# No reform without change

Addressing the major global challenges of the post-Covid world —the climate crisis and the unprecedented worsening in poverty across rich and poor geographies — urgently requires a quantum increase in development finance. There are no market-based solutions to the problems we face. Collective action is of the essence.

There has been a lot of discussion on reforming and reshaping the multilateral development banks (MDBs) to address these multiple challenges. The world looks to the Indian and, subsequently, Brazilian and South African G20 presidencies to take the lead on this front.

Listening to the well-meaning London-Washington conversations about MDB reform in developed countries — mainly between retired world Bank and International Monetary Fund "lifers" and G7 development finance leaders —I am struck by how limited the understanding is of where the emerging economies are coming from in this debate.

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First, a reality check. The altruistic claims made by the Northern "development community" about global economic co-operation are no longer credible. It has been clear for some time now that the G7 is unable and unwilling to do the sensible thing, which is to provide grant finance to secure the global public goods needed to mitigate and adapt to climate change, and to address increasing poverty and deprivation. Societies that grudge economic freedom of movement and avert their eyes when confronted with the legacy of history can hardly be expected to show financial generosity that matches their verbose grandstanding.

Hence, quite sensibly, Barbados Prime Minister Mia Mottley has proposed a division of labour under the Bridgetown initiative. Such grants that the rich are willing to throw as crumbs can best be used to address loss and damage from climate change, and to reduce extreme poverty. Concessional finance could be used to address climate adaptation, which will primarily be the burden developing countries will face, and so will not attract financing from the rich. Things that contribute to climate mitigation — Elon Musk's electric cars, storage batteries, and solar panels, for example — are made in rich geographies, extracting minerals from poor geographies, and therefore replicate the patterns of accumulation and profit that fuelled carbonisation. Hence, climate mitigation is eminently bankable and private finance should flow in abundance as it protects the rich from the shocks that the climate challenge may inflict on their ability to accumulate wealth. It also poses no threat to their luxury lifestyles.

This practical and sensible initiative offers great hope for progress with minimal disruption to the international order. To secure progress we would need, inter alia, to expand the lending capabilities of the MDBs. The core has to do with MDB governance. Their decision-making processes are slow — they take a year to even deploy crisis funds. They are, paradoxically, more risk averse than private finance, despite having sovereign backing, a triple A rating and ample reserves in callable capital.

It may appear that it would therefore be an easy reform to agree to expand MDB lending by fixing these, and expanding their capital base. But for this to happen, countries that would be recipients of this lending —poor and emerging economies — would rightly wish to raise at least three issues as part of the conversation.

(1) The shareholding structure: In the World Bank, Switzerland is the executive director responsible for Uzbekistan, and Canada for Jamaica. Small European countries have seats on the board but 23 African countries share a seat. Clearly the Eurocentric definition of "world" is a constraint on the governance of the World Bank, but any attempts to make this part of the conversation on capitalising the institution are rebuffed as impractical.

(2) Risk: Risk assessments of rich country-dominated MDB boards are heavily influenced by credit rating agencies, which give the greatest weight to per capita income in their country risk assessments. Thus, the poorer a country, definitionally, the riskier it is. The situation is so ridiculous that even in the case of India, the world's fifth biggest and the G20's fastest growing economy, the UK government considers guaranteeing world bank lending to sovereign Indian borrowers, to overcome its internal risk ceilings. If this can happen to India, what chance do Haiti or Nepal have?

(3) Affordability: When India opposed the use of special drawing rights, or SDRs, to lend money to poor countries, this was unfairly attributed by the London-Washington policy ecosystem to the possibility of Pakistan benefiting from such a move. This was unfair and patronising. India quite rightly wanted to know why SDR loans — and not grants —were being provided to help poor countries buy vaccines and to overcome economic crises not of their own making, and what would be done to address the debt crisis that would, inevitably, follow.

Regrettably, it appears that rich countries and well-meaning Northern interlocutors in the London-Washington policy ecosystem are either unwilling or unable to frame these questions as central to making progress under emerging economy presidencies. Grants are not on the table. Greater risk appetite is not on the table. Reforming an archaic colonial governance system is not on the table.

Instead, there is a "take it or leave it" attitude to expanding the capital base, which is not conducive to doing business with emerging economies, although they, as the Bridgetown initiative reflects, are prepared to accept the self-imposed limitations of rich countries. But there will be no compromise on addressing the central questions that emerging and developing economies have on multilateral reform. The West should understand clearly that three emerging economy presidencies in succession cannot be gamed.

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