ARIF

Advocates for the Reform of International Finance

Fourth Meeting

Friday, December 3, 2021

Summary of Discussions

On behalf of the co-hosts (LSE, The Brookings Institution, and CGD), CGD President Masood Ahmed welcomed the participants to the virtual meeting. In his introductory remarks, Ahmed noted the disconnect between the rhetoric of critical actions to undertake and their implementation in 2021. While there were some examples of success, such as the SDR allocation and the 7 billion Covid-19 vaccine shots administered worldwide, many of the fundamental problems foreseen at the outset of 2021 remain unresolved as the year ends. Ahmed invited the participants to discuss key activities and areas to push in 2022. A group member suggested having a 5-next steps approach to guide the discussion.

The Group discussed the evolution of climate policy in the last years during the different climate summits, particularly the 2015 Paris meeting, and this year's meeting in Glasgow. In terms of global warming, the world is currently at a critical point. COP26's goal to limit global warming to well below 2 degrees Celsius and ideally 1.5 by 2030 shows global recognition of the problem; but getting there and reaching the objective of global net-zero emissions will require a massive change in society as we know it, with a large up-front cost. The transition to a sustainable growth path will not be easy, but has already resulted in positive technological advancements and innovations in different areas, such as green energy, and energy efficiency gains in industries such as steel and roads. But much remains to be done.

This energy transition will require significant sources of finance: to achieve the 1.5 goal by 2030, approximately $2 trillion is needed. Recently there have been positive trends in assets dedicated to net-zero initiatives, but more is needed. While there has been hesitancy by some policy actors, this is a decisive time in history that requires bold action. Political differences between relevant actors – China, US, India –in reconciling growth needs and climate mitigation remain. To speed the transition in developing countries, multilateral development banks (MDBs) will have to play an essential role in mobilizing the needed financing, but a full-press commitment by the MDBs is still lacking. And their efforts will need to be augmented by coherent country platforms to mobilize and utilize the considerable needed investment.

The Group acknowledged that the pursuit of a sustainable economic growth path consistent with climate stability may make countries more vulnerable to macroeconomic shocks. The Covid-19 crisis has depleted fiscal space in many economies. In many low- and middle-income countries, central bankers and ministers of finance have struggled with securing access to international financial markets. While it will be important to press in order to expand the fiscal space available to these countries, increased vigilance will be needed to limit the impact of shocks on the global economy with increased fiscal vulnerability. For example, members underscored the need to address the current debt overhang, which is a looming problem. Overall, the new vulnerabilities may require a rethink of the existing global financial architecture, which was designed to meet different kinds of challenges than those confronting the world now.

Members of the Group stressed the importance of ensuring that climate finance is not only available but well used. A survey conducted by CGD, under the framework of its Development Leaders Conference, revealed that while climate will be a top priority for development agencies, the mechanisms to raise and deploy financial resources for it are often not well thought through.

A reallocation of existing development resources, rather than an increase in the financial envelope for climate and development, would make it difficult to achieve significant results in either domain. Thus, there is a need to increase Official Development Assistance, Concessional Financing, and Official Financing. In addition, there is a disconnect between private financiers and MDBs on their approach to climate finance: the former have specific goals to net-zero emissions, while the latter tend to boost their shares of finance that are tagged as climate finance without fundamentally changing strategies. Some members argued that financial engineering is needed to accelerate the private sector involvement and coordinate efforts with MDBs.

The benefits of creating new institutions, mechanisms, and a financial architecture to overcome barriers to financial mobilization was discussed. The founding of new institutions, under the framework of the Millennium Development Goals, as a driving force of change in the early 2000s, was cited as a precedent. New institutions could be established with a long-term lending horizon and could deal with pressing issues such as debt overhang and climate (World Climate Bank), which could be similar to an MDB. Furthermore, such institutions could address the need to strengthen de-risking mechanisms, enhance risk management capabilities for DFIs, and push for financial engineering to get the private sector involved, including developing a good supply of investable projects. Any financing mechanisms should be accompanied by supportive policies such as reducing non-financial obstacles, e.g., tax regimes, trade rules, pension reforms, and financial market regulations. However, there was some skepticism regarding creating new institutions, when a serious repurposing of existing institutions could be quicker and more politically tractable.

In any case, leveraging the existing multilateral and bilateral institutions to mobilize climate finance will require a more strategic approach. The current mechanisms should be used to do more climate finance. CGD experts have proposed, through their research, alternative ways to raise money for the climate at the MDBs. Also, having an oversight mechanism to which MDBs could be held accountable for their commitments to net-zero and including such commitments into MDBs portfolios could significantly increase finance mobilized. MDBs should develop standard methodologies and have established targets yearly.

On the IMF side, the signaling role of the IMF will be critical in its interactions with governments and the private sector, and a catalytic force for stimulating investments. The IMF could signal more effectively, and the soon-to-be-established Resilient Sustainability Trust (RST) could be a template for its climate work. The concerns from conservative views from the IMF board members and staff could be tempered by effective interventions from ARIF members. There is room to push IMF stakeholders into a different way of thinking.

At a global level there seems to be a lack of leadership, cooperation, and consensus-building on climate finance with no obvious leader to fill the void. While the US and the World Bank have taken such a lead role in the past, they are not doing so now. The G20 could play a leadership role, but the lack of consensus and unity the group is evident, particularly in the context of the DSSI and Covid-19 vaccine mobilization. Middle-income countries and emerging markets are much more vocal and forward leaning on the climate agenda. China is a critical player and a means for including the Chinese perspective constructively needs to be found.

As small countries will be disproportionately affected by climate change, there needs to be an effective way of including them in programs and discussions in the framework of climate change.

Country platforms will be useful in mobilizing additional finance and ensuring its effective use at the global and local levels. The recent consensus to support South Africa will be an important test of how a climate-based country platform should be structured. The value of monitoring and follow-up was stressed, with a critical need to set time-bound targets and measuring impact.

In addition to climate, other important issues were mooted, including the continuing need for a more coherent Covid-19 response, coherent national policy priorities, increased development finance, and the need to consider a broader range of global public goods. In all these areas there was need for a movement from words to engagement, convincing countries about the possibility of achieving national priorities (e.g., energy) while continuing to advance the provision of global public goods. These are all areas in which the ARIF members could be influential.

On Covid-19, it is essential that critical actions on Covid-19 should not be further delayed. And results needed to be measured: vaccination rates and access to vaccines, rather than the acquisition of vaccines only.

The hosts thanked the participants for their valuable inputs. Ahmed called upon participants to be conscious of the politics and political context in which leaders are working. While acknowledging the potential difficulties in getting support for some ideas due to global and national contexts, Ahmed reiterated the absolute need to push for more action on climate change. Ahmed also invited participants to work on some areas discussed during the session informally or in subgroups if needed.