INTER-AGENCY TASK FORCE ON FINANCING FOR DEVELOPMENT
Expert Group Meeting on International Financial Instruments for Shocks and Countercyclical Financing
United Nations, New York, 7 December 2017

Concept Note, Draft Agenda

Mandate

The outcome document of the 2017 meeting of the Economic and Social Council Forum on Financing for Development Follow-up contained an invitation to the Inter-Agency Task Force on Financing for Development (IATF) to "prepare an inventory of domestic and international financial instruments and funding modalities, and existing quick-disbursing international facilities and the requirements for accessing them," which is to be discussed at its 2018 session (E/FFDF/2017/3, para. 7). The Financing for Development (FfD) Office of the UN Department of Economic and Social Affairs has prepared an initial inventory of potentially applicable facilities at national and multilateral level that developing countries may draw upon when conditions warrant. The draft inventory needs to be reviewed and made more complete.

The IATF brings together the major international organizations and agencies with the institutional capacity and mandate to consider the adequacy of that set of facilities and funding modalities. The expert group meeting aims to assist the Task Force in those efforts.

This note contains 2 annexes. The first includes a reading list of recent reports that are relevant to the meeting. In the second provides an overview of international facilities. A longer detailed inventory of facilities will be circulated prior to the meeting.

Context

Increasingly, progress in implementing sustainable development plans and programmes is being challenged by shocks, related to either economic events or natural disasters. While policy measures have been adopted to address these challenges, including growth of international financial cooperation arrangements, questions remain as to whether these are sufficient.

In response to emerging market crises of the 1990s, many countries chose to build up reserves as a form of self-insurance, while also adopting structural reforms. In addition, after the global economic and financial crisis of 2008-9, regulatory reforms were adopted to lessen the likelihood of another global financial crisis. However, there are questions of whether these regulatory reforms have fully addressed the risks.

The international community has also sought to increase the financial resources that countries can access when shocks occur. Efforts have included an increase in the lending capacity of the International Monetary Fund (IMF) and an enlargement and strengthening of central bank currency swap lines and regional financial arrangements. Nevertheless, while the global financial safety net has become more fragmented, it has left sizeable gaps in coverage. According to the IMF, it remains costly, unreliable and some believe more conducive to moral hazard. What lessons can we extract from these experiences? What more needs to be done?

At the same time, the world has become more vulnerable to violent storms, drought and other natural disasters. The national mechanisms to address such crises are often overwhelmed and international assistance is often insufficient. There is thus considerable international discussion and experimentation with alternative methods of mobilizing financial resources to deploy in response to natural shocks, including pooled grant funds, special sources of quick-disbursing credit, and new models of insurance against disasters. Again, the international community can draw lessons from these experiences and should asses if more needs to be done.

Participation and logistics

The meeting will take place on 7 December 2017 at United Nations Headquarters in New York, with a video or phone-in option for those interested to participate remotely.

As per the already established practice, the meeting would be held under Chatham House rule to promote a free exchange of views. The FfD Office will prepare a summary note of the meeting, which will inform the 2018 Task Force report and to set out envisaged future work.

In addition to interested members of the IATF, FfDO/UN-DESA will invite selected experts, including from actors in the field of shocks financing, academics and civil society.

Draft Agenda

Chair: Shari Spiegel, Financing for Development Office/DESA

Morning session, 8:30 – 12:00 *Conference Room 8*

8:30-8:45 Welcome and introductions

<u>Assessing the counter-cyclical and economic shock-based facilities</u>

8:45-9:45 Stock take of quick-disbursing international loan facilities
(Taking stock of the inventory of central bank swap lines and multilateral loan facilities: how the facilities operate, requirements for accessing them; terms of drawing and repayment; extent of use thus far; omitted facilities.)
Introductory remarks by:

- Staff member of DESA/FFDO
- Discussant: Dr. Ulrich Volz, Head of the Department of Economics, SOAS, University of London

9:45-10:15 *Coffee break*

10:15-12:00 Adequacy of the existing set of facilities
(How should such facilities fit into overall country macroeconomic management: own reserves versus borrowed funds; adjustment versus financing in short-term; which risks to cover in which countries on which terms?)
Introductory remarks by:

- Mr. Aldo Caliari, Senior Advisor, G24
- IMF representative
- Ms. Eva Hanfstaengl, Senior Policy Officer, Bread for the World

12:00-13:00 *Lunch break*

Afternoon session, 13:15 – 16:30 *Conference Room 9*

<u>Assessing the environmental and other emergency facilities</u>

13:15-14:15 International grant and loan facilities and their adequacy
(Immediate disaster and humanitarian response funds: how the facilities operate, requirements for accessing them; terms of drawing and repayment; extent of use thus far)

- Ms. Lisa Doughten, Chief, Central Emergency Response Fund, OCHA

14:15-14:30 *Coffee break*

14:30-16:15 Adequacy of the existing set of facilities and prospects for insurance
(How do catastrophe insurance facilities and reinsurance for sovereigns fit into overall management of natural and humanitarian shocks? Which risks should be covered in which countries in which way on which terms?)

- Mr. Owen Barder, Center for Global Development (via video)
- Mr. Dario Luna, Risk Management Specialist, CCRIF
- Ms. Erica HovaniBue, Legal Counsel, Africa Risk Capacity

Conclusion: policies to propose to IATF for its consideration

16:15-16:30 Closing

Annex 1: Background documents

1. *Adequacy of the global financial safety net*, IMF, 10 March 2016. https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Adequacy-of-the-Global-Financial-Safety-Net-PP5025

2. *Report of the Secretary General on crisis mitigation and resilience-building for the least developed countries*, United Nations, 1 August 2017, A/72/270. http://unohrlls.org/custom-content/uploads/2017/09/A-72-270.pdf

3. *Payouts for perils: how insurance can radically improve emergency aid*, Theodore Talbot, Stefan Dercon and Owen Barder, Center for Global Development, 2017. https://www.cgdev.org/sites/default/files/payouts-perils-final-web-1_1.pdf

Annex 2: A overview of facilities

Central bank swap lines

Developed countries bilateral swaps with emerging economies (examples)

Australia/Indonesia (2015, Australian dollars); Republic of Korea (2014, Australian dollars)
Denmark and Sweden with Latvia (2008, euro)
ECB/Hungary, Latvia, Poland, China (as of 2016, euro)
Japan/India (2012-2015, Yen), Malaysia and Thailand (2017, US$), Indonesia, Philippines, Singapore (earlier)
United States/Mexico (from 1994, US$), Brazil, Republic of Korea, Singapore (2007-2010, US$)

Chinese bilateral swap lines

Since 2009, China signed swap lines with 32 countries (RMB), as per Council on Foreign Relations brief[1]

Albania, Argentina ($11 billion drawn), Armenia, Belarus, Chile, Egypt, Hungary, Indonesia, Kazakhstan, Republic of Korea, Malaysia, Nigeria, Pakistan, Qatar, South Africa, Sri Lanka, Suriname, Thailand, Turkey, Ukraine, United Arab Emirates (may not be complete list)

Chiang Mai Initiative Multilateralized (CMIM),

ASEAN countries (Brunei Darussalam, Cambodia, Indonesia, Lao DR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam) plus China (including Hong Kong), Japan and Republic of Korea to swap own currency for hard currency when needed; decision within two weeks of request

CMIM Precautionary Line (30% of total access available as quick disbursing)
CMIM Stability Facility (30% pf total access available as quick disbursing)

BRICS Contingent Reserve Arrangement

---

[1] https://www.cfr.org/interactives/central-bank-currency-swaps-since-financial-crisis?cid=otr-marketing_use-currency_swaps#!/central-bank-currency-swaps-since-financial-crisis?cid=otr-marketing_use-currency_swaps

Brazil, Russian Federation, India, China, South Africa
- Precautionary Instrument (for potential short-term BoP pressures; 30% of total access on request; US$)
- Liquidity Instrument (for short-term BoP pressures; 30% on request; US$)

Quick-disbursing multilateral loans

<u>IMF</u>
- Flexible Credit Line
- Precautionary and Liquidity Line
- Rapid Financing Instrument
- Rapid Credit Facility (PRGT)

<u>World Bank</u>
- Deferred Drawdown Option, cyclical/financial or catastrophe reasons (IBRD)
- Immediate Response Mechanism (as above for IDA countries)
- Special Development Policy Financing (IBRD)
- Crisis Response Window (IDA16)

<u>Inter-American Development Bank</u>
- Development Sustainability Contingent Credit Line (approved pre-shock)
- Deferred Drawdown Option (on Policy Based Loans)
- Contingent Credit Facility for Natural Disaster Emergencies (requires active Integrated Disaster Risk Management Program)
- Contingent Credit Line for Natural Disasters (less restrictive than above)

<u>Asian Development Bank</u>
- Precautionary Financing Option (delayed disbursement of a Countercyclical Support Facility, not for ADF-only countries)

<u>African Development Bank</u>
- Emergency Liquidity Facility (for middle-income countries)

<u>Corporación Andina de Fomento</u>
(Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Paraguay, Peru, Portugal, Spain, Trinidad & Tobago, Uruguay, Venezuela)
- Contingent Credit Line for Financial Emergencies (negotiated pre-shock)

<u>Fondo Latinoamericano de Reservas</u> (FLAR)
(Bolivia, Colombia, Costa Rica, Ecuador, Paraguay, Peru, Uruguay, Venezuela)
- Liquidity, Contingency and Treasury credits on approval of Executive President
- Balance of Payments (and debt restructuring) loans on approval of Board of Directors, within 32 days

Quick-disbursing grants

<u>IMF</u>
- Catastrophe Containment and Relief Trust (pays debt servicing falling due to IMF)

<u>World Bank</u>

Pandemic Emergency Financing Facility, with WHO, Germany, Japan (for IDA-eligible countries, financed with World Bank Cat bonds plus international insurance through bespoke swaps derivatives, with bond coupons and swaps premiums paid by Japan and Germany plus a cash window with funds from Germany)

United Nations (inter-agency pooled funds, single agency funds, etc), such as[2]

Central Emergency Response Fund (fast funding to UN agencies for humanitarian crisis response)

Peacebuilding Fund, in particular, Immediate Response Facility (preventing lapse/relapse into conflict)

Bilateral

Probably mainly voluntary responses to emergency appeals

Insurance/re-insurance

African Risk Capacity (African Union)

ARC Insurance Company, Ltd. (Drought insurance for African governments, paid by government premiums; reinsures risk)

CCRIF SPC (Caribbean Catastrophe Risk Insurance Facility)

Insures Caribbean Member States against hurricanes, earthquakes and excessive rainfalls

Pacific Catastrophe Risk Assessment and Financing Initiative

[In development]

---

[2] See Annex 1 of *Financing the United Nations Development System: Pathways to Reposition for Agenda 2030*, Dag Hammarskjöld Foundation and the United Nations Multi-Partner Trust Fund Office, September 2017, http://mptf.undp.org/document/download/18649.