Key Stakeholder Roundtable on the Bridgetown Initiative, the World Bank and the IMF

Co-Hosted by CAFOD and Rt Hon Liam Byrne MP, Wednesday 26 April 2023

CHAIR'S SUMMARY – Kate Hampton, CEO, Children's Investment Fund Foundation & Rt Hon Liam Byrne MP, Chair, Global Parliamentary Network on the World Bank and IMF

The world is running out of time to fix an international financial system that is not fit for purpose.

In the face of the multiple and interlinked global crises, developing countries are grappling with debt overhangs, higher borrowing costs and limited access to liquidity. The sustainable development goals are, for many, currently unattainable.

There have been several efforts to propose concrete, ambitious reforms to the system. Barbados Prime Minister Mia Mottley, United Nations Deputy Secretary General Amina Mohammed, and several others developed a proposal – the Bridgetown Initiative – that offers a transformative plan to tackle immediate fiscal crisis and increase developing countries 'long-term resilience to shocks. In parallel, U.S. Treasury Secretary Janet Yellen launched an initiative to evolve the multilateral development banks. And several complementary efforts are also in motion, including the V20 Accra to Marrakech Agenda, the G20 Capital Adequacy Framework Independent Review, the Economic Commission for Africa Ministerial, and the G20 Note on the Global Debt Landscape.

Work continues on Bridgetown 2.0 and the other reform agendas mentioned. The international climate and development communities are looking ahead to a change in the World Bank Presidency and an international finance summit in Paris this June. To complement these efforts, CAFOD and Liam Byrne MP gathered around 50 stakeholders in Parliament, for a discussion on how the UK should be engaging in this work in the months ahead.

Summary of key messages from the roundtable discussion

The roundtable identified five key principles that the UK Government and the UK's climate and development community must hold central to the ongoing work to effectively reform the international financial system:

1. We must put **equity** at the heart of international finance reform; there is a trust deficit which needs to be addressed, including through correcting power and governance imbalances and considering greater use of new and more equal decision-making fora. Delivering this will require concerted action by heads of government.
2. **New sources of concessional finance** are essential and must be on the table alongside reforms efforts - but that must be accompanied by **driving through** on recent initiatives which are not yet fully embedded (like re-channelling SDRs/IMF RST); and greater creativity and political weight is required to unlock these (including greater use of SDRs/reserve assets, hybrid capital, greater use of long maturity bonds, IDA replenishment and optimisation, and taxes).
3. A **whole systems approach** is required for a fit for purpose international finance system together with a **sharp focus on effectiveness**. All public development banks and

international financial institutions (the IMF and WB included) must consider the quality and appropriateness of financing instruments – access, speed, effectiveness, maturity, affordability, and positive material impact on peoples' lives – are key.

4. **Capacity gaps** across key decision makers and civil society will inhibit progress on this agenda and need to be addressed imminently to achieve progress at the pace necessary.

5. There is a key role for the **private sector** to play both in debt relief and getting greater volume of capital flowing to the Global South, but **governments need to play a coordinating role**, unlocking capital flows, plugging key gaps in the global financial architecture, and ensuring private sector participation in debt relief (particularly given many private debt contracts are governed by English law).

Annex: Specific opportunities for UK leadership on the reform agenda

The roundtable discussed several opportunities for UK leadership on this agenda in the months ahead. These opportunities are summarised below, along with additional reform proposals from the UK climate and development community.

Recycling Special Drawing Rights (SDRs)[i]: SDR Recycling allows richer countries to give or lend their SDRs to support sustainable economic growth and poverty reduction in poorer countries.
The UK can show leadership by:

- Recycling at least 40% of its SDRs, matching or surpassing Australia and Japan (the UK has so far pledged 20%).
- Recycling its SDRs through the African Development Bank (AfDB) to support its 'hybrid capital model' and encourage the lending of SDRs to MDBs, exploring ways to boost leverage (up to $1:$4) and the development impact of SDRs, and to turn reserves into public goods.

Leveraging the International Development Association (IDA)[ii] balance sheet: innovative approaches (like merging IDA into the International Bank for Reconstruction and Development) could significantly increase leverage rates (from $1:$1 up to $1:$5). The UK can help secure a commitment from the World Bank to maximize financial capacity by leveraging more private finance through IDA.

Supporting debt relief efforts: large volumes of developing country debt are held by private creditors, making their participation in debt relief efforts essential. Given that many contracts between developing countries and private creditors are governed by English law, the UK can play a leading role in advancing legislation to compel that participation.

Leading the argument for a further capital call for the World Bank: not as a substitute for exhausting options to optimise the balance sheet or building a bigger and more effective IFC, but as a recognition that a bigger World Bank mission will need a bigger World Bank capital base. In particular, there is an opportunity and need for HMG to explore all possible sources of support to the World Bank

Reaching $100 billion of International Climate Finance (ICF) by COP28[iii]: the maximum annual amount achieved so far is $83.3 billion. The UK led the way when it committed £11.6 billion of ICF towards this goal between 2021-2025 and can reinforce its leadership role by committing and rallying for more to reach $100bn this year.

Doubling the Resilience and Sustainability Trust (RST): the RST's goal is to raise $42 billion for climate change and pandemic preparedness in developing countries, but only $20 billion has been raised. The UK can lead calls for – and help secure – new commitments to reach the full amount.

Reducing the World Bank's 'Equity-to-Loan 'ratio: The World Bank has committed to lowering its equity-to-loan ratio from 20% to 19%, allowing an increase of lending with the same amount of shareholder money. The UK can call for a further decrease to 18%, which would free up an additional $10 billion annually and better meet the challenges and needs of developing countries

Scaling up Debt Pause Clauses: these instruments suspend developing countries 'repayments for a period after a climate crisis, natural disaster or pandemic occurs, giving much-needed space to rebuild and recover while remaining Net Present Value neutral and ensuring creditors don't lose any investment. UK Export Finance has committed to using these clauses, but the UK can lead the way by including in all types of UK lending, as well as UK gilts.

Closing the infrastructure gap by enhancing PIDG: the UK is one of six owners of the Private Infrastructure Development Group, a well-regarded organisation that mobilises private finance in Africa and Asia. The UK can lead efforts to significantly increase PIDG's capital (by up to ten times) to realise its potential and deliver climate-smart infrastructure in developing countries.

Establishing an international levy on shipping's carbon emissions: the International Maritime Organisation (IMO) is being urged to place a carbon levy on ships that would fund climate action in developing countries and encourage companies to upgrade their fuels and fleets. The UK can lead calls in the IMO for all countries and the international shipping industry to accept the levy.

Financing the coal phase-out: a global framework for transition finance is needed to phase out coal, but several challenges stand in the way. The UK can lead the charge by helping design this framework and supporting developing countries in their energy transition. This includes, as part of its globally leading ESG framework, supporting the FCA to work with the Science-based Targets Initiative and other expert NGOs to ensure financing independently verified early coal retirement is classified as climate impact.

Innovative risk-sharing and guarantees (inc. MIGA[iv]): at present, MIGA has less than $50bn of cumulative guarantees outstanding with zero defaults, suggesting insufficient risk-taking. The UK can support the incoming President of the World Bank – through its Executive Director's office – to look at a significant scaling of the total risk budget of MIGA combined with products offering broader repayment protection.

Background and Terminology

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[i] SDRs are a type of asset created by the International Monetary Fund (IMF) that can provide liquidity to countries in times of need. While not a currency in their own right, they can be thought of as a kind of 'artificial' currency that, once allocated by the IMF to countries, MDBs and Central Banks, can be exchanged for freely usable 'hard' currencies like US Dollars or Euros. SDRs are allocated to IMF members based on IMF quota shares. As a result, richer countries receive the majority. About 42% go to developing countries and only 3% to the poorest countries.

[ii] IDA is part of the World Bank. It uses money from donor countries to provides grants and 0% interest loans to the world's poorest countries, but its leverage of additional, private finance has been conservative, reducing impact (about 1:1).

[iii] In 2009, developed countries committed to collectively mobilising $100 billion per year by 2020 for climate action in developing countries.

[iv] The Multilateral Investment Guarantee Agency (MIGA) is part of the World Bank Group that provides guarantees to protect investments against non-commercial risks in developing countries.