ARIF

Advocates for the Reform of International Finance

Second Meeting

Friday, April 16, 2021

Summary of Discussions

Convened by the LSE, Brookings and CGD, the second ARIF meeting began with a recap of the results of the IMF and World Bank Spring Meetings and associated meetings of the G7, G20 and G24. Participants agreed that although during the Spring Meetings there were significant outcomes such as the DSSI extension, the agreement on an SDR allocation and on the bringing forward of the next IDA replenishment, more needs to be done to meet the short- and long-term financing needs of developing countries and ensure a sustainable, inclusive, and green recovery. While these measures will increase short-term liquidity, long-term measures and increased commitment by the international organizations is primordial for mobilizing greater resources not just for boosting the economic recovery, but also to address pressing challenges such as climate change, vaccination, and pandemic preparedness. Other shortcomings include lack of focus on middle-income countries, lack of a solid plan on debt apart from a recommitment to the Common Framework, and no solutions presented to address the unevenness of the nascent recovery.

Additionally, the international system still lacks an integrated, feasible and costed operational plan to ensure vaccination efforts on a global scale to reach all countries to achieve herd immunity. Efforts have been dispersed and there is not a common response from the international community to support vaccination in developing countries, operationally and financially. There are many different views on the impediments in global vaccination: lack of financing, lack of demand for financing, manufacturing, distribution, and so on. The Spring Meetings were a missed opportunity to come up with a coherent short-term global public health plan. It was noted that therapeutics will likely not come until 2023 and variants will remain a risk, yet, a year after the beginning of the pandemic, developing countries are nowhere near receiving and mobilizing the needed resources to address both the health and economic crisis. The lack of a coordinated response by the international community has hindered resource mobilization and little has been done to address the structural obstacles to access greater resources such as debt distress, decreasing investment, limited access to capital in international markets associated with high risk levels, among others. At the same time, investment in real terms has fallen more than GDP in many developing countries, which will likely leave fairly long-lasting economic scars.

On the role of the Bretton Woods institutions (BWIs) in the recovery and sustainable development, the collapse was not as steep as originally feared for most of the world, but the situation is still serious in emerging and developing economies. While the BWIs lent more in 2020, they did not lend much relative to the scale of the crisis. Experts must address why the financing was not tapped as it should have been. Additionally, regarding the DSSI and Common Framework, there is still a lack of clarity on private sector involvement, and many countries remain concerned about market access and debt relief. The crisis has also exacerbated many existing issues within the MDB and IFI systems, including balance sheet optimization, governance, the use of country platforms, how to work with the private sector to accelerate their investments in developing countries, and how to work across institutions.

For the near-term response, discussions focused on vaccination, investment, and the need to push the ambition for the BWIs in recovery. While COVAX has served as a good emergency instrument, it is insufficient for the purposes of global vaccination, and production capacity must be increased. Africa will be the last continent to be vaccinated, and much support is needed for African financing and capacity building. The idea of a global health board which would eventually become a global public goods board over time was also discussed. On the topic of investment, public investment and global public investment need to be increased, including by combining national and multilateral resources, and BWIs and country leaders need to embody more ambition on climate, particularly in the recovery and investment. Some pointed to the second Finance in Common summit as an opportunity to further pursue this agenda.

For middle income countries, the challenge will be to find a transition path from crisis management to the implementation of policies and measures that ensure long-term sustainable growth, integrating climate as a corner stone for rebuilding their economies. In this regard, participants agreed that the ARIF could have a role to play in influencing the global community and help shape recovery in the long-term, by advocating for concrete proposals for action and specific plans for governments and stakeholders, with a focus on the roles of MDBs and IFIs.

On the other hand, it was highlighted that expectations on SDRs having a significant impact on providing additional resources to developing countries are high and its role might be limited by institutional and legal constraints. Therefore, additional long-term tools should be evaluated and taken forward in the medium-term, including the use of IMF gold for providing additional resources. Global finance leaders have displayed lack of leadership on what should be done with SDRs once allocated. There are many views on how SDRs should be spent, including financing for vaccines, climate support, bank liquidity, and agricultural extension services. Other ideas discussed included converting SDRs to foreign reserves to use as a buffer, pooling advanced economies' SDRs into a trust fund for emerging market economies, and using the extra fiscal space to increase whatever kind of development finance is needed. Uses will be constrained by the rules and regulations of the IMF and of each country. While it was recognized that SDRs will not be a panacea, others asked what the obstacles have been to countries taking up GRA lending – conditionality, surcharges, access criteria, and other conditions and suggested ARIF pursue this line of inquiry.

While the group did not have time to discuss the ARIF's terms of reference at length, they were encouraged to send reactions by email. In summary, the ARIF will serve as an informal group where members can take positions, but the ARIF itself will not. The CGD website will host a page for the ARIF where members will be listed unless they request not to be. The conveners aim to finalize the terms of reference within the week or two following the meeting.