BMGF's submission

Consultation with Non-State Organizations on 'Funding by Multilateral Development Banks'

20 June 2023

To

Mr. N. K. Singh,

Co-convener of G20 expert group on strengthening MDBs

We would like to thank you for giving us an opportunity to share our inputs on the three dimensions of this extremely important topic on Multilateral Development Banks (MDBs) -

- A roadmap for an updated MDB ecosystem for the twenty-first century, with milestones and timelines, touching upon all aspects of MDB evolution, including but not limited to vision, incentive structure, operational approaches, and financial capacity so that MDBs are better equipped to finance a wide range of SDG and transboundary challenges such as climate change and health.
- An evaluation of various estimates regarding the scale of funding required by and from MDBs for addressing their and member countries' increased financing needs for SDG and transboundary challenges, considering the additional capacity that can be derived from the CAF recommendations alongside other important sources such as the private sector and public sector funds (AND)
- Mechanisms for coordination among MDBs for them to address and finance global development and other challenges more effectively.

We are grateful to offer our feedback for your kind consideration.

We summarize our feedback by first identifying the challenges that we are currently grappling up with and then by offering a few possible responses to respond to these challenges.

Challenges

1. **The requirements of a just transition -**Every country in the world needs to undertake urgent and significant development and growth transitions to adapt to the consequences of ongoing climate change as well as fast track the move to a green economy. They need to do this while reversing the losses in – and accelerating progress towards – the Sustainable Development Goals (SDGs). Importantly, addressing development challenges and climate change is inextricably linked in every country, but the linkages take different forms across countries. This makes it essential to understand the specific challenges that various developed and developing countries face. Thereby, acknowledging that strategies to be pursued by different countries for mitigation and adaptation measures will not be the same, and no one size fits all for 'Getting on Track to Net Zero'. The priorities of mitigation and adaptation measures also differ amongst MICs, LICs and HICs, and accordingly the financial resources needed for a just transition. For instance, the scale of transfers that would be required for compensating LICs and lower-income MICs for their pure abatement costs ranges from the two transfer values of $30 billion and $60 billion.[i]
2. **Low-income countries' growing development needs and reduced resources -** Climate change is increasing vulnerability in the lowest-income countries, while they are also contending with the

impacts of other overlapping shocks – from the lingering effects of the COVID-19 pandemic to the war in Ukraine, including increases in food and fertilizer prices. Additionally, their resources to tackle these challenges are increasingly constrained. Efforts to manage the pandemic exhausted savings and increased debt, at the country, business, and household level. Rapidly rising interest rates have led to depreciating currencies and forced many low-income economies to spend more on servicing their debt – often spending more on debt service than on core services such as health.[ii] 60 percent of the world's lowest-income countries are at high-risk of debt distress or are already in debt distress.[iii]

3. **Constrained fiscal space -** Governments will need to turn to domestic revenues as a sustainable means of finance, to reduce their fiscal deficits and fund social spending, but this will not be enough to get low-income countries back on track in the short term, especially for the lowest-income countries which are far behind in terms of tax capacity.

Possible responses

1. **Allocating existing financial resources effectively**
    a. To enable low-income countries to transition to low-carbon, climate resilient development and respond to loss and damage, while also addressing climate change at the aggregated global level, financial resources must be allocated where they can have the greatest impact across the range of challenges the world faces. A financing framework is needed to understand the mix of different financing flows available and to guide resource allocation across countries, depending on where the country is in its transition from low to high-income status in a way that systematically factors in current and future climate risks.
    b. A financing framework must also ensure that financing flows are fit-for-purpose and are gender-transformative in the country context. This is because gender equality is central to addressing climate change and women's economic empowerment in productive sectors contributes to improved food security and job creation, while women's leadership can enhance long-term economic, environmental, and social outcomes.
2. **Global financial architecture reform**
    a. Alongside increasing the effectiveness and impact of financial resources across development and climate needs, transformational reform to the global financial architecture is needed. With a broader view on development, reflected in the SDGs, and a broader view of financing, reflected in the Financing for Development agenda, the global financial architecture spans across an increasing number of actors. Reforms being discussed range from revising and broadening the development goals of different agents to expanding the lending capacity of the multilateral development banks, offering sustainable debt solutions to highly indebted countries, and providing greater flows of unconditional, short-term liquidity during times of crisis to innovative financing instruments mobilising private investors and reforms of models used by rating agencies.
    b. Many of the reforms being discussed look promising for middle-income countries but low-income countries cannot benefit from many of them or may even be disadvantaged. To refocus the debate and generate the level of change required for low and lower-middle income countries in the shorter run, action is in particular needed around three areas:

i. **Raising ambition for the reform of the World Bank and other multilateral development banks**; - The World Bank's "Evolution Roadmap" must be strengthened to deliver transformational change. Instead of outlining constraints that bound the conversation – from the World Bank keeping its AAA credit rating, to shareholders not wanting to invest new capital, and borrowers not wanting to increase borrowing rates – shareholders should set ambitious targets. This could involve[iv], tripling lending to middle-income countries, scaling focus on global public goods, increasing donor contributions to IDA by 50 percent, and halving the time it takes to get a World Bank project started. The World Bank management team can then deliver an updated plan with options to achieve those targets, and for discussion.

ii. **Addressing unsustainable debt burdens in a timely manner -** There is a need to accelerate the path of convergence and formalization of the Common Framework processes in a way that would markedly improve their timeliness, including through the adoption of debt service suspension arrangements and clear timelines. Multilateral development banks should be additionally resourced to provide surge concessional finance for countries undergoing debt treatment. We need greater global cooperation on debt restructuring, and that should start with the swift conclusion of debt agreements for the countries that have already applied to the Common Framework.

iii. **Focusing ODA where it is most needed** - The definition of what can be counted as ODA has also changed by for example questionable grant-equivalent transformation of lending and guarantees. This undermines efforts to build climate resilience, and tackle gender inequality and poverty. Donors must commit to recalibrating the share of ODA going to countries where it is most needed – in line with the financing framework above – as well as scaling support for global public goods which address low-income countries' cross-cutting needs and priorities.

Finally, at the Gates Foundation, we've been supporting more inclusive financial systems for nearly two decades. We've seen how new technology can transform lives, provide a pathway out of poverty, and spur economic growth. We believe that countries that build a safe and inclusive digital public infrastructure (DPI)—with digital payments, ID, and data exchange systems that interact with each other—will create a vibrant and competitive economy. DPI can increase efficiency in essential public service and subsidy delivery, reducing pilferage, and enabling better domestic resource mobilization and management. At this critical time, the global financing community and countries must come together to invest in DPI to build inclusive, resilient economies. A study by the World Bank[v] suggests that the establishment and usage of a variety of mechanisms in the identification systems can decrease expenditures, increase public revenue, or both. This includes (1) reducing fraud in G2P transfers, (2) reducing administrative costs, (3) increasing tax collection, and (4) charging fees for various identity-related services, thereby maximizing the potential of increased public savings and revenue when multiple mechanisms are simultaneously enabled.

Thus, MDBs should prioritize investments in digital public goods (DPGs) and digital public infrastructure (DPIs) for effective public financial management (PFM) at the country level that could trigger efficiency in payments, tax collection, remittances etc., and can help countries increase their domestic revenue generation.

To conclude, an equitable financing framework that matches different financing flows (grants, concessional and non-concessional loans, private equity and debt flows and domestic revenue) to different development needs and priorities of each country is needed to accelerate the progress on SDGs while crafting the new Global financial architecture reform to help achieve it.

Thanks once again for this opportunity to contribute to this important agenda of strengthening MDBs, and we stand ready to provide our technical support and participate in this important agenda that is being taken forward today.

Source:

A White Paper on Climate and Development Finance A transition framework for all, June 2023

https://docs.gatesfoundation.org/documents/bill_and_melinda_gates_foundation_climate_and_development_finance_a_transition_framework_for_all.pdf

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[i] Getting on Track to Net Zero Accelerating a Global Just Transition in This Decade, IMF, 2022

[ii] UNAIDS, "Pandemic triad: HIV, COVID-19 and debt in developing countries", 2022

[iii] World Bank, "International Debt Report 2022"

[iv] Low and lower-income countries' reform proposals for multilateral development banks include:

- **Increased donor IDA contributions and address the looming "IDA cliff"**. The World Bank should present its shareholders with specific proposals for growing IDA that they can approve by Annual Meetings as part of the Evolution Roadmap. These proposals should include increasing International Bank for Reconstruction and Development net income transfers to IDA by at least 20 percent (proportional to the projected increase in Bank lending), reinstating International Finance Corporation (IFC) net income transfers to IDA, and a commitment from donors to increase their grant contributions to IDA21 by 50 percent over IDA 20 levels. Critically the Bank must ensure that at least 50 percent of its IDA/IBRD support for climate action remains focused on adaptation as its scales up these resources.
- **Differentiated pricing** – which is already in place for the risk of debt distress, per capita gross national income and other factors – should be extended to differentiate pricing by sector, so that investments in human capital and small-scale agricultural producers in IDA countries receive the most concessional terms.
- **Reallocate SDRs towards multilateral development banks**, starting with the African Development Bank hybrid capital proposal. Pledges to multilateral development banks in addition to those towards the International Monetary Fund (IMF) should ensure we achieve the USD 100bn target and support Africa's development outcomes.
- **Review efforts to mobilize the private sector and the IFC's private sector window**, which have not been effective.

[v] Public Sector Savings and Revenue from Identification Systems: Opportunities and Constraints, 2018