Reforming Multilateral Development Banks

What is the issue?

There has been a lot of discussion on reforming and reshaping the multilateral development banks (MDBs) to address the multiple challenges of the post-Covid world.

What is needed?

- There is an urgent need for a quantum increase in development finance to address the major global challenges of the post-Covid world,
    1. The climate crisis and
    2. Unprecedented worsening in poverty across geographies.
- There are no market-based solutions to the problems we face. Collective action is of the essence.
- There has been a lot of discussion on reforming the Multilateral Development Banks (MDBs) to address these multiple challenges.
- The world looks to the G20 presidencies of India, Brazil and South Africa to take the lead on this front.

Why MDB reforms are needed?

- **Reality check** - The altruistic claims made by the "Northern community" about global economic co-operation are no longer credible.
- It has been clear that the G7 is unable and unwilling to provide grant finance to secure the global public goods needed to mitigate and adapt to climate change, and to address increasing poverty and deprivation.
- So, Barbados Prime Minister has proposed a division of labour under the Bridgetown initiative.
- **Bridgetown initiative -** It is a set of core messages designed to reform the World Bank and the International Monetary Fund (IMF), institutions setup at the end of World War II and dominated by the US and Europe.
- Such grants that the rich are willing to throw as crumbs can best be used to address loss and damage from climate change, and to reduce extreme poverty.

How could concessional finance help?

- Concessional finance could be used to address climate adaptation, which will primarily be the burden developing countries will face, and so will not attract financing from the rich.
- Things that contribute to climate mitigation are made in rich geographies, extracting minerals from poor geographies, and replicate the patterns of accumulation and profit that fuelled carbonisation.
- Hence, climate mitigation is eminently bankable and private finance should flow in abundance as it protects the rich from the shocks that the climate challenge may inflict on their ability to accumulate wealth.
- It also poses no threat to their luxury lifestyles.
- This practical initiative offers great hope for progress with minimal disruption to the international order.

What could be done to the MDB governance?

- To secure progress we would need to expand the lending capabilities of the MDBs. The core has to do with MDB governance.
- Their decision-making processes are slow - they take a year to even deploy crisis funds.
- They are more risk averse than private finance, despite having sovereign backing, a triple A rating and ample reserves in callable capital.
- It may appear that it would therefore be an easy reform to agree to expand MDB lending by fixing these, and expanding their capital base.
- But for this to happen, countries that would be recipients of this lending (poor and emerging economies) would rightly wish to raise at least three issues as part of the conversation.

What are the three issues?

- **Shareholding structure** - In the World Bank, Switzerland is the executive director responsible for Uzbekistan, and Canada for Jamaica.
- Small European countries have seats on the board but 23 African countries share a seat.
- Any attempts to make the Eurocentric definition of "world" a part of the conversation on capitalising the institution are rebuffed as impractical.
- **Risk** - Risk assessments of rich-country-dominated MDB boards are heavily influenced by credit rating agencies, which give the greatest weight to per capita income in their country risk assessments.
- Therefore, the poorer a country, the riskier it is.
- **Affordability** - When India opposed the use of special drawing rights (SDRs) to lend money to poor countries, this was unfairly attributed by the policy ecosystem to the possibility of Pakistan benefiting from it.
- India quite rightly wanted to know why SDR loans - and not grants - were being provided to help poor countries buy vaccines and to overcome economic crises not of their own making.
- It also wants to know what would be done to address the debt crisis that would follow.

What is the mindset of the rich countries?

- Rich countries and Northern interlocutors in the London-Washington policy ecosystem are unwilling or unable to frame these questions as central to making progress under emerging economy presidencies.
- Grants are not on the table. Greater risk appetite is not on the table.
- Reforming an archaic colonial governance system is not on the table.
- Instead, there is a "take it or leave it" attitude to expanding the capital base, which is not conducive to doing business with emerging economies, although they, as the Bridgetown initiative reflects, are prepared to accept the self-imposed limitations of rich countries.
- But there will be no compromise on addressing the central questions that emerging and developing economies have on multilateral reform.
- The West should understand clearly that three emerging economy presidencies in succession cannot be gamed.

Reference

1. Business Standard | No reform without change
2. Climate Change News | Mia Mottley builds global coalition to make financial system fit for climate action



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