an enabling environment for reform through greater transparency and information with more accessible and comparable data and analysis, as well as regular capital reviews, will support all the stakeholders in their assessment of MDB strength and demystify their financial model.

In addition, there are a number of trusts within the World Bank Group, such as Global Environment Facility, where some argue sharper incentives are needed to maximise their utilisation.

Welcoming the G20 report, World Bank governors, Mia Mottley and Svenja Schulze argued: “We…need to explore all our options for boosting multilateral development banks financing capacity. The key, here, is to leverage existing capital while preserving these institutions AAA ratings and countercyclical lending capacity. As the G20 Capital

Adequacy Review showed, MDBs can increase their risk appetite and boost financing volumes by lowering their minimum equity ratios. Similarly, we welcome proposals calling for an issuance of non-voting hybrid capital to boost lending at still-lower concessional rates – to be provided either by a shareholder coalition of the willing" or through sales to private investors."

This reflects the sentiment of the third recommendation in the 'Bridgetown Initiative" which is to expand MDB lending "for climate and SDGs by $1 trillion". Underlining this point, Professor Avinash Persaud argued, "We must broaden MDBs lending capacity if we widen access to concessional funds and achieve Sustainable Development Goals everywhere. Bridgetown calls for MDBs to lend a further $1 trillion by raising their risk appetite and including donor guarantees and SDRs when determining their lending room."

The World Bank and other MDB's are reviewing what they believe is possible. At the time of writing, World Bank President David Malpass has said that World Bank reforms will allow the bank maintain a triple A ratings and lend an additional $40 billion - $50 billion over 10 years[46] - which delivers perhaps $5 billion a year.

This, however, is a long way short of the ambitions set out by Independent High-Level Expert Group on Climate Finance last July, co-chaired by Vera Songwe and Nicholas Stern and launched by COP26 and COP27 Presidencies, together with the UN Climate Change High-Level Champions.[47] Their report calls for a 'tripling of the annual flows from the MDBs and other development finance institutions (DFI's) in the next five years.'[48] Experts at the campaign group, ONE, calculate this would imply $200 billion a year by 2030, or $1.2 trillion cumulatively by 2030.

(2) Build a bigger World Bank

In the first instance, the World Bank's shareholders are highly likely to seek to maximise additional concessional finance from current balance sheets. For instance, US Treasury

[46] See https://www.devex.com/news/david-malpass-reforms-to-yield-40b-in-additional-world-bank-lending-105188 but also https://www.devex.com/news/david-malpass-world-bank-can-lend-up-to-50b-more-over-next-decade-105247
[47] https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/11/IHLEG-Finance-for-Climate-Action-1.pdf
[48] https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/11/IHLEG-Finance-for-Climate-Action-1.pdf, p.6

Secretary Yellen told the U.S. House of Representatives Appropriations Subcommittee on State, Foreign Operations, and Related Programs in March 2023, that "We are not requesting a capital increase…We do want to see better mobilization of private resources alongside World Bank investments as well, but we're not requesting a capital increase at this time."[49]

However, others - myself included[50] - have argued that there is simply no substitute for high-income countries building a bigger World Bank. The Songwe-Stern Report noted that MDB 'shareholders must recognise that capital increases for the MDBs over the coming five years will be required to achieve the necessary to two-to-three fold increase in [capital] flows' to finance climate adaptation.[51]

Contributions to the World Bank and other MDB's are, after all, one of the most efficient ways of maximizing development finance ever invented. For example, the $19 billion of capital contributed to the World Bank s main lending channel between 1944 and 2021 has unlocked an incredible $750 billion in loans.

We have boosted the Bank s balance sheet in the past. But the bank s last capital increase, five years ago, was designed for one mid-sized crisis a decade, not the polycrisis we face today. So if the Bank s management and mission changes, so the money has to change too. But how much?

A $32 billion boost to the World Bank Group would allow for $100 billion in additional annual lending through 2030. That would at least allow us to meet the floor levels of climate finance agreed by the conference of parties signatories. So one approach might be to see this as a minimum target for a new capital increase to be agreed by the World Bank-IMF annual meetings in October — ahead of the 28th U.N. Climate Change Conference, when high-income nations have to explain how they will fund new agreements like the global fund for loss and damage.

(3) More creative use of IMF Special Drawing Rights - and new SDRs

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49 https://www.reuters.com/business/us-expects-bidens-nominee-ajay-banga-be-elected-world-bank-chief-2023-03-29/
50 https://www.devex.com/news/opinion-beyond-new-management-the-world-bank-needs-new-money-105051
51 https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/11/IHLEG-Finance-for-Climate-Action-1.pdf

A significant opportunity for providing increased finance is through IMF Special Drawing Rights (SDRs). SDRs are, as the IMF explains,:

> "an interest-bearing international reserve asset created by the IMF in 1969 to supplement other reserve assets of member countries…The SDR is based on a basket of international currencies comprising the U.S. dollar, Japanese yen, euro, pound sterling and Chinese Renminbi. It is not a currency, nor a claim on the IMF, but is potentially a claim on freely usable currencies of IMF members."[52]

Originally issued in the 1960's, a large number of SDRs were created was in 2009 following the financial crisis. In 2021, the IMF led a further huge issue of $650 billion in Special Drawing Rights to its shareholders. These went to shareholders in proportion to their 'quota' holdings in the IMF. As such, richer nations got far more SDR's than poorer nations.

In 2021, the G20[53] agreed that $100 billion of these SDRs should be 're-channeled' including to the IMF for on-lending to LMIC's through two IMF Trusts; the Poverty Reduction and Growth Trust (PRGT), and the new Resilience and Sustainability Trust (RST).

The $100 billion target has not yet been met - and crucially, the PRGT is not available to middle income countries, which confront significant challenges mobilising climate and development finance.

The G20 says[54] that that countries have pledged $82 billion to recycling - but this includes $21 billion from the United States, which has yet to secure congressional approval. The ONE Campaign puts the total of publicly announced pledges at $60 billion (excluding the United States). For the RST, the IMF reports that as of October 2022, US$20 billion has been secured for the RST from six member countries, and "good progress is being made" finalising contribution agreements of a further US$37 billion. Three countries have signed

[52] https://www.imf.org/en/About/FAQ/special-drawing-right#Q1.%20What%20is%20an%20SDR?
[53] http://www.g20.utoronto.ca/2021/211031-declaration.html, para 10
[54] https://www.g20.org/content/dam/gtwenty/gtwenty_new/about_g20/previous-summit-documents/2022-bali/G20%20Bali%20Leaders%27%20Declaration,%2015-16%20November%202022.pdf

up to received RST support - Barbados, Costa Rica, and Rwanda - and “Good progress is being made” with an additional 5 countries, including Bangladesh.
In essence, there are five big ideas for better use of Special Drawing Rights:

(a) As a bare minimum, richer countries need to step up and deliver on the commitments made to mobilise $100 billion of SDR’s. Campaign groups like ONE have made clear that better use of Special Drawing Rights are a significant opportunity for reform.

“What ONE is calling for:

- *Advanced economies should commit to a rapid channeling of at least 30% of their SDRs to reach the global US$100 billion ambition. These commitments must be transparently recorded and tracked by the IMF for accountability. Beyond this, advanced economies should pledge to recycle more SDRs once new mechanisms are in place. This should be based on the scale of need in low- and middle-income countries.*
- *For their part, African governments should commit to open and transparent processes that will allow citizens and civil society organizations, as well as the legislature, to clearly follow how SDRs are used. This includes publicly disclosing plans, periodically publishing progress reports, and conducting an assessment of how the implemented activities and results align with objectives.*

As a minimum it is not hard for richer countries to continue to supply the tried and tested PRGT which provides concessional support interest free. As the charity CAFOD argues, “For donors such as the UK it [the PRGT] has the advantage of protecting the reserve asset qualities of their SDRs and carrying no budgetary cost.” This is because these low-risk loans to the PRGT earn interest like SDR holdings would and are fully liquid in that they could in theory if needed be returned.” But this would not help Middle Income Countries.

(b) Step up contributions to the Resilience and Sustainability Trust. The first IMF deals have been signed to deploy funds from its new Resilience and Sustainability Facility. As Mia Mottley and Svenja Schulze argue, “The IMF s new Resilience and Sustainability Trust …represents a promising first step toward maximizing the effectiveness of SDR allocations.” But, given the challenges, the size of the Trust is too small.

(c) Re-channelling SDR’s through a wide range of multi-lateral development banks as hybrid capital. The African Development Bank (AfDB) has proposed an hugely important innovation using Special Drawing Rights as hybrid capital on its balance sheet.

Every SDR100 million recycled to the AfDB will be multiplied to increase loans to vulnerable African countries by SDR200-400 million. In effect, the AfDB proposes to leverage SDRs as capital to mobilize more lending funds. The SDRs are never themselves spent - rather they are held as as capital in the Bank s SDR account at the IMF.

The hybrid capital model preserves the SDRs reserve asset characteristic which was something on which the G20 insisted. IMF staff have confirmed SDRs invested in AfDB hybrid capital will count as reserves in the IMF s official statistics. The AfDB also propose to pay interest to those countries recycling SDR s at slightly above the SDR interest rate. The AfDB covers these costs with the interest they receive on their loan.

While recycling SDRs through the IMF s Poverty Reduction and Growth Trust or its Resilience and Sustainability Trust are essential avenues for lots of ‘recycling’, they do not utilize the power of the SDR as fully as the AfDB scheme: the leverage ratio is less than one, the SDRs are spent, countries trade them for hard currency, and there is no profit (but also no loss) for the donor country.

If richer nation s meet their target of recycling $100 billion in SDR s and share $60 billion through the IMF, there could be $40 billion of SDR s left over that could deployed as hybrid capital through multi-lateral development banks. The leverage on this could come to $160 billion in new lending.

This model has transformational potential which could have a very major impact on the future of development finance.

There are roughly $400 billion in Special Drawing Rights (SDR’s) stored unused in the vaults of richer countries.[55] If Multi-lateral Development Banks can accept SDRs and

[55] ONE Campaign, private correspondence with the Chair

leverage them four-fold, then this has the theoretical potential to supply $1.6 trillion in concessional lending. Of course, to date no country has yet shared more than 25% of the latest issue of SDR's. However, experts at the ONE campaign point out that if the IMF provides a general allocation every five years of up to $650 billion, the effect could be game-changing if a significant portion of these SDR's continue to be shared and continue to be leveraged by MDB's in the way the African Development Bank proposes.

(d) Some richer countries could either donate their SDR's to poorer countries or to effectively swap out the cash equivalent of their new SDR issue from their reserves and use the cash to make cash donations to international aid. As an IMF report published two decades ago highlighted: there is nothing to prevent countries from voluntarily agreeing to transfer SDRs to other countries or prescribed holders for reasons of their own choosing." In the UK, CAFOD has argued that the "the UK could choose to convert some of these SDRs for US$ which it then donated to a mechanism such as COVAX [or the Green Climate Fund]…For example, if the UK was to donate or lend SDRs it would see its SDR holdings decline which means paying an SDR interest cost. If the UK lends SDRs then the interest cost can be covered if the loan earns at least the same as the SDR interest rate, which is what happens when the UK lends SDRs via the PRGT."

(e) A fresh issue of SDR's to help seed a Climate Mitigation Trust[56] (CMT) could draw in $5 trillion of private savings for climate mitigation. Proposed as part of the Bridgetown Initiative a fresh issue of $500 billion in Special Drawing Rights plus donor guarantees to seed a new IMF Trust. Crucially, the CMT would support middle income countries which do not have access to the Poverty Reduction and Growth Trust. As Professor Persaud explains, "These funds would invest in projects based on the size and pace of climate change mitigated and would leverage up to $5 trillion of private finance. These loans would be on the Trust s balance sheet, not the Government s, but the projects would likely comprise partnerships of Governments, communities, technology firms and capital."

This proposal is not without its challenges any donation of SDR's would need to be converted to hard currency in order to be invested. More practically it is not clear that the global community could today summon the political consensus to deliver an 85 percent

[56] https://unclimatesummit.org/opinion-the-bridgetown-initiative/

majority of the IMF Board to authorise a new allocation, and some central banks already worry about absorbing too many SDRs from middle- and low-income countries as it complicates their reserve management system.

Where does this leave us? Together these the easier proposals could unlock around $270 billion in fresh concessional lending. This is not nothing. But it still falls short of the sums we need to mobilise to address the poly-crises of today.

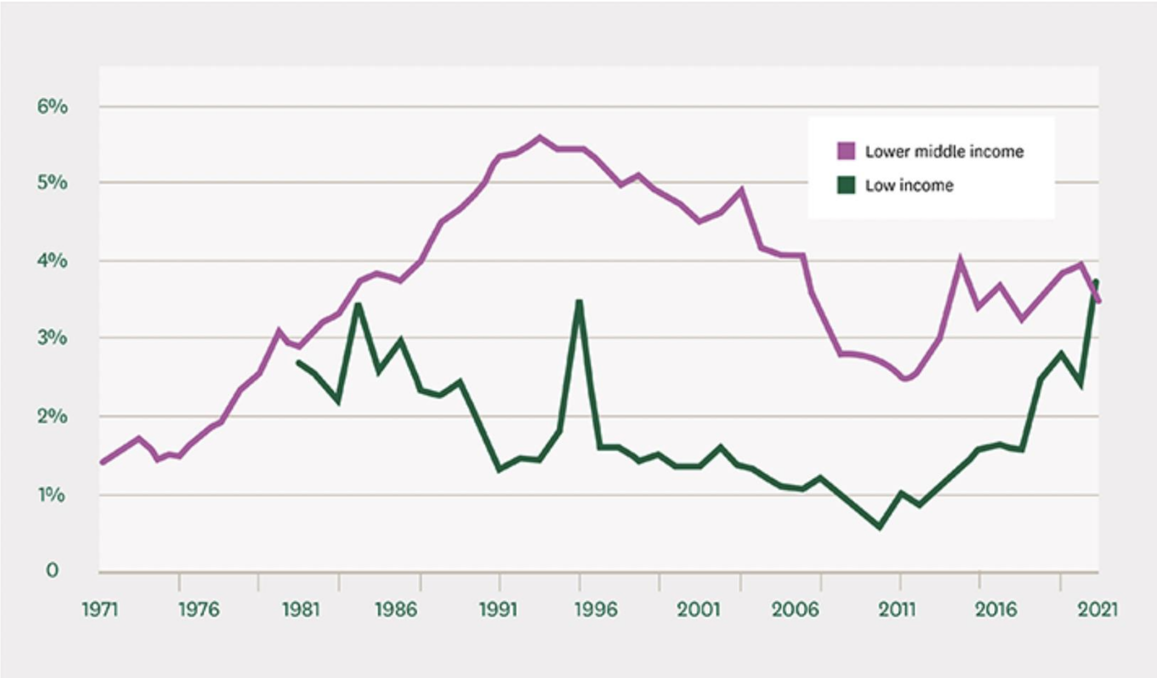
Summary of selected proposals

	Uplift to lending capacity
Better use of World Bank balance sheet	$50 billion
Meet G20 commitment on rechannelling IMF SDR's & committ 60% to IMF PRGT & RST	$60 billion
Deploy $40 billion in IMF SDR's to MDB hybrid capital (AfDB proposal)	Upto $160 billion
Total	**$270 billion**

D. FURTHER MEASURES: DEBT, LOSS & DAMAGE, SHOCKS

(a) Common Framework and Debt Sustainability

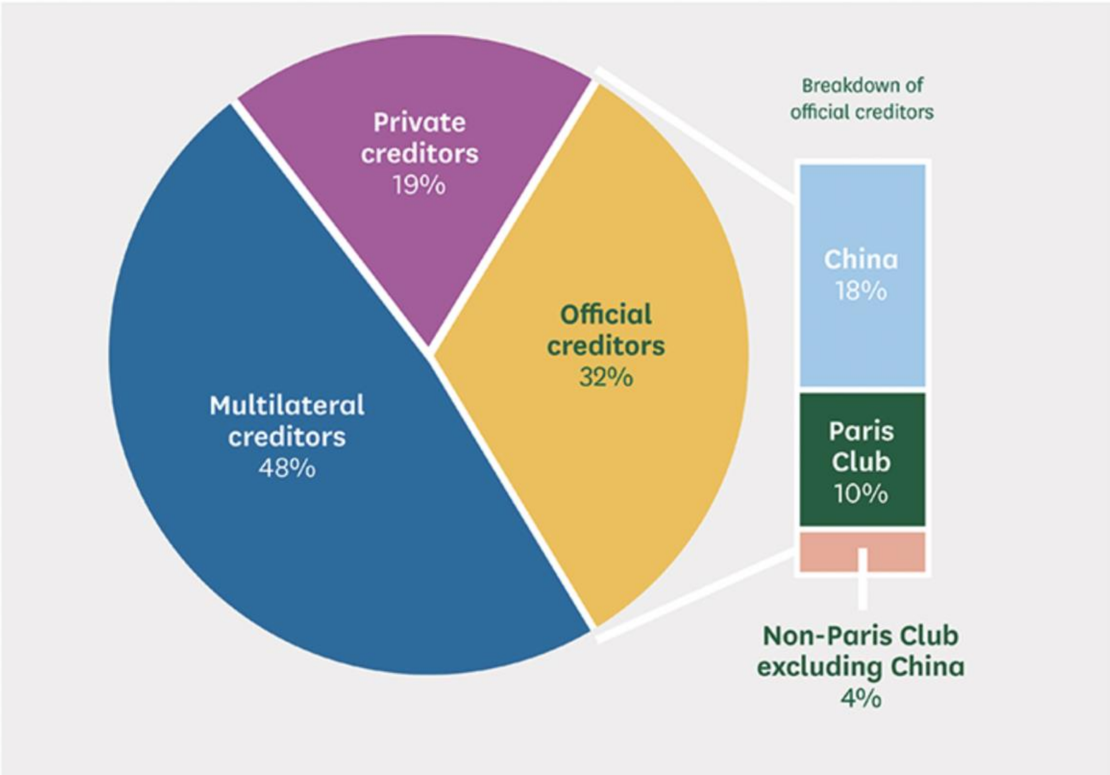
Beyond measures to the reform of *future* development finance, there is the key question of how we ensure sustainability of current debts *today*. According to the latest World Bank International Debt Statistics, the external debt stock of low-income and lower-middle income countries has increased to nearly $2.9 trillion in 2021 - and low-income counties are now spending more on debt servicing as a proportion of GNI than at any point in at least the past 30 years.[57]



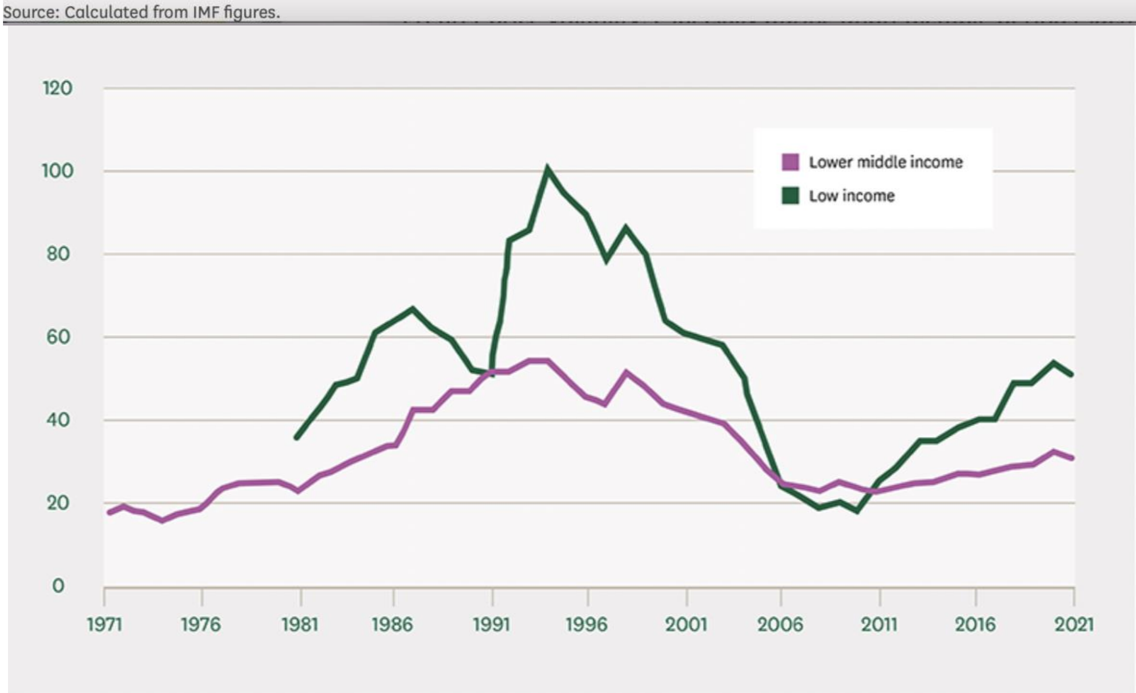
In November 2020, the G20 and the Paris Club endorsed the Common Framework to help develop solutions of the 73 countries eligible for the Debt Service Suspension Initiative (DSSI). The framework includes both Paris Club members - and G20 official bilateral creditors such as China, India, Turkey and Saudi Arabia. But, to date only four countries -

[57] House of Commons, International Development Select Committee, March 2023

Chad, Ethiopia, Ghana and Zambia - have applied for debt treatment under the initiative and none have yet seen a reduction in debt.



Source: Calculated from IMF figures.



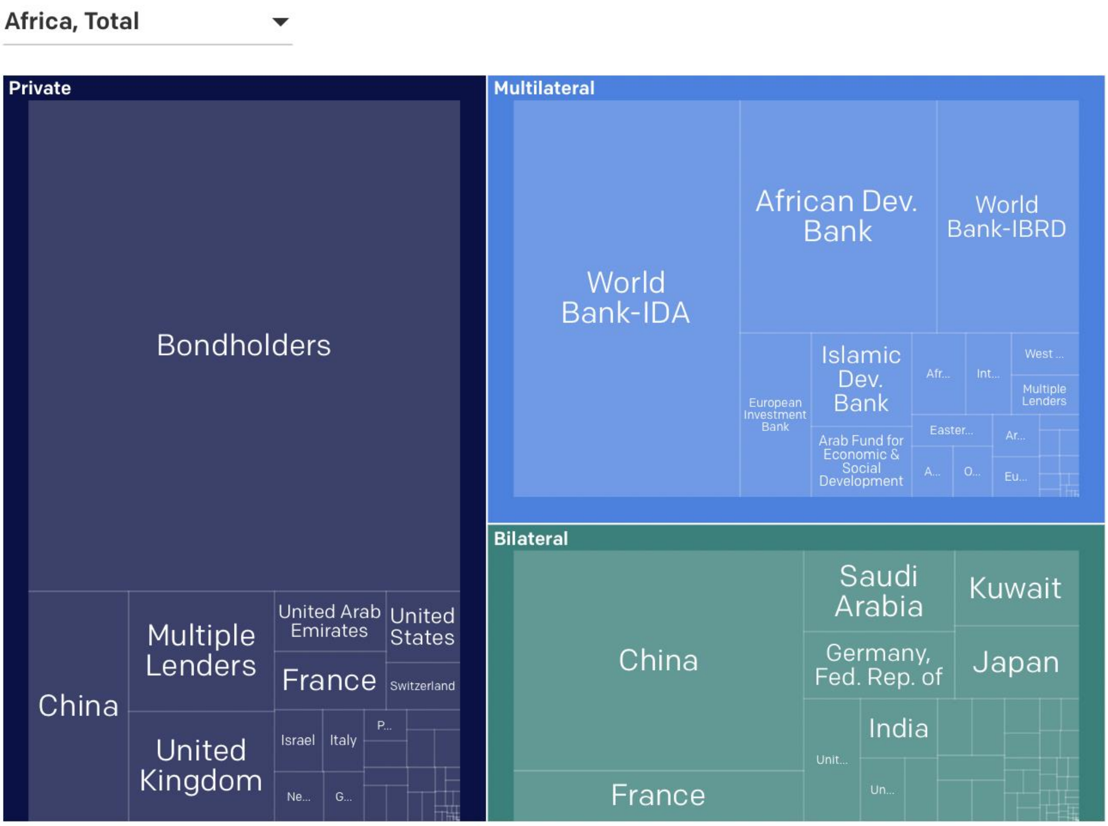
The slow pace of reform may well be disincentivising countries from engaging in the process, and nor is there real clarity about what is expected of applicants, or the definition of ‘sustainable debt'. Nor is there an agreed mechanism to compel ‘comparability of treatment’ between private and public creditors, so creditors which are willing to restructure debt face the risk that they will effectively bail out creditors which do not engage.

Given the lack of progress on the Common Framework, many are calling for continued emergency debt service suspension for countries that have applied for the Common Framework to at least allow fiscal space for low-income countries while the international community develops a long-term approach to debt relief. Indeed Kristalina Georgieva, Managing Director, at the IMF has called for a comprehensive and sustained debt service payment standstill” during Common Framework debt restructuring negotiations.

What is now urgently needed is for major creditors to end the ‘blame game’, stop pointing fingers at each other - or indeed the multi-laterals and private creditors - and get a deal done that brings both public and private creditors - to the table. After all, more than 40% of African debt is owed to private creditors which is more than to bilateral creditors (27%), and multilateral creditors (33%), as illustrated in this analysis from the ONE Campaign.[58]

[58] https://data.one.org/topics/african-debt/

How much debt is owed to whom?



(b) Funding Loss and Damage.

COP27 saw an historic agreement to create a fund to compensate for loss and damage due to climate change - which is by some estimates, four times greater between the Tropics of Cancer and Capricorn than elsewhere.

Prof Avinash Persaud has argued that “Over 50% of the debt increase in many climate-vulnerable countries relates to funding disaster recoveries. Debt will sink vulnerable countries without recovery grants.” Creating compensation funds could be funded by a levy on fossil fuel production that starts at zero and rises one per cent for every ten per cent decline in fossil-fuel prices – or through international carbon border tax.

(c) Making the financial system more shock absorbent.

Finally, the Bridgetown Agenda proposes that all lending instruments, including MDB lending, should have natural disaster and pandemic clauses.

When an independently verified disaster hits, these clauses lead to an immediate and unconditional suspension of debt service for two years and an extension of the loan maturity by two years. Suspended debt service is paid back at the original interest rate. As Mia Mottley and Schulz put it; “we urge all lenders and borrowers – including the development banks and private-sector creditors – to include or accept natural-disaster and pandemic clauses in financing instruments. These provisions are present-value neutral, on net, and they offer valuable support to countries by allowing them to ensure sufficient liquidity when they need it most.”

E. QUESTIONS TO CONSIDER

This year's Global Parliamentary Forum is the first in-person meeting since Covid-19. It provides a vital opportunity for Parliamentarians from our Network across 140 countries to reflect on several key questions with each other, our invited experts, and leaders of the IMF and the World Bank:

1. For your country, which are the key development priorities - and challenges - today?

2. Do you support an update to the World Bank's mission to include reference to sustainability and resilience? Are there safeguards you would like to see, to ensure support for SDG's is not jeopardised as a result?

3. What changes would you like to see to the models through which both the World Bank and IMF raise and deploy resources?

4. Do you believe that proposals for mobilising additional development finance are adequate or inadequate?

5. If current proposals are inadequate, where do you see the priorities for going further? (a) Restructuring of existing debts? (b) Stretching existing World Bank/ MDB balance sheets further? © Widening availability of concessional resources to more countries? (d) New issues and recycling of IMF Special Drawing Rights? (e) Faster progress with new ideas like SDR-based hybrid capital? (f) Fresh capital raising for MDB concessional lending e.g. through the World Bank? (g) Fresh capital raising for grant programmes?

6. From amongst richer nations and key IMF/ World Bank shareholders, how do we mobilise political energy to implement the reforms necessary to transform the global financial architecture?

7. How can the Parliamentary Network support you in your work on these issues?

Ends

Appendix: Conclusions of UN Economic Commission for Africa finance ministers: 17 points,[59] Addis Ababa, 15–17 March 2023

1. Supports the efforts of the Secretary-General to reform the global financial architecture and his call for a Sustainable Development Goals stimulus;
2. Commends the Economic Commission for Africa, African ministers of finance, planning and economic development, and the International Monetary Fund for facilitating the establishment of the African High-Level Working Group on the Global Financial Architecture;
3. Calls upon the Economic Commission for Africa to continue to provide guidance and technical support in the deliberations of the African High-Level Working Group on the Global Financial Architecture;
4. Also calls upon the Economic Commission for Africa to advocate and mobilize support for the reform of the special drawing rights re-channeling mechanism to promote greater utilization, so as to support countries that are most in need in addressing social, economic and environmental challenges, including the on-lending of special drawing rights to regional development banks to support African development financing priorities;
5. Calls for special drawing right allocations to be considered in a rule-based, analytical manner in order to reduce the discretionary and political nature of the allocation process, both with regard to decisions occurring in basic periods of every five years and in the event of unexpected major developments, given the timescale of the issues at stake, to build forward better and achieve green and sustainable development as envisioned in the 2030 Agenda for Sustainable Development and in Agenda 2063: The Africa We Want, of the African Union;
6. Encourages the International Monetary Fund to address the inequalities of the quota system and to increase the African shares at the next quota review in 2023;
7. Calls upon the Economic Commission for Africa to support the extension of the Debt Service Suspension Initiative for two more years, with rescheduling of deferred interest payments over five years, and to advocate its extension to middle-income countries upon request;
8. Calls upon the International Monetary Fund to suspend surcharges on non-concessional lending for two to three years, to restore the enhanced access limits established during the pandemic crisis for the Rapid Credit Facility and the Rapid Financing Instrument of the International Monetary Fund, to increase overall access limits, to enhance the concessionality and extend the maturity of financing, and to reinvigorate toolkits in response to more frequent global shocks;
9. Calls upon the African High-Level Working Group on the Global Financial Architecture to urge the Group of 20 to consider overhauling the Common Framework for Debt Treatment beyond the Debt Service Suspension Initiative in order to make it more effective, time-bound, transparent and comprehensive, to provide a debt service standstill to applicants, and to extend the Common Framework to more countries, including heavily indebted middle-income countries;
10. Calls for major sovereign debt issuance jurisdictions to require enhanced collective action clauses and enhanced force majeure clauses in all sovereign debt contracts

[59] https://www.uneca.org/eca-events/sites/default/files/resources/documents/com2023/English_Report%20of%20the%20Committee%20of%20Experts%20on%20its%20forty-first%20meeting.pdf, p.33

and to implement comprehensive anti-vulture fund legislation in major creditor countries;

11. Urges the International Monetary Fund to increase the flexibility, eligibility and qualification criteria of the Resilience and Sustainability Trust and to fast-track operationalization so that the Trust can play a catalytic role in green financing, encompassing debt-for-nature swaps, green financial products and carbon credit markets;
12. Commends the Economic Commission for Africa on facilitating the operationalization of the Liquidity Sustainability Facility;
13. Calls for an enhanced regulatory framework for credit rating agencies that requires transparency in methodology and ratings processes, provides proper oversight for credit rating agencies and establishes a fair external recourse mechanism to dispute ratings, and appeals for further support in developing and disseminating economic data that are important to credit rating agencies and investors;
14. Urges the International Monetary Fund to help African countries establish sound regulatory frameworks at the domestic and regional levels to promote best practices among credit rating agencies and, to the extent possible, harmonize ratings frameworks and review misratings among credit rating agencies;
15. Requests the Economic Commission for Africa to assist countries and facilitate their issuance of green bonds, blue bonds and bonds linked to the Sustainable Development Goals in order to stimulate investment in climate adaptation actions and natural resources conservation;
16. Calls for more blended financing as a means of increasing and de-risking financing, including through the provision of guarantees and credit enhancements to address perceived risks;
17. Calls upon the African High-Level Working Group on the Global Financial Architecture, supported by the Economic Commission for Africa, to advocate the candidacy of the African Union for a permanent seat in the Group of 20, and appeals to members of the Group of 20 to support this candidacy.

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About the Parliamentary Network

The Parliamentary Network on the World Bank & International Monetary Fund provides a platform for parliamentarians from over 140 countries to advocate for increased accountability and transparency in International Financial Institutions and multilateral development financing.

Founded in 2000, the Parliamentary Network seeks to engage law makers from around the globe in the common mission of addressing good governance and poverty challenges in both their home countries and abroad. Directed by a twelve-member Board elected by their peers, the Parliamentary Network is an independent non-governmental organization with a secretariat in Paris.

The organization is open to all elected parliamentarians from World Bank member states who hold a current mandate. Parliamentary Network members represent themselves and their constituents, and not their countries, parliaments or governments.

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