

# Perspectives on financial reform to bridge the North-South divide

By Donald Kaberuka

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## Introduction

International finance institutions are continuing to play a central role in channelling resources to United Nations Member States and capital markets to gain greater traction in the global development arena. The International Finance Institution (IFI) reform has been discussed for almost a decade now. There is no shortage of ideas on how to reform the International Financial Institutions, and I think the bigger question is: What is preventing the uptake of these proposals? I think we need to focus now on what we should do, at least in some of those areas, for the reforms to be applied. The proposals include for example, governance and voices in those institutions which were set up in 1945 in the San Francisco Conference by only 50 countries of the world, with only four countries from Africa: Egypt, Liberia, Ethiopia and South Africa. Many of today's countries were not there when the international institutions

were founded.<sup>1</sup> Where is their voice and representation? Do we just want a longer list of ideas of what we should do? Or should we now be doing something about the reforms? Perhaps some of them are politically difficult to execute because of power relationships in the world, so what do we do next?’

More work needs to be done when it comes to how the IFIs can resource and finance development more effectively to address contemporary challenges in emerging economies such as climate change, digitalisation, and income inequality on a global scale. We have the challenge of addressing global poverty and inequality, which have now been worsened and deepened by challenged global public goods like climate change, and pandemics, but and the world is not very well equipped to deal with this. For instance, in May 2024 the World Health Organization failed to negotiate a final draft of a global agreement on how to best handle the next pandemic.<sup>2</sup> We have to shape up.

There are many proposals on the table on how to deal with these challenges. One example comes from the World Bank’s new president who has the mantra of ‘addressing poverty on a liveable planet’.<sup>3</sup> This means a planet free of pandemics and able to deal with climate change, migration, conflict and fragility. These are two sides of the same coin – global public goods and poverty. If we fail in one, we fail in the other. To deal with global poverty, the question remains, how to mobilise resources to protect public goods?

Resources are not a problem, there are more than enough resources on the planet. The question is how those resources are deployed in terms of what this is about and what resources are needed. I think the challenge is how to deploy enough political muscles to the intermediate resources, between what they are and where they are most needed.

As contributor to the 2023 Financing the UN Development System Report, I called for reform of the international financial architecture and the lack of intermediation from the global North to the global South.<sup>4</sup> Neary a year later I can say without hesitation that on the one hand the global North is facing a problem with aging populations and therefore an increasing level of surpluses and savings. For example, in Japan, although having a period of negative

interest rates, consumption and investment have not increased due to demographic issues. The same goes with South Korea and many European countries due to ageing profiles. The savings are increasing, but the return on investments in savings, with the exception of a few narrow areas like new technologies, have been very low. On the other hand, in the global South there is potentially increasing demand, but precisely because of the same problems the savings are very low and the needs are very high. But the opportunities for returns are also very high.’

The world still lacks a mechanism to intermediate the savings of the global North to get better returns and increase social returns in the South. The fund managers of the global model consider the global South risky and therefore, they don’t deploy the capital where it should be deployed. Rather than concertation on how much money they collect and disburse, the international financial institutions should focus on how much additional capital they can catalyse by using the resources they have to de-risk investments in the global South.

A proposed solution to the problem can be that fund managers in the global North can look for a third party that will help de-risk investments in the global South and increase flow of capital from the North to the South. That mechanism is still needed, and I do not know if it will happen. Not much has happened since the report on multilateralism was published in 2023.<sup>5</sup>

There is more work to be done with regards to the future relationship between the African Development Bank and the United Nations as an example. The African Development Bank is part of the ecosystem of multilateral development banks (MDBs) such as the Inter-American Development Bank (IDB), the International Bank for Reconstruction and Development (World Bank Group), European Investment Bank (EIB), and others. At the core of their work are the Sustainable Development Goals (SDGs) to which we all agreed in 2015. So now the issue is, how do we deploy the ability of global institutions and then regional institutions, some bringing the global rich, others bringing the local knowledge? I think that institutions like the African Development Bank, the Asian Development Bank, and Inter-American Development Bank bring local

knowledge while the international institutions bring in the global rich. The two together can deal with global public goods and local challenges. I hope and expect that in the coming years, because of the increasing global shocks and geopolitics, that there will be a much more robust cooperation between the global financial institutions, the United Nations and the regional development banks to be able to achieve those objectives. I think that is underway, and the goal is to accelerate it.

Reform of multilateral development banks can support developing countries to catalyse increased private sector investment for sustainable development. Since the world we live now in is characterised by an increasing level of global shocks, they are deeper, much more frequent and require that we all shape up and address things differently.

One example is the COVID-19 global pandemic which was a health and security crisis and how the world dealt the crisis. The rich countries decided to do whatever it takes to deal with the virus. They had the ability to fiscally respond, and to throw all their financial power at this issue, while low-income countries had less access to vaccines and faced dire shortages while the rich countries hoarded vaccines. Countries in the global South had less access to financial and medical capacities to deal with the pandemic.

That was a huge indication of the gap between the North and the South, and the absence of a global framework to deal with these issues. This was a very big lesson, about political power and power distribution, not about resources or science.

## Conclusion

I was hoping that we had all learned lessons from the pandemic. We have to remember something unique happened. I was very surprised looking at a report that showed how countries like South Korea, Vietnam and my own country Rwanda, did extremely well in terms of vaccine response, creating safety nets and preserving livelihoods, in contrast to places like northern Italy, and parts of the United State, which had much more resources and capacities available, but did extremely badly.<sup>6</sup> So here we have a unique problem, and we can see that at the core of the solution is in fact the ability to generate social capital around a problem. Here we have a lesson to learn, and I hope we can come to a point where we are able to say: Here is a problem, it poses a threat to all of us, let us all deploy our abilities to solve it and it should not matter how far up you are 'on the food chain' or how wealthy you are. Are we there yet? I am not sure, but I hope we get there soon.

## Endnotes

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| <p>1 United Nations Conference on International Organization, 24 October 1945, <a href="https://www.un.org/en/about-us/un-charter">https://www.un.org/en/about-us/un-charter</a>.</p>  | <p><a href="https://www.worldbank.org/en/news/speech/2023/10/13/remarks-by-world-bank-group-president-ajay-banga-at-the-2023-annual-meetings-assembly">https://www.worldbank.org/en/news/speech/2023/10/13/remarks-by-world-bank-group-president-ajay-banga-at-the-2023-annual-meetings-assembly</a>.</p> | <p>Programme], September 2023), <a href="https://www.daghammarskjold.se/wp-content/uploads/2023/11/dhf-financialreport-2023-final.pdf">https://www.daghammarskjold.se/wp-content/uploads/2023/11/dhf-financialreport-2023-final.pdf</a>.</p> |
| <p>2 The Seventy-seventh World Health Assembly is being held in Geneva, Switzerland, on 27 May – 1 June 2024, <a href="https://www.who.int/about/accountability/governance/world-health-assembly/seventy-seventh">https://www.who.int/about/accountability/governance/world-health-assembly/seventy-seventh</a>.</p> | <p>4 Donald Kaberuka, 'Financing the United Nations for people and planet', Financing the UN Development System: Choices In Uncertain Times' (Uppsala: Dag Hammarskjöld Foundation/United Nations Multi-Partner Trust Fund Office [including the UN Development</p>                                       | <p>5 High-Level Advisory Board on Effective Multilateralism (HLAB), 'A Breakthrough for People and Planet: Effective and Inclusive Global Governance for Today and the Future', (New York: United Nations University, 2023).</p>             |
| <p>3 Ajay Banga, 'Remarks by World Bank Group President Ajay Banga at the 2023 Annual Meetings Plenary', October 13, 2023,</p>   | <p>Office [including the UN Development</p>   | <p>6 <a href="https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19">https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19</a>.</p>  |