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NEWS

Israel-Hamas conflict throws development financiers into confusion

By Marianne Gros

Gaza City on October 7

Hamas's assault on Israel on Saturday October 7 has plunged international financial institutions into doubt over how to react, especially whether to keep providing the aid on which the Palestinian territories rely.

The combined death toll for Israelis and Palestinians had topped 1,800 by Tuesday evening.

Non-governmental organisations are calling out the worsening humanitarian crisis unfolding in the Gaza Strip, where Israel has retaliated against Hamas with airstrikes and a complete blockade, severing access to essential services.

"All violence against civilians must end," said a spokesperson for Islamic Relief in Gaza. "We are calling for an urgent ceasefire as any further escalation is only going to bring more suffering for civilians. It is vital that food, medical supplies, fuel and humanitarian aid is allowed into Gaza and that humanitarian workers can safely reach the growing numbers of people in need."

As the development finance community gathered in Marrakech for the World Bank and

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Zambia debt restructuring gasps towards finish line

By Dominic O'Neill and Oliver West

Debt-burdened countries are hoping the International Monetary Fund can this week fulfil one of its main aspirations for its annual meetings: to sign a formal agreement on Zambia's debt restructuring at last. The tortuous negotiations since its 2020 default have lasted an extraordinarily long time, throwing doubt on what was meant to be a breakthrough in sovereign debt restructuring.

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China now a drag on growth, not a driver of it

By Elliot Wilson

China, which the world had hoped would lead the global economy back to recovery, is falling behind Asian neighbours in generating growth and is creating more economic problems than it solves.

Growing internal debt stress and an economic slowdown in China are starting to deter investors and threaten global output, according to experts gathered at the IMF and World Bank annual meetings.

A real estate crisis has left China strewn with unfinished construction projects. Signs of distress spreading to stronger developers pose "an important risk" to the global economy if the crisis deepened, the International Monetary Fund said on Tuesday in its latest World Economic Outlook.

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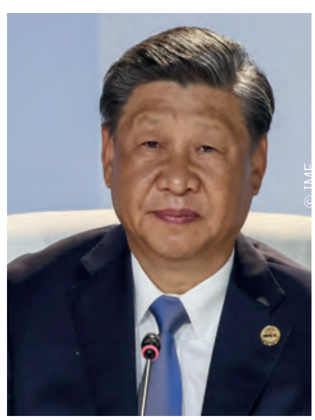

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Xi Jinping: facing falling growth


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Success is a journey

Israel-Hamas war

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International Monetary Fund annual meetings, there was little discussion of the issues in public meetings, but behind the scenes, leaders of all the institutions were trying to evaluate the situation and decide how to react.

The World Bank said in a tweet that it "condemns terrorism in all forms, including the abhorrent targeting of civilians and kidnapping. Our hearts are heavy over the loss of innocent lives and senseless bloodshed in Israel and Gaza, and we must all unite to seek lasting peace, stability, and security."

A World Bank spokesperson told *GlobalMarkets* there had been no decision to suspend operatons, but "World Bank operations are severely hampered by the situation on the ground in Gaza".

IMF Africa department director Abebe Aemro Selassie said in Marrakech that the IMF "had not done any work on this [Israel-Hamas conflict] and it is too early to tell."

A European Investment Bank spokesperson told *GlobalMarkets*: "The EIB is reviewing its operations in Palestine, in close coordination with our shareholders, the EU member states, and our European partners. We note that the European Commission is reviewing some of its assistance and we are following the situation closely and considering how this may impact future project approvals."

The EIB's board of directors is expected to discuss the implications at its meeting on October 18. The Bank has invested nearly €2.3bn in Israel and €700m in Palestine.

"The outbreak of violence means people in the region will suffer from further destabilisation and economic hardship," the EIB said. "It has already impacted oil prices and will exacerbate food, energy and inflation shocks that will hit the most vulnerable communities in the Middle East and around the world. It threatens investment, as stability and trust between regional partners is crucial to foster long term private and public investment that benefits both Israeli and Palestinian communities."

DONOR CONFUSION

International donors to the Palestinian Territories are having to reconsider their positions. The overwhelming support for Israel from the international community since Hamas's attack has already sparked debates about foreign development aid to the contested territories.

Olivér Várhelyi, the European Union's commissioner for neighbourhood and enlargement, announced via his X (Twitter) account on Monday that aid payments to Palestine would be suspended. A few hours later the Commission corrected this, saying it was launching an urgent review of EU assistance for Palestine.

"The Commission will equally review if, in light of the changed circumstances on the ground, its support programmes to the Palestinian population and to the Palestinian Authority need to be adjusted," the EC added.

The confusion could have been due to the politically divisive nature of this issue. "Várhelyi went out on his own and we know that he is very close to the Israeli position and very critical of the Palestinian Authority," said a source close to the EU. "As soon as he sent his tweet, member states and institutions corrected this information."

The EU is the biggest donor to Palestine. Its financial support is used to pay salaries and pensions, improve health services and access to water and provide humanitarian aid in times of conflict.

Anna Rosenberg, head of geopolitics at Amundi Research Institute, said it would be difficult for the EU to stop aid, since some European countries were ambivalent on their stances toward Israel and the Palestinians.

"As Israel is expected to react with a heavy hand affecting many civilians living in Gaza, it could soon lose the moral high ground, making it even more difficult for European leaders to cut off aid to Palestinians," she said.

In the long run, Hamas's attack on Israel could derail longstanding development programmes in the region spearheaded by the World Bank and the IMF.

Martin Mühleisen, non-resident senior fellow at the Atlantic Council, said: "It's really problematic because of the macro consequences and what it means for international cooperation and willingness to support medium term objectives like climate and development, when you have short term pressures on security."

Kristina Hooper, chief global market strategist at Invesco, said: "Part of the Israel-Saudi peace deal was a precondition of Israeli concessions to Palestinians. This seems unlikely to happen in the current environment, which suggests the peace deal may be derailed."

Zambia finance minister: debt crisis 'left a big part of the population behind'

Musokotwane: not pointing fingers

Continued from page 1

Zambia in June became the first country to reach an agreement in principle under the new G20 Common Framework for Debt Treatments, which brings together official creditors including the Paris Club and China.

The international financial community was relieved, seeing this as forging a new model for restructurings in an age when China, not a Paris Club member, has become a huge lender to emerging markets.

But since then, talks have again dragged on, delaying the signing of a memorandum of understanding, which would normally take weeks, not months. The MoU would pave the way for an agreement with commercial creditors.

Whispers that it could be signed this week, perhaps on Thursday, are understandably being treated with caution, if not scepticism, by those who have been involved in the process over the past three years.

"One major theme this week will be whether there can be progress on speeding up the resolution of debt workouts, and the Common Framework is a large part of that," said Graham Stock, EM sovereign debt strategist at RBC BlueBay Asset Management in London.

Speaking to *GlobalMarkets*, Zambia's finance minister Situmbeko Musokotwane said the debt problem had caused not just an economic but a social crisis in his country. "We left a big part of the population behind, in the sense that many children could not go to school because their parents could not afford to pay for them," he said.

"If you go to Zambia, you find a lot of infrastructure that was started but never completed — high schools, hospitals, roads — stuck at 15%, 20% or 30% of completion, because there was no longer enough money to complete them."

Musokotwane, who has been in the role since a new government was formed in 2021, betrays a heavy disappointment that the international community has not been able to come together to resolve the issue before now. However, wary of destabilising the path to an MoU, he stops short of ascribing blame to China or the West.

"Zambia was very quick to do what needed to be done — the rest was up to the international community," he said. "It has taken a long time, but we are happy about where we are on the debt restructuring. I don't think it helps for us to start pointing fingers."

Another source close to the negotiations said the delay since June in signing the MoU was largely down to issues around ensuring comparable treatment of official and commercial creditors. This is a long-established Paris Club principle, but China is eager to make this requirement more explicit than it has historically been.

That created worries among the other parties about whether such special terms on Zambia would create an unhelpful precedent for other situations.

It goes back to the central problem of Chinese officials being wary of being seen to agree to terms that might allow other creditors to make smaller sacrifices, according to the source.

It was not surprising, he said, that China would be hesitant to simply sign up to the approach Western countries have followed under the Paris Club for the past 30 years or more.

"I would see the fact that China belatedly got on board with the Common Framework [in Zambia's case] as a sign of progress," said Stock at RBC Bluebay. "They insist it's not a template, because they don't want to be rules-bound in future negotiations, but it's at least a recognition of certain principles."

Poor health, education and governance slow China's growth

Continued from page 1

It estimates China's economy will grow 5% this year but slow to 4.2% next year. That compares with 4.8% for emerging and developing Asia next year and 6.3% for India.

In a muted Golden Week holiday, tourists' spending in the eight days to October 6 was just 1.5% above the 2019 level, at $103bn.

While most emerging markets showed "resilience and surprised on the upside" this year, China faces "growing headwinds" and "weakening confidence", the IMF said.

Worse, for a capital-intensive economy, global investors are losing faith. In August, $49bn fled the country — the highest monthly outflow since 2015 — of which $29bn comprised securities investments, according to the State Administration of Foreign Exchange.

"China is growing slowly, it has a lot of risks and a lot of firms that cheat then de-list — why invest there when you can make 5% in the US?" asked Anne Stevenson-Yang, research director at J Capital Research in New York, which studies China-listed companies. "Its story is like air coming out of a balloon: it's becoming softer and more unattractive."

The nation's ills are almost too many to count. In the book *Invisible China*, published in 2020, Scott Rozelle and Natalie Hell noted that just 30% of its labour force had finished high school, putting it behind all other middle income countries.

Stevenson-Yang said health, education and nutrition were all at low levels, with 60% of people not competent to do basic factory work. "It will have tremendous difficulty continuing to grow when so many people can't contribute to a sophisticated and advanced workforce," she said.

'TOO OPTIMISTIC'

What China always had going for it was that global firms and investors believed in its story. It remains a manufacturing giant and is already the world's leading maker of electric vehicles.

But the shine is fading fast. "China's post-pandemic recovery has disappointed all expectations," with the property sector acting as a drag "on household consumption, construction, local government revenue and financial services," said Katrina

Unfinished buildings and roads in Luannan, China

Ell, director of economic research at Moody's Analytics in Sydney.

Even this year's official 5% growth rate was supposed to be an "easy win", she added, given the economy's "woeful performance in 2022", when President Xi Jinping stuck doggedly to his 'zero Covid' policy.

Andrew Collier, China country analyst at research firm GlobalSource Partners, said analysts had always been "too optimistic" about the strength of the post-Covid-19 rebound.

He sees debt as the country's biggest problem. "There is little room in the economy, either among the local and central government, businesses, or consumers, to borrow for investment or consumption."

He argued a structurally imbalanced economy, a flailing property sector, torpid growth and savings rising at the expense of spending explained why foreign investors were "not comfortable making long term bets on the Chinese economy".

Collier concluded: "Unless the political, legal and economic situation changes in China, the days of China as the star success story in global growth are over."

China needs to act quickly to avoid Japan-style debt and growth crisis

Shigeto Nagai: China's approach is to avoid radical clean-up

Chinese authorities need to tackle their domestic debt crisis or risk ending up with years of stagnation akin to Japan's, threatening the growth China has achieved and impacting economies reliant on the country, industry experts have said.

China's public debt totalled 97% of GDP in the first quarter of 2023, according to a May report from Natixis CIB. That includes local government financing vehicles (LGFVs) that local governments used to raise off-balance sheet debt for infrastructure and real estate projects.

While this is still less debt than the US — whose ratio was 120% at the end of 2022 — China's actual levels are significantly higher. State-owned companies have substantial debts and there is limited information on LGFVs.

Total debt in China's household, corporate and government sectors reached 282% of GDP in the second quarter this year, according to Bloomberg data.

That spike, including at the corporate level, came with a crisis in China's property sector. Marquee developers like China Evergrande Group defaulted and Country Garden remains on the edge of a possible default.

Aidan Yao, a senior China economist formerly at Axa Investment Managers, said 2016 was a critical year. China unveiled its debt-to-equity swap programme as part of a deleveraging campaign. But the opposite happened: investors were led to view implicit government guarantees for local authority debt as explicit guarantees, giving them confidence and tempting governments to issue more.

"People pay a lot of attention to China debt because of the speed of the accumulation," Yao said. "But it's also because of the mismatch in their debt."

Local governments tend to borrow short but lend long, particularly to infrastructure projects that take years to generate returns.

China's precarious debt and economic situation is now triggering comparisons with Japan, whose property and stock markets burst in 1992 following years of euphoria.

Over the next decade, Japan's authorities laboriously cleaned up the 'three excesses' — debt, production capacity and employment — leading to big capital losses for companies and banks and pressure on growth.

Shigeto Nagai, head of Japan economics at Oxford Economics, said that while he did not expect a Japanese-style debt recession in China over the coming years, he was concerned about China's way of tackling its debt situation.

"Its approach is to avoid drastic clean-up of non-performing loans behind this property bubble," said Nagai. "Their reluctance to take decisive steps could end up with prolonged stagnation in the coming period, and this could gradually hurt the health of the banking sector and deteriorate banks' ability to provide credit for growth."

Gary Ng, a senior economist at Natixis CIB in Hong Kong, said the market should be worried about contagion from China's real estate debt crisis to other industries, like the banks, or defaults on government-related bonds. Ng said: "This will have an implication for not only growth, but also capital flows and financial stability."—*Rashmi Kumar*

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Un-original sin: countries that borrowed locally now face pain

By Rashmi Kumar

Emerging and frontier market governments that have built up domestic capital markets for funding, hoping to reduce their dependency on foreign investors, are now facing a tough task to tackle these same domestic debts without derailing their economies.

Over the past 20 years, emerging market governments have worked hard to develop domestic capital markets to lessen their reliance on fickle international funding. In some cases, such as Mexico and Brazil, this has helped insulate them from the recent jarring US interest rate rises.

But countries that get into distress are finding that having local investors is no panacea. Domestic debt levels have soared since the Covid-19 pandemic — and so has the cost of servicing that debt. That has triggered a spike in domestic debt restructuring (DDR) by countries such as Ghana and Sri Lanka, and raised questions about how possible local debt restructuring is.

"When the domestic economy is still weak and fragile and when people's livelihood is already deeply affected by economic turmoil, conducting a successful DDR with domestic support and without further derailing the economy would be a highly challenging task for the government," said Hamza Ali Malik, a director at the UN's Economic and Social Commission for Asia and the Pacific in Bangkok.

A case in point is Ghana. It wrapped up the first phase of a restructuring in February, exchanging local currency bonds for new ones with lower coupons and longer tenors. It then exchanged about another $4bn of domestic debt.

Jan Friederich, head of EMEA sovereigns at Fitch Ratings, said Ghana's domestic restructuring was a "little bit easier" because many of its banks were foreign-owned.

"That reduces the risk that a restructuring of Ghanaian banks, which are key pillars of local currency government debt, will undermine completely the capacity of the economy," he said. "Because if you badly hurt the financial sector, that can badly hurt the economy, and therefore


Bank of Ghana: bond restructuring this year

public finances and the capacity of the government to service even the restructured debt."

He added: "There is now a very lively discussion on the extent to which local currency debt should be included [in government debt restructuring] and under what circumstances."

GO EARLY

Some countries have also restructured debt opportunistically. Kenya unveiled a voluntary transaction in January to switch holders of its shilling bills and bonds into a tax-free, six year infrastructure bond at a higher yield.

Roberto Sifon-Arevalo, S&P's global head of sovereign ratings, said the "key conundrum on domestic debt exchanges is that they're usually highly linked to the development or the future of your local financial system".

Lebanon in a Catch-22: political paralysis blocks reform

By Marianne Gros

Lebanon's deputy prime minister says the country's political deadlock should not stand in the way of the government's attempt to make reforms that would unblock an IMF loan to appease its creditors. Market participants, on the other hand, do not expect debt restructuring to be possible until the political impasse has been eased.

Since Michel Aoun's term ended in October 2022, Lebanon has been unable to come to a political settlement or elect a new president.

"We must interpret the constitution with an open mind," Saade El Shami, deputy prime minister, told *GlobalMarkets*. "Since the vacancy of the presidency has extended beyond a reasonable limit, and given the dire economic situation, it is incumbent upon the government to assume its responsibility and care to the urgent needs of the people."

The Lebanese Parliament is stuck. Some MPs are boycotting parliamentary sessions they consider unconstitutional. This is delaying important economic and financial reforms demanded by the IMF as conditions for a $3bn loan over a four year period.

They include restructuring the banking sector, unifying the multiple exchange rates, capital controls, fiscal policy and reforms to banking secrecy law. "The IMF team is ready to support the authorities with technical assistance and policy advice," said an IMF spokesperson.

El Shami says much more should be done. "Lebanon's political paralysis should not prevent us from working on many reforms, regardless of whether there is an IMF deal," he added.

Faced with a budget deficit of about 24% of GDP, the government is running out of options to service its debt.

Wassim Mansouri took over in July as interim governor of the Banque du Liban from Riad Salameh, being investigated for corruption in multiple countries. Mansouri has said the BdL will neither print Lebanese pounds nor lend dollars to the government.

Unlocking the $3bn would help Lebanon negotiate with creditors. But to convince all partners, the government would need to show discipline in its economic and financial policies.


El Shami: "We must interpret the constitution with an open mind"

Most observers believe Lebanon cannot begin to recover without first forming a functioning government. "The government knows exactly what needs to be done," said Adnan Mazarei, non-resident senior fellow at the Peterson Institute for International Economics. "There are issues with restructuring its debt and addressing the hole on the balance sheet of the central bank."

In August, Fitch Ratings affirmed Lebanon's rating at Restricted Default, saying it did not expect significant progress on debt restructuring until a president is elected.

But Mazarei said Lebanon's political class had no interest in reform. "The reform package needs to be undertaken by an elite who are the beneficiaries of the current status quo," he said. "The international community is willing to help Lebanon, it's Lebanon that isn't willing to help itself."

EU hopes for 'turning point' at Polish election

By Dominic O'Neill

European leaders are watching Poland closely ahead of elections on Sunday, which could give ruling populists led by Jarosław Kaczyński a third consecutive term, or let Donald Tusk, the former European Council president, return as prime minister.

After a pro-Russian party won elections in Slovakia on September 30, Poland's election comes at a critical time for the European Union enlargement policy, most importantly the prospect of membership for Ukraine.

Under the Law and Justice party, Poland has taken an unflinchingly anti-Russian stance on the war in Ukraine, unlike fellow populists in Hungary. The opposition Civic Platform takes a similar line.

But Kaczyński's government has recently been uncooperative with the EU's migration policy and has been in dispute with the bloc over the rule of law, causing Brussels to withhold funds otherwise due to Poland.

Recent polling suggests the election is on a knife edge. Neither party may be able to form a government on its own, although Tusk has recently been gaining in polls, as have some of his potential coalition partners.

"At the moment the central European region is perceived very negatively within the EU," said Gunter Deuber, head of research at Raiffeisen Bank International. "If there's a governing coalition with a more constructive stance towards the EU and the West, it will be very helpful for the whole region. It could be a turning point."

Investors are also looking closely at the election for signs of change in monetary policy. The National Bank of Poland surprised markets with a 75bp interest rate cut in early September, followed by another 25bp cut to 5.75% in early October, fuelling concern about central bank independence.

The NBP's communication has been inconsistent. During the summer it had indicated it would take a more cautious approach to easing, said Michał Dybuła, chief economist CEE at BNP Paribas Polska.

"If the Civic Platform was able to form a government, it would be a massive improvement in the climate for investors and expectations of moving forward, for example on unblocking EU funds, even though the process of reversing changes in the judiciary will take time."

Łukasz Jańczak, a bank equity analyst at Erste Securities Polska said one of the likely outcomes was also "the worst for the market", namely "a hung parliament, more uncertainty and another round of election promises."

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The Brics' challenge to the IMF: from within and without

Amid a sharp increase in sovereign defaults, the IMF needs more resources. Members' quotas are being reviewed, and powerful emerging states want bigger shares. But the Brics are also mustering resources to provide an alternative to the IMF

> *"It is essential that the IMF's membership come together to bolster the institution's quota resources"*
> *— Kristalina Georgieva, managing director, IMF*

On the bloc
Brics leaders with new members and delegates at the 2023 Brics Summit in Johannesburg, August 2023

By Phil Thornton

Fifty years have passed since the International Monetary Fund last held its annual meetings in Africa — in Nairobi in 1973. The last half century has brought astounding changes in the economic development of emerging economies such as sub-Saharan Africa, but also in the role of the IMF.

In 1973 the IMF was pretty much the only non-partisan lifeboat for emerging and developing countries. But the last decade has seen the rise to prominence of the Brics group of emerging economies led by China, the world's second largest economy, along with Brazil, Russia, India and South Africa.

China has used its leadership of that grouping — as well as its own vast resources — to direct financial assistance to emerging markets and developing countries (EMDCs), making it an increasingly important player in crisis resolution.

This has been exemplified by the debt crisis in Zambia, which defaulted in 2020. A deal to restructure billions of dollars of debts was held up by an impasse between new creditors such as China and Western lenders. The IMF could not lend again until Zambia's debt was "sustainable", and for that, it needed "financing assurances" from China, which is owed $4.1bn.

In June, Zambia finally secured a restructuring agreement with its official creditors on $6.3bn of external debt. The deal was struck under the G20 Common Framework, which had been set up to bring together members of the Paris Club of mainly Western bilateral country lenders with these new creditors.

IMF managing director Kristalina Georgieva hailed the Zambia deal as a "significant milestone" for the Framework, when it unlocked a $1.3bn IMF bailout of the world's second largest copper producer.

This is unlikely to be the last such pact. Chad, Ethiopia and Ghana are also operating within the Framework, while Sri Lanka and Suriname are undergoing debt restructuring as part of IMF rescues. Egypt, Nigeria, Kenya, Tunisia and Argentina have all been subject to default speculation this year.

According to Fitch Ratings, there were 14 separate sovereign default events in nine countries over the three years from the start of 2020 to March 2023. That is a marked increase in pace compared with 19 defaults in 13 countries between 2000 and 2019.

But the fact that the Zambia negotiations took three years will heighten the pressure on ministers at the IMF annual meetings to strive for a more streamlined debt resolution system. According to Hung Tran, non-resident senior fellow at the Atlantic Council's GeoEconomics Center, further improvement on the sovereign debt restructuring framework will be on the table.

"The focus should be to switch from procedures and processes to focus more on substance — and substance is the degree of relief that countries should be prepared to give to debtor countries, to really meaningfully help them to cope with the difficulties," says Tran, a former executive managing director at the Institute of International Finance and former deputy director at the IMF.

"That should be on the table, but how much agreement can we expect? I don't expect a lot, but on these kinds of issues, continued pressure and visibility on a topic is important to get countries to feel that they need to move on."

Staff of the Fund and World Bank should propose a roadmap to flesh out the Common Framework, Tran adds. It would specify a timeline of steps to be taken when a debtor country requests a restructuring, to give all stakeholders a sense of what to expect.

BUILDING BRICS

Two months after helping secure the Zambia deal, China used the 15th summit of the Brics nations to show that this association is positioning itself to exert more influence over the global economic trajectory and its decision-making processes.

At the summit in Johannesburg, the Brics admitted six new members — Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates — doubling its tally (and creating an acronym headache). The group also revealed that another 16 countries had formally applied to join, while a similar number had expressed interest.

The expansion of the Brics means it is likely to play a more significant role on the global stage and act as a counterpoint to the Group of Seven rich nations in international fora such as the IMF.

One aspect of the Brics' ambition is to provide an alternative to the IMF. To that end, the Brics will make greater use of their Contingent Reserve Arrangement, according to Tran. This facility — which currently has funding of around $100bn, based on contributions by the first five members — aims to provide protection against global liquidity pressures.

Tran says it will, to a small extent, provide an alternative to the Fund by making loans of last resort and offering a financial safety net to countries in crisis. "I think that facility will be expanded to include more countries and ... [especially] if in tandem with China stepping up the use of its half a trillion dollars of bilateral currency swaps, will be somewhat complementing — or even competing with — the IMF over emergency lending," he reckons.

But he warns that the Brics' potential will be stymied by competition between China and India over the direction it should take. China, with the support of Russia and new member Iran, will want it to become an organisation to support an "anti-US and anti-West polemic agenda".

India, on the other hand, wants to become the voice of the Global South and focus on their needs, such as reform of the international financial institutions, efficient sovereign debt restructuring and climate financing. "These are concrete, practical issues, meeting the development needs of developing countries in the Global South."

QUOTA REVIEW

But the Brics also have policy aims within the IMF. The Fund's ability to provide a global safety net is about having resources as much as well oiled machinery. Georgieva has pointed out that financial reserves are very unevenly distributed between countries and dwarf the pooled reserves centred on the IMF. But boosting the Fund's reserves will mean opening up another long-running rift between developed and emerging members.

One way would be to increase the amount of money each puts into the Fund. Every nation has a "quota" denominated in Special Drawing Rights (SDRs, the fund's own currency) that determine its share in the Fund, how much it can borrow and its voting power.

But even after its recent expansion, the Brics members will hold 18% of the votes on the IMF's executive board, less than the 41% held by the G7 and 55% in the hands of all advanced economies.

The Brics' declaration called for a "quota-based and adequately financed IMF" at the centre of a global safety net. But it added: "Any adjustment in quota shares should result in increases in the quota shares of EMDCs, while protecting the voice and representation of the poorest members."

The IMF's board of governors conducts a quota review roughly every five years to address both the size of any overall increase and its distribution between members. A review in early 2016 doubled the total amount and made a 6% shift towards fast-growing emerging and developing nations.

The US, the Fund's largest shareholder, sees the need for an increase in quota funding for the IMF that will make it less reliant on bilateral funding. While quotas provide around $630bn, that is just under half the Fund's total resources. The balance is of made up $483bn under the New Arrangement to Borrow — multilateral credit provided by 38 advanced and emerging economies — and $188bn of bilateral borrowing arrangements.

"We must make sure the IMF has the resources it needs to lend," said Jay Shambaugh, under-secretary for international affairs at the US Treasury, in a speech at the Center for Global Development thinktank in Washington, ahead of the annual meetings. He supported "a proportional increase in quotas [that would be] allocated to all members in proportion to their existing shares."

OPAQUE LENDING

Shambaugh went further, saying the US would also support changes to the quota formula to make it more reflective of the global economy. The review is due to be wrapped up by the end of December, so will be a live issue this week.

In an essay for the Council of Foreign Relations thinktank, Georgieva said an increase in quotas would aid emerging and developing economies and reduce the Fund's reliance on temporary credit lines.

"It is essential that the IMF's membership come together to bolster the institution's quota resources by completing the review by the December deadline," she urged.

However, as Tran at the Atlantic Council points out, any increase in permanent resources is "married to the question of how you distribute the quota so as to change the voting powers. If you want to give a percentage point to developing countries, you have to reduce the share of the other countries."

The US, whose quota edged down to 16.5% at the last review, will want to ensure it keeps enough votes to be able to veto any IMF decision that requires an 85% majority. Meanwhile, advanced European economies ceded enough votes at that review to cost them two seats on the executive board.

"They absolutely do not want to go any further now," Tran says.

The US appears willing to give more weight to dynamic emerging markets, but ties that to concerns over certain emerging economies' stances.

"An important part of that process will be that all countries, especially those that would see an increase in their share, are respecting the roles and norms of the IMF," said Shambaugh.

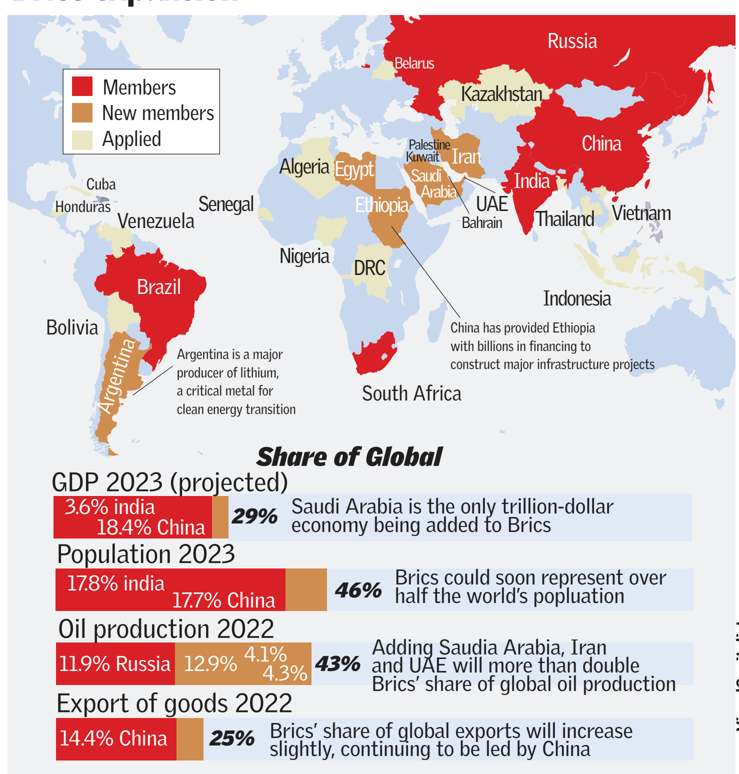
He pointed to countries "not playing by the rules of the game" by offering "opaque" loans that can make it harder for countries to escape from debt distress. "If you're doing a lot of lending, you need to recognise when that lending has gone bad, and work globally to get a country out of that position."

Discussions over these issues in Marrakech look certain to be difficult, and hopes for a breakthrough are not high.

As Tran says: "If nobody is willing to give, then nobody will get. So I think that, given the geopolitical competition and tension we see now, I don't see any progress on this front." GM

> *"The focus should be to switch from procedures and processes to focus more on substance — the degree of relief that countries should be prepared to give to debtor countries, to really meaningfully help them to cope with the difficulties"*
>
> *—Hung Tran, senior fellow at the Atlantic Council's GeoEconomics Center*

Brics expansion



Source: VisualCapitalist.com

New leader, new slogan: but can Banga renew the World Bank?

Ajay Banga is starting his term as World Bank president with widespread support and a clear mission: to increase the Bank's heft and leadership in tackling the world's worst problems. But a closer look reveals that while shareholders are happy to back him with words, they are not offering more money

By Phil Thornton

Ajay Banga could hardly have had a better entrée into his first annual meeting as president of the World Bank. He received strong endorsement from country shareholders, winning the race for the job unopposed. Then at the G20 summit in early September, leaders promised him "more headroom and concessional finance".

Even though Banga took over the reins on June 2, just as the Bank and many of its shareholder governments were entering the holiday season, he has tried to hit the ground running. He has already coined a new slogan for the Bank: "To create a world free of poverty on a liveable planet."

Those last four words are a sign that the World Bank under Banga will aim to embrace the fight against climate change, while continuing with its longstanding goal of ending poverty and delivering shared prosperity.

This has been greeted with relief by environmental lobbyists and finance ministers of low income countries most vulnerable to the impacts of climate change. They had been dismayed in September last year when Banga's predecessor David Malpass said he was unsure whether he accepted the scientific consensus that human fossil fuel consumption was a leading cause of the phenomenon.

> *"President Biden came home [from the G20 Summit] empty-handed, and the world's poor were short-changed"*
>
> *—Karen Mathiasen, Center for Global Development*

Banga's opening address this morning (Wednesday October 11) will give him his first opportunity to send a focused message to government ministers, other stakeholders and the media about his agenda for the next four years.

"He will use the speech in Marrakech to say where he wants to go," says Paul Cadario, a fellow at the Munk School of Global Affairs and Public Policy at the University of Toronto, and former World Bank staffer.

"He may be in a position to give some hints about the areas that he and some of the major shareholders are prepared to discuss, and indeed have begun talking about already with the relevant senior staff of the Bank."

THE BIG ISSUES

One area Banga is certain to focus on is what in development finance jargon are called global public goods (GPGs) — issues that benefit the whole world.

Three of these were highlighted in the Evolution Roadmap drawn up by the Bank's development committee earlier this year: tackling climate change, improving pandemic preparedness and dealing with fragile and violence-affected states.

In his world tour of key emerging economies before the selection vote, Banga pledged that under his leadership the Bank would work with partners to mobilise additional funding to address GPGs.

This technical-sounding concept is likely to be of prime importance to Banga, as the World Bank is asked to take centre stage in delivering solutions to major cross-border problems such as hunger, financial instability, climate change and biodiversity loss.

The benefits can be huge, as Oxford Economics, a consultancy, showed in a report on GPGs for the German economy ministry. It estimated, for example, that a \$3.15bn development policy loan to Egypt by the International Bank for Reconstruction and Development over the three years to 2017 had delivered a cut in CO_2 emissions of 50m tonnes, which it valued at \$15.8bn.

The difficulty in financing GPGs is that although their benefits spread globally, the money has to be spent in defined places, which can make some governments reluctant, unwilling for their money to support projects in other countries.

FAIRNESS PROBLEM

The Oxford Economics report, which has been presented to the Bank's executive directors, sets out recommendations to ensure development banks maximise the benefits of GPG investments on the ground. They range from using cost-benefit analysis and focusing on projects with high cross-country benefits to helping coordination of in-country provision and encouraging regional learning.

Johanna Neuhoff, associate director of consulting at Oxford Economics, says that although global public goods require global collective action, their under-provision can only be tackled at the local level.

"The World Bank by its role and its mandate is a global institution uniquely positioned to support and finance the country-specific delivery of GPGs," she says. "Thus, from global goals to local action should become a guiding narrative for the World Bank's GPG country engagement."

Cadario at the Munk School agrees the challenge with operationalising GPG investments is to identify who benefits and who pays. "You've still got that problem that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In the field
World Bank president Ajay Banga inspecting red peppers at a sustainable farming greenhouse facility in Jamaica and visiting a Legal Aid center in Peru

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> *"For infrastructure, for climate [and] for inequality, the math is not on our side, and the World Bank cannot do this alone"*
>
> *—Ajay Banga, World Bank president*

global public goods are, by definition, hard to lend for, and the instruments that people have come up with so far have been probably underfunded."

A MASTER(CARD) STRATEGY

The G20, whose members range from the largest advanced economies to fast growing emerging and developing countries, has written a long shopping list for Banga's World Bank, still the most important source of multilateral financing to low and middle income countries.

In the declaration after their September summit, the G20 leaders defined goals including eliminating hunger and malnutrition, strengthening health systems, delivering quality education, advancing gender equality, addressing climate change, narrowing skills gaps, protecting biodiversity, mobilising private investment and supporting digital transformation.

Whether by chance or not, this closely matched a joint statement a couple of days earlier by Banga and Kristalina Georgieva, managing director of the International Monetary Fund.

They devoted a large chunk to digital transition, which they described as "at the forefront of development, [providing] a unique opportunity for countries to accelerate economic growth". Yet in 2022, they said, nearly 3bn people remained offline.

As CEO of Mastercard for 13 years before joining the World Bank, Banga led a programme that brought 500m unbanked people into the digital economy. "Digitalisation offers us the opportunity to shift the landscape and level the playing field," he told the Center for Global Development think-tank earlier this year.

Karen Mathiasen, a project director at CGD and former US executive director at the World Bank, says the issue also consumed a "frightening amount of language" in the G20's post-summit declaration.

"Banga has been very focused on digitalisation," she says. "[There is] no question that he sees that as a solution, or a part of a solution, to a lot of development challenges. That will be something I think he will want to leave an imprint on."

TIGHT FISTS

Whatever strategy Banga's World Bank adopts, it will require a massive injection of finance. He has said the bill for tackling "an abundance of challenges" will outstrip its current resources. Banga warned in April: "For infrastructure, for climate [and] for inequality, the math is not on our side, and the World Bank cannot do this alone."

At the summit the G20 uttered strong words about the need to increase the Bank's firepower, saying: "We will collectively mobilise more headroom and concessional finance to boost the World Bank's capacity to support low and middle income countries that need help in addressing global challenges."

But as Mathiasen points out, President Joe Biden came to New Delhi with a proposal to ask the US Congress for $2.25bn of extra funding for the World Bank.

US national security advisor Jake Sullivan said Biden's request to Congress "would have the impact of increasing World Bank financing by more than $25bn".

Just days before the summit, Sullivan said the US was working to make sure other partners followed its lead.

But that aspiration was met with silence. "The fact of the matter is," Mathiasen says, "that President Biden came home empty-handed, and the world's poor were short-changed."

In any event, Congress is trapped in a political stand-off over the budget. As long as the US government teeters on the edge of a shutdown, a general capital increase for the World Bank, which it suggested in January, is out of the question.

Therefore, following in the footsteps of his predecessors, especially Malpass and Jim Yong Kim, who promoted the slogan "billions to trillions" for scaling up development finance, Banga will have to pivot towards harnessing private sector capital.

CAN PRIVATE CAPITAL FILL THE GAP?

In July the Bank set out its vision to "stretch every dollar" while preserving its triple-A credit ratings. It included using more guarantees to reduce risk for investors, raising hybrid capital from shareholders, leveraging more of the callable capital pledged by shareholders, and a new Private Sector Investment Lab to generate and test ideas to remove barriers to investment in emerging markets.

"He'll have to do a bit of a patchwork approach — a little hybrid capital from here, a guarantee from there," Mathiasen says. "It will not be nearly as clean or as robust [as a capital increase], but that will end up being his only option."

The Bank says every new $1 of capital (or the equivalent in other forms of risk support) could support an additional $6 of new World Bank lending over a 10 year period.

Luiz Vieira, coordinator of the Bretton Woods Project NGO network, says the best estimates by the UK's Overseas Development Institute are that each $1 of public sector lending then generates about another $0.70 of private investment.

Taking those estimates together, $1 of fresh capital could generate $10.2 of total financing. It would still take a very large amount of capital to raise the trillions of dollars the developing world needs.

"The trillions have not materialised and the model has failed on its own criteria," says Vieira. "How much risk shifting to the public sector would it take to meet the risk-reward appetite of the private sector?"

Instead of trying to woo an ever-reluctant private sector, Vieira implores the US instead to urge shareholders to meet the UN target of spending 0.7% of their GDP on official aid, and to clamp down on illicit financial flows.

However, he is sceptical that Banga can grasp this nettle, because of both the faith in innovative finance he has brought from Mastercard and his lack of development experience.

Like many NGOs, the Bretton Woods Project is disappointed Banga was selected, because it perpetuates the tradition that the US government effectively chooses an American citizen to run the World Bank — albeit, this time, a citizen who was Indian-born — while European shareholders pick one of their own to lead the IMF.

"The fact that he comes from Mastercard for us is problematic because we're concerned about the deepening financialisation of development," Vieira says. "This idea that there's not enough public finance out there, so we must increasingly rely on private sector finance and the role of private sector development — we find that troubling." GM

EUROPEAN INVESTMENT BANK: A COMMITMENT TO REFORM

The European Investment Bank recognises that long term reform of the global financial system is an essential precondition if the world is to meet its targets on climate change mitigation and adaptation as well as social development. In this interview, **Markus Berndt**, acting managing director of EIB Global, shares his thoughts on how this commitment is reshaping the EIB's culture and strategy.

Markus Berndt is an admirer of Mia Mottley, Prime Minister of Barbados. She is the architect of the Bridgetown Initiative, a blueprint for reform of an international financial system that Mottley has described as broken, outdated and "infested with short termism".

Berndt, acting managing director of EIB Global, the European Investment Bank's new branch for investment outside the European Union, says the EIB is in full agreement that reforms must be accelerated if the international community is to mobilise the funding required to tackle the twin challenges of climate change and global social underdevelopment.

But he rejects the charge of risk aversion that has often been levelled at the EIB, arguing that this is an outdated perception.

"The EIB is the most leveraged of the multilateral development banks, which has meant that it has had to maximise the use it can make of its capital," says Berndt. "We have done so by developing a vast array of instruments across the entire risk spectrum. Today, we are one of the very few global financial institutions that can provide solutions ranging all the way from the most risk-free senior loans down to subordinated structures, equity participations and portfolio guarantees where we take the first loss."

The EIB is rightly adamant that it draws the line at any exposure to risks that would undermine its capital position or its triple-A ratings. This would potentially jeopardise a funding model that has consistently positioned the EIB among the world's most highly regarded and dependable supranational borrowers.

APPETITE FOR RISK

But Berndt says that this model need not be synonymous with risk aversion: "Good banking is all about taking risks and pricing them appropriately. This is precisely why we have invested massively in the design of instruments allowing us to take more risk by leveraging our budget guarantees."

A striking recent example of this, he adds, is the EU for Ukraine (EIB EU4U) Fund, an initiative backed by 16 EU countries which have pledged €400m in support of Ukraine's agenda for recovery and reconstruction. "This is an example of a fund that allows us to take guarantees as well as grants from member states," Berndt says. "This in turn means we can leverage our balance sheet to crowd in private sector support."

Where the EIB makes no apology for remaining cautious is in its approach to project implementation. "It is true that when it comes to social and environmental standards, we remain risk-averse," Berndt says. "We believe it is good practice to use EU standards as a way of encouraging private capital to be crowded into projects, irrespective of whether they are in the EU or in less developed economies."

> "The EIB is the most leveraged of the multilateral development banks, which has meant that it has had to maximise the use it can make of its capital. We have done so by developing a vast array of instruments across the entire risk spectrum."

The EIB's response to the crises highlighted by Prime Minister Mottley has been to share its expertise on how to leverage its capital, while exploring innovative mechanisms to support the battle against climate change in developing economies.

Specifically, Berndt points to four proposals aimed at increasing efficiencies in financing climate mitigation and adaptation projects.

The first is introducing longer tenor sovereign loans of up to 30 years (with a 10 year grace period), more closely aligning the financing of projects with the economic life of the assets.

The second is integrating climate-resilient debt clauses into contracts for less developed countries and small island developing states, allowing for the temporary suspension of debt repayment in the event of a natural disaster.

The third, which the EIB is developing in co-operation with countries such as Barbados, is the use of debt-for-nature swaps. These could allow sovereign borrowers to exchange some of their international debt and invest any savings from this for climate action commitments.

The fourth is exploring options for reallocating special drawing rights under the International Monetary Fund's Resilience and Sustainability Trust, as a means of crowding in private sector investment. This has already been done for Rwanda and Barbados with EIB participation, and Jamaica is next in a line which includes several other regional partners in Sub-Saharan Africa.

SHOWING COMMITMENT

Beyond these initiatives, another notable indication of the EIB's commitment to long term reform was the launch at the start of 2022 of EIB Global.

This initiative is based on a hub-and-spokes model, designed to ensure that the EIB has the local bankers, engineers, and sector specialists it needs to implement key projects outside the EU.

EIB Global's first regional hubs have already been opened in Nairobi, Belgrade and Abidjan and others will follow in Africa, Eastern Europe, Asia and Latin America. "We're already seeing from our regional hub in Nairobi what a difference it makes to have a local presence," says Berndt.

Berndt says it is a mistake to interpret the EIB Global initiative as a rebalancing of the geographical distribution of its loan portfolio. The lion's share of this has historically been in Europe, with €10.8bn invested beyond the EU in 2022.

More significant, he says, is the role EIB Global plays in underscoring the EIB's commitment to building international partnerships, across a world where economies are inescapably interlocked — just as it did in helping to distribute around two billion BioNTech vaccines throughout the world during the Covid crisis. ●

Momentum builds for new finance vehicle to protect forests

Plans for an innovative sovereign wealth fund-style facility are being prepared with World Bank support

By Jon Hay

Plans are being developed to set up an international fund, modelled on a sovereign wealth fund, to reward countries that protect their rainforests. The World Bank is hosting a working group, which hopes to present a plan at the COP 28 climate conference in November.

The fund would offer a new way to use capital markets for development finance, in one of the most difficult, yet urgent, areas: protecting and restoring nature. It would also break political ground, creating a new kind of interaction — and potentially a new set of tensions — between rich and poor countries.

Natural ecosystems, particularly biodiverse tropical forests, are vital to enabling the Earth to continue to absorb carbon dioxide from the atmosphere. They also have a host of local benefits, including maintaining healthy rainfall and preventing floods.

Sustainably managed forests can provide incomes to local people, but there are always temptations to encroach on them for logging, farming, mining and other economic development. Despite all the attention on the issue, tropical deforestation is getting worse.

Developed countries have made a few efforts to reward developing nations for protecting woodlands, but they have not all been successful, nor have they proliferated. They are beset with risks of backsliding and mistrust on both sides.

The idea of an international finance facility for forests (Iffor) was taken up in June at the Summit on a New Global Finance Pact convened by France's President Emmanuel Macron. It was included in the Paris Agenda for People and the Planet, agreed there.

A group of "champions" for natural capital was formed at the summit, including the presidents of Colombia, the Republic of Congo and Gabon, US climate envoy John Kerry, the World Bank and Saudi Arabia's Public Investment Fund. They have agreed to promote the forest facility.

The concept has been gestating for about 15 years among a few development finance experts, particularly Ken Lay, treasurer of the World Bank until 2010. Lay has been promoting the idea in policy circles, and in Paris he made a successful pitch for it.

Having worked on the proposal at the World Bank, in 2014 Lay took it to the Center for Global Development thinktank. They fleshed it out in a series of detailed papers in June 2018.

PAYMENTS NEEDED

"We need to try to offer financial incentives to tropical forest countries to avoid deforestation," Lay said. "We know there are short term opportunity costs to them, because they can cut down trees and make money doing it right now. In Paris developing countries said: 'You want us to do it to mitigate the damage you caused [through greenhouse gas emissions] — so where is the money?' That has been a repeated refrain for years now."

The central idea is not to finance this with overseas development assistance. As Michele de Nevers, then a fellow at CGD, wrote in 2018: "There are dozens of competing high priority uses for ODA. And when ODA funds are used for reward payments, donors are tempted to… 'aidify' the results-based payments programme." Donors tend to impose conditions on how the results are achieved and how the money is used.

To avoid that, rich countries would instead lend the money to create a substantial endowment fund, invested on commercial lines in a diversified portfolio of assets.

Sovereign wealth funds and pension funds have shown such portfolios can reliably generate substantial returns over 20 years. The World Bank team modelled a portfolio over multiple 20 year periods and found an annualised return of 7%-8% could be expected.

That is twice or more times the cost of debt for developed countries. So they could receive their money back after 20 years, with interest paid, either along the way or at maturity.

"It avoids competing with other government expenditures," said Lay. "It's just like putting money in the bank, and if you model the probability that they don't get repaid, it's trivial."

Countries that protected their tropical forests would share the fund's excess returns, above the cost of the developed countries' financing.

In its essence, the idea is simple and compelling — there seem to be no major reasons for either the investor or forest nations to object. Advances in satellite imaging make verifying how countries are caring for their forests much easier than in the past.

FAIR SHARES

The difficulties may lie in ensuring fairness among participants. To begin with: how to calculate the investors' returns. The US, UK, Germany, France and Italy all pay low rates of interest, but their funding costs are different, change over time, and come in different currencies.

Investors might put in different sums at different times. Some might have to accept terms that seemed to them slightly less attractive than what others received. They could all be paid the same, but then some would probably feel the investment had a cost.

For the forest countries, any payments could be seen as free money. But because they would sacrifice short term gains from ploughing up forests or extracting minerals, any sense that the fund is an unalloyed blessing is likely to be short lived.

Its creation would be likely to focus countries' minds on how much revenue they might be giving up by stopping deforestation, and how much they ought to be compensated for that.

In the simplest model, the fund could give out money unilaterally to all countries with forests of a certain kind, or within certain latitudes, in proportion to the size of forest and degree of preservation. But the huge size of Brazil and Indonesia's forests would give them the lion's share of the money, leaving little for others.

A more complex system would involve specific forest countries becoming members of the scheme. Some of the measures required to earn its rewards would involve cash outlays; many would carry opportunity costs.

The 2018 papers propose a formula taking into account both each country's annual performance in maintaining and expanding forests, and the size of its forests. Shares in the fund's returns would be allocated annually.

Parametric payments based on forest statistics would be objective, but could still lead to disagreements over whether some countries were making bigger sacrifices, as their costs for complying could vary. Some might have to forgo exploiting mineral deposits, for example.

When would the money be paid out? Lay said some countries were happy for returns to accumulate and be paid out after 20 years. Others want the cash to use on a running basis.

Linked to that is the crucial question of who would bear the risk of disappointing investment returns, for example due to an economic crisis. Would the return to investor nations be fully protected every year?

The degree of return to the forest countries would certainly be volatile. This could make it more difficult to release money before the fund's maturity, especially to only a subset of countries.

A further difficulty would be how to cope with forest countries wanting to join during the life of the fund. Would they dilute the returns to existing members?

Several closed funds could be created over time. But how to ensure that the deals offered were similarly generous?

CLEAR AND TRANSPARENT

Getting the governance right will be paramount. The CGD plan emphasised that the fund's governance would be modelled on that of sovereign wealth funds, not on international bodies such as the Green Climate Fund, where disagreements between donor and recipient governments have caused delays.

"We're trying to keep it simple," said Lay. "It would have to adopt an investment policy and have an outsourced chief investment officer — one or more — to make the investments. Governance issues are going to be there, but it's not as complicated as trying to manage the World Bank."

The scheme draws on the principles of cash on delivery (COD) aid and the Santiago Principles.

COD means paying developing country governments for achieving certain outcomes, such as educating students. The means and how the money is spent are left to the country to decide.

The Santiago Principles require sovereign wealth funds to be managed in a non-political, rational and transparent way, according to set investment principles.

The CGD papers recommend that the forest facility should outsource treasury management and monitoring of forest performance. Its board should comprise investment and forest experts, not government representatives.

To minimise tensions, they propose structuring the fund as a global offer by the investor countries. Participation by forest countries "would be completely voluntary — it is neither a demand nor a requirement."

Participating would create a contract, however, in which the forest nation could receive payment for results out of the fund's investment returns.

HOW BIG?

The biggest problem may be to work out how much money can be assembled, and how many countries this can help. "A fund that would generate meaningful incentives for the whole tropical forest ecosystem would be huge," said Lay.

Some have suggested $1tr, but raising that seems improbable. "The number we got to was $100bn," said Lay. "That was big enough to generate meaningful returns after paying the underlying interest, and not so big that everyone would choke and say 'forget it'. It's one quarter the size of the California Public Employees' Retirement System."

In 2018, CGD estimated that $100bn could generate $5bn a year of rewards for forest protection.

But Lay added: "Everybody recognises that even with $100bn there are limits, because Brazil and Indonesia would be getting a large share of it and that reduces the amount available to any other country."

A different solution may be needed for the largest countries. One possibility is to start the fund with High Forest, Low Deforestation countries — an already defined group whose forests are still in a reasonable state, including Bhutan, Colombia, the Congo, Democratic Republic of Congo, Gabon, Ghana and Malaysia.

The scheme could start with a small pilot for two or three countries. "We'll just have to figure it out and balance what's practicable," said Lay.

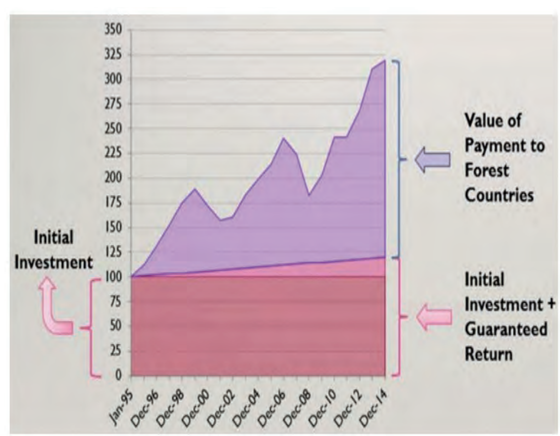
The French government is backing the idea. Other governments, including the UK's, are involved and it is attracting steady interest from potential investor and beneficiary governments.

Brazil — which holds the world's largest rainforests — is due to take over as president of the G20 in December, so supporters are eager to see whether it takes up the idea as a G20 priority. GM

> *"The number we got to was $100bn. It's one quarter the size of the California Public Employees' Retirement System"*
>
> *—Ken Lay, senior managing director at Rock Creek and former World Bank treasurer*

Tropical primary forest loss 2002-22

TFFF funding model



Source: Center for Global Developement

WB urged to rethink playbook for perma-crisis

By John Crabb

Finance ministers of developing countries have called on the World Bank to reconsider its operating practices, now that crises are no longer exceptional, but almost constant.

It must not only react more quickly when disaster strikes, but help foster resilience before it does, policymakers said, adding that existing methods were no longer fit for purpose.

Sosten Gwengwe, Malawi's finance minister until he was removed from his post last week, said his country had suffered blow after blow, such as the devastating Cyclone Freddy. Having to constantly recover from these had made it increasingly hard to keep moving towards its 2063 vision goals.

"The climatic crises are here to stay... it is cyclone after cyclone after cyclone," he said. "We have no fiscal or economic buffers to absorb such shocks. Every shock that hits us has a huge impact, and trying to recover becomes another challenge."

Malawi needed to become resilient, so that it could rebuild more easily and be better prepared for the next cycle, Gwengwe said. "That is where the Bank needs to come in in terms of speed and response. Any delay is costly... by the time the money comes, there is another crisis."

Anna Bjerde, managing director of operations at the World Bank, said it was keen to figure out how to help countries become more resilient. Incresingly frequent and severe shocks were having a huge human toll, she said.

"Some of the cost and damages that are being caused by these events is putting such strain on an already incredibly squeezed resource base for people to deal with coming out of Covid, multiple crises, and on top of so many other vulnerabilities — food insecurity at a level we haven't seen before and the underlying and pressing impact of climate change."

The Bank expects 60% of the extreme poor to be living in fragile, conflict-affected countries by 2030. "That means our playbook has to change," Bjerde said. "There is a very important new vision, which is to end poverty on a liveable planet."

Part of the Bank's plan is to make resources available very rapidly in a crisis, using new instruments to give relief on debt repayment, or allow clients to draw down and move money around within portfolios.

Adama Coulibaly, minister of economy and finance of Côte d'Ivoire and outgoing chair of the G24 group of developing countries, said: "Beyond climate change, conflict, fragility and pandemic preparedness and prevention, we urge the World Bank to amplify support for initiatives such as access to affordable water and energy, human capital development, digital advancement and debt sustainability."

THE final word

If the BRICS expands, it needs a clear purpose

By Jim O'Neill

I am sometimes referred to as the Father of the BRICS in Chinese media, because I created the acronym for Brazil, Russia, India and China, which encapsulated the idea of their likely rise to prominence, and the need for them to take a bigger role in global governance as a result.

After the latest BRICS leaders' summit in Johannesburg in August, and the news that the group plans to expand to become 11, I wrote a piece for a Chinese magazine, saying that, as often happens, the father's advice had apparently been ignored.

There had been speculation all year that there might be some expansion of membership.

Earlier this year, I wrote an article suggesting that in order to warrant this, someone from inside the BRICS policy world should write down transparently what exactly it was they were trying to achieve as a group and why expansion might be helpful. And as part of this, what criteria would be used to admit new countries — would it be population, economic size and/or potential, or wealth, or its natural assets? Or what?

> "I remain baffled as to what process, if any, had been followed in [the new members'] selection"

PUZZLING CHOICES

After it became known which the new six members were, I remained baffled as to what process, if any, had been followed in their selection.

Superficially, there is not much in common between Argentina, Egypt, Ethiopia, Iran, Saudia Arabia and the United Arab Emirates.

For example, why admit Egypt and Ethiopia, and not Nigeria, Africa's biggest country population-wise, currently its largest economy and certainly the one with the clearest potential, if it ever managed to introduce better governance and plans to really boost economy-wide productivity?

And why Argentina, instead of Mexico, easily the largest Latin American economy after Brazil?

In the same spirit, what about Indonesia, probably the country with the most legitimate gripe that I never included it in the acronym in the first place? Today, it looks certainly better placed than either Brazil or Russia to be amongst the very largest economies of the world in another 20 to 30 years.

Is it because these more obvious countries didn't want to join, or was there something about them which the BRICS countries didn't see as advantageous? We don't know because there was little explanation given.

Of course, the inclusion of the big oil and gas producers, especially Saudi Arabia, carries its own intrigue, especially given their past close ties to Washington.

WHAT HAS IT DONE?

My core issue with the BRICS as a political group is that I can't see what they have achieved since they first started meeting together — beyond symbolism, though that is admittedly very large.

Perhaps a desire to be a member of some club that doesn't include the US, nor having its rules of engagement heavily influenced by the wishes of the US, might have been the central factor. Even if this were true, it is not obvious to me what the BRICS expect to achieve.

At the core of the past disappointment is a frank reality that its two biggest members, China and India, rarely agree on anything. As I have often argued, in order for any BRICS group to be truly influential, these two nations need to find a much better way of working together productively, rather than regarding each other with suspicion and as rivals. Until this changes, it is hard to believe that the BRICS club can really achieve much politically.

In any case, as evidenced by the G20 Summit in New Delhi three weeks after the BRICS gathering, this is the body that can truly influence the big global challenges of today and the future. Neither the BRICS 11 nor the G7 can do this on their own.

The G20 includes all the G7 members, the BRICS 5, plus Argentina and Saudi Arabia from the new BRICS members. Leaders of the UAE and Egypt, though not members, were invited to this summit. Including the other important large countries in the G20, and now the African Union, it represents some 85% to 90% of global GDP.

This is a hugely legitimate and representative body, and while it struggles with having a relatively large membership, it has demonstrated — occasionally — that it can achieve results. Despite the fact that the presidents of China and Russia did not attend the New Delhi meeting, the group did succeed in publishing a communiqué about the most important global issues we face going forward. Hopefully this can set the basis for renewed commitment by all its members.

As for the expanded BRICS, as well as encouraging China and India to jointly develop a list of issues to work on that they could both benefit from, I would urge the group to think more seriously about what each member might do to help both itself and its fellow BRICS members achieve stronger and more sustainable growth.

Without that, the BRICS' attraction to others, and indeed its relevance, may be limited.

Lord O'Neill is a senior adviser to the council of the Royal Institute of International Affairs and a former chairman of Goldman Sachs Asset Management and UK Treasury minister.

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What's happening Wednesday, October 11

9:30 AM – 10:15 AM
Launch of A Winning Project of Climate Innovation Challenge: Machine Learning Toolbox for Climate Policy Analysis
Opening Remarks: **Bo Li**, Deputy Managing Director, IMF
Moderator: **Herve Tourpe**, Unit Chief, Information Technology Department, IMF
Speakers: **Yunhui Zhao**, Economist, Strategy Policy and Review Department, IMF; **Li Tang**, Senior Computational Economics Expert, Information Technology Department, IMF
Closing Remarks: **Ivan Pavletic**, Head of the Multilateral Cooperation section, State Secretariat for Economic Affairs
Location: AB02 Irhoud

10:00 AM – 10:25 AM
Analytical Corner: **Distributional Impacts of External Food Price Shocks to Low-Income Countries**
Speaker: **Carlos Van Hombeeck**, Research Department, IMF
Location: AA03 Volubilis

10:00 AM – 11:00 AM
Seminar: **Harnessing Institutional Investment and Finance for Development**
Speakers: **Makhtar Diop**, Managing Director, IFC; **Suni Harford**, President of UBS Asset Management
Nezha Hayat, Chair and CEO of Morocco's Capital Market Authority
James Mwangi, CEO of Equity Group Holdings; Poppy Allonby, Head of ESG Enablement, T. Rowe Price; **Daniel Zelikow**, Chairman, Governing Board, JP Morgan Development Finance Institution
Moderator: **Rachelle Akuffo**, Anchor, Yahoo Finance
Location: BA02 Atlantique

10:00 AM – 11:00 AM
Toronto Centre Executive Panel
Speakers: **John Rwangombwa**, Governor, National Bank of Rwanda
Sabine Mauderer, Vice-Chair, NGFS Board Member, Deutsche Bundesbank
Jean-Paul Servais, Chair, IOSCO Board
Stefan Ingves, Chair, Toronto Centre
Moderator: Jean Pesme, Global Director, Finance, Competitiveness & Innovation, WB
Location: AA05 Ouzoud

10:30 AM – 10:55 AM
Analytical Corner: **Are We Heading for Another Debt Crisis in Low-Income Countries? Debt Vulnerabilities: Today vs the pre-HIPC Era**
Speaker: **Chuku Chuku**, Strategy Policy and Review Department, IMF
Location: AA03 Volubilis

11:00 AM – 11:25 AM
Analytical Corner: **Tracking Trade Disruptions from Space**
Speaker: **Alessandra Sozzi**, Statistics Department, IMF
Location: AA03 Volubilis

12:00 PM – 12:30 PM
Governor Talks: **Spain: Reclaiming Price Stability in the Euro Area – The Road Ahead**
Speaker: **Pablo Hemandex de Cos**, Governor, Bank of Spain
Moderator: **Alfred Kammer**, Director, European Department, IMF
Location: AB02 Irhoud

1:30 PM – 2:15 PM
Joint Seminar: **Delivery On the Ground: Country Action for A Livable Planet**
Moderator: **Lerato Mbele**, International broadcaster
Speakers: **Kristalina Georgieva**, Managing Director, IMF; **Ajay Banga**, President, World Bank; **Leila Benali**, Minister of Energy Transition and Sustainable Development, Morocco; **Mark Carney**, Co-Chair, Glasgow Financial Alliance for Net Zero (GFANZ) & UN Special Envoy for Climate Action and Finance
Location: BA02 Atlantique

1:30 PM – 5:00 PM
AFRICA: THE INNOVATION ENGINE
Opening Remarks: **Nadia Fettah**, Minister of Economy and Finance, Morocco; **M. Chakib ALJ**, President, CGEM
Advancing African Innovation for African and Global Markets
Moderator: **Abdelmalek Alaoui**, Founding CEO, Guepard Group
Speakers: **Ghita Mezzour**, Delegate-Minister to the Head of Government in charge of Digital Transition and Administration Reform; **Mehdi Tazi**, General Vice-President of CGEM
Mohamed Beouda, Founder, ABA TECHNOLOGY; **Abebe Aemro Selassie**, Director, African Department, IMF
Navigating the Next Frontier for African Tech
Moderator: **Uche Okoronkwo**
Speakers: **Ajay Banga**, President, World Bank Group; **Mo Ibrahim**, President, Mo Ibrahim Foundation
Markets and Opportunities: Lessons Learnt from Founders
Moderator: **Tommaso Mancini-Griffoli**, Division Chief, Monetary and Capital Markets Department, IMF
Speakers: **Robert Ochola**, CEO, AfricaNenda; **Coura Sene**, Executive leader; **Shenon Welang**, Managing Director Francophone, Africa
Designing African Products for African Markets: The Okapi Story
Speaker: **Jean Bele**, Founder, Okapi Mobile, Kenya
Markets and Opportunities: Lessons Learnt from Founders – Agritech and HealthTech
Moderator: **Manal Bernoussi**
Speakers: **Hamza Rkha Chaham**, Co-Founder, SOWIT; **Moustapha Cisse**, Founder, Kera
Location: BB01 Oum Errabii

3:00 PM – 4:15 PM
Seminar: **Engaging Women as Leaders: Innovation, Financing and Collective Action**
Speakers: **Anna Bjerde**, Managing Director of Operations, World Bank; **Amina J. Mohammed**, Deputy Secretary-General, United Nations; **Ruth Zaipuna**, Chief Executive Officer, NMB Bank Plc; **Andrew Torre**, Regional President for Central and Eastern Europe, Middle East and Africa (CEMEA), Visa Inc.; **Valeria Diaz**, Co-Founder & CEO, Munay; **Hanan Shahin**, Co-Founder & CEO, Bloomcart; **Faith Lumonya**, Economic Justice and Climate Action Programme Officer, Akina Mama wa Afrika; **Leïla Doukali**, National President, Association of Women Business Leaders of Morocco
Moderator: **Rachelle Akuffo**, Anchor, Yahoo Finance
Location: BA02 Atlantique

4:00 PM – 4:45 PM
IMF Seminar: **Financing Resilience, Growth and Shared Prosperity**
Moderator: **Godfrey Mutizwa**, Editor-in-Chief, CNBC Africa
Speakers: **Kenji Okamura**, Deputy Managing Director, IMF; **Rania Al-Mashat**, Minister for International Cooperation, Egypt; **Alvaro Lario**, President, International Fund for Agricultural Development; **Mostafa Terrab**, Chairman and CEO, OCP Group; **Kevin Chika Urama**, Chief Economist, African Development Bank
Location: AA02 Al Karaouine

5:00 PM – 5:30 PM
Capacity Development Talk: **Strengthening Financial Sector Stability in Low Income and Fragile and Conflict Affected States**
Speakers: **Oana Croitoru**, Division Chief, Monetary and Capital Markets Department, IMF; **Buah Saidy**, Governor, Central Bank of The Gambia; **Ibrahim Stevens**, Acting Governor, Bank of Sierra Leone
Location: AB02 Irhoud

5:00 PM – 6:00 PM
IMF TODAY – Live
MS13 – IMF Live Studio

5:30 PM – 6:00 PM
Fourth Ministerial Roundtable Discussion: **Support to Ukraine**
Speakers: **Volodymyr Zelensky**, President, Ukraine; **Ajay Banga**, President, World Bank Group; **Kristalina Georgieva**, Managing Director, IMF; **Janet Yellen,** US Secretary of the Treasury; **Paolo Gentiloni**, Commissioner for Economy, European Commission; **Denys Shymhal**, Prime Minister, Ukraine
Location: AA01 Menara


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