

IMF-WORLD BANK SPRING MEETINGS 17 APRIL 2024

NAVIGATING DEBT CHALLENGES: G20'S PURSUIT OF SUSTAINABLE SOLUTIONS EVENT SUMMARY

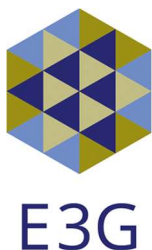
Under the Chatham House rule, key stakeholders convened on the sidelines of the 2024 IMF and World Bank Spring Meetings, in Washington, D.C., for a critical dialogue on the intertwined issues of debt, climate action, and development. The event was organised by E3G, in collaboration with IIED, and the Wilson Centre's Brazil Institute, CONCITO, and CPI.

The discussion was centred on the interrelated concerns about the current debt stock and the liquidity constraints confronting many nations, which are crucial factors shaping their resilience. This dialogue is particularly pertinent given the broader context of restoring fiscal space and addressing debt challenges, which was highlighted during Brazil's G20 presidency. Additionally, Brazil's G20 Task Force on Global Mobilization against Climate Change, in conjunction with its Task Force for establishing a Global Alliance Against Hunger and Poverty, underscores the intricate connection between debt, climate action, and poverty reduction.

Participants engaged in a comprehensive yet focused discussion, providing a nuanced view of the challenges around debt, the urgency of action, and the need for a multi-layered approach. The dialogue was an excellent opportunity to map out potential pathways and strategies for future action.

Some of the key takeaways are below.

The importance of diagnostic tools was emphasised, which play a crucial role in providing tailored solutions to countries. The joint IMF - World Bank comprehensive review of the Low-Income Countries' Debt Sustainability Framework initiated this year, presents an opportunity to sharpen the tools to integrate and manage climate risks, aligning them with sustainable development goals—an opportunity to revise the blurred lines between liquidity and solvency.



However, regardless of solvency or liquidity crisis, both characterisations connect to the broader challenge of LMICs sourcing ongoing quality financing at affordable rates and, subsequently, how to invest that finance in building resilience and growth.

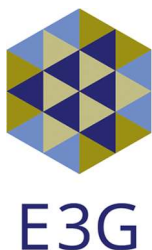
Reversing net outflows and development losses and increasing climate action.

Supporting countries to realise their prosperity, development, and climate goals will imply thinking more holistically about solutions for simultaneously addressing the debt burden whilst increasing investment to activate sustainable development. This is particularly challenging given climate change is a threat multiplier, whilst debt – solvency or liquidity – remains an issue for investments to be realised.

Bold solutions need to be explored - the Common Debt Framework is progressing too slowly cannot address the complexities of the issue complexity and is ill suited to respond to all countries' circumstances. For example, SIDS are highly exposed to climate risks, their debt could increase due to external shocks, and they might not be eligible for treatment under the Common Framework. Therefore, bold solutions outside of the current “too little, too late” approach are required.

Country platforms, a priority for the G20 Brazilian Presidency, is a potential means of mobilising affordable finance, if learnings are identified and expectations are managed. However, a few pre-conditions will need to be implemented for this to succeed—a better collaboration space, accompanied by a different approach to development and climate finance. It is essential that country platforms are country owned and take learnings from past experiences, such as JETPs, in order to manage the tension between leveraging multilateral actors finance and expertise, while maintaining country ownership.

Considering a multi-layered approach when it comes to new policy solutions & financial innovations, particularly for SIDS but not exclusively. Explore increasing use of sovereign risk guarantees, solutions focused on aggregating/pooling risks might need to be part of the mix; the LIC-DSA could also include an analysis of ‘protection gaps’ for countries to thoroughly understand where financing solutions like insurance can be introduced to plug



gaps. The role of the insurance and re-insurance sector will be key regarding protection gaps.

Public finance will be at the core of the solutions, both in funding (sources of money necessary to pay for projects) and financing (mechanisms through which the required funds are raised and structured). Domestic resources will be crucial for the transition; taxation is key, particularly following the polluter-pays principle. The ongoing collaboration between the IMF and WB could benefit countries in this area, but IMF conditionalities have often not yielded the intended results. Concessional finance will be essential to catalyse more private finance. Most immediately this year will be the delivery of IDA replenishment, to open the space for MDB capitalisation.

The G20 faces the challenge of navigating complex geopolitics amidst a shifting global power structure. However, it is essential to remember that innovative ideas have previously led to great results. Adhering too closely to conventional step-by-step thinking will continue to put countries in precarious positions and exacerbate internal instabilities, particularly as the effects of climate change worsen. Therefore, the path forward should involve accelerating the use of existing tools and boldly exploring and implementing new solutions to address these multifaceted challenges effectively.

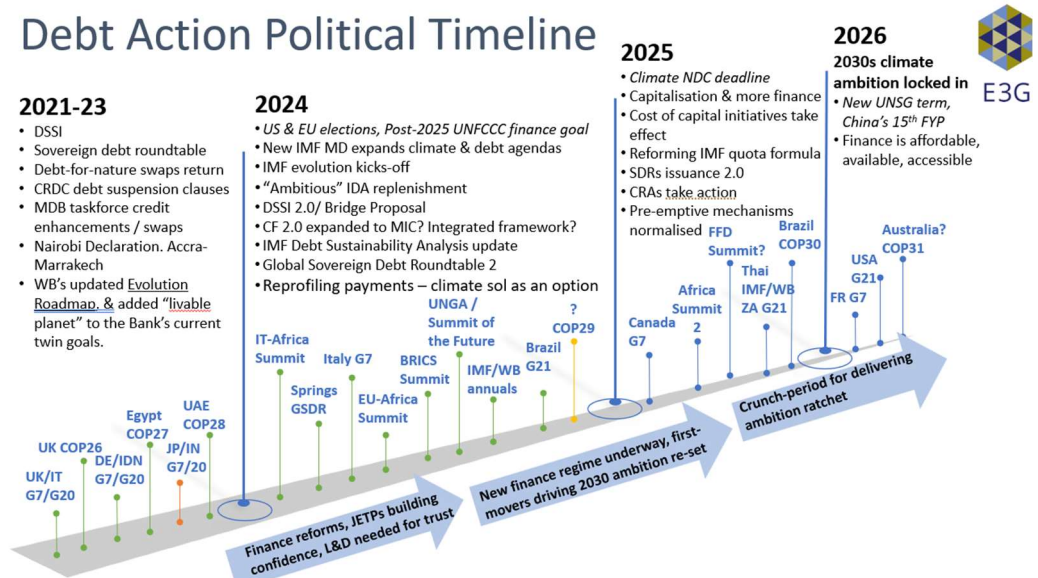
Call to action: Addressing the climate-debt nexus demands a multifaceted approach characterised by innovation, collaboration, institutional reform, and targeted financial instruments. By considering this rich conversation and key points emerging as recommendations, stakeholders can navigate towards a sustainable future, mitigating climate risks while fostering inclusive economic development.

- **Integrate climate considerations into financial innovations to address debt;** leverage climate-focused financial innovations as viable solutions for managing and alleviating debt burdens.
- **Expedite and implement the International Financial Institutions (IFIs) reforms** to enhance their effectiveness and responsiveness to current global challenges.



- **Enhance & upgrade toolkits for informed diagnostics and decision-making on debt and fiscal space;** taking into account resilience and building the new economy requires a different toolkit.
- **Uphold Just principles in new financial innovations.** Ensure that new financial solutions are grounded in sustainability, inclusion, equity, and transparency principles. Foster domestic market development and reduce capital costs to create fiscal space for climate investments
- **Capitalize institutions sufficiently for effective deployment of concessional finance.**

Debt Action Political Timeline



Source: E3G analysis