



POLICY BRIEF

MULTILATERALISM IN TIMES OF GLOBAL PANDEMIC: LESSONS LEARNED AND THE WAY FORWARD



Task Force 11

**COVID-19: MULTIDISCIPLINARY APPROACHES
TO COMPLEX PROBLEMS**

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موجز السياسة التعددية في أوقات الجوائح العالمية: الدروس المستفادة والآفاق المستقبلية

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التخصصات لمعالجة المشكلات المعقدة



المؤلفون

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ABSTRACT

Global challenges require cross-border collaboration. Viruses have no respect for territorial boundaries, and the subsequent economic, social, and political challenges can have both domestic and international consequences. While health care workers are on the front lines to help reduce the loss of life and human suffering caused by the COVID-19 pandemic, diverse stakeholders are actively thinking about how to move from the crisis phase to stabilization and reconstruction. One key challenge faced by the international community is how to reinforce multilateral cooperation to reduce the risk of future epidemics. This policy brief highlights the challenges associated with multilateralism and recommends some policy measures that the G20 should take to facilitate enhanced collaboration on global problems.

التحديات العالمية تستلزم تعاوناً عابراً للحدود. فالفيروسات لا تحترم حدود المناطق، والتحديات الاقتصادية والاجتماعية والسياسية اللاحقة يمكن أن تكون تبعاتها محلية ودولية على حدٍ سواء. وبينما العاملين بالرعاية الصحية موجودين بالخطوط الأمامية للمساعدة في تقليل خسائر الأرواح والمعاناة الإنسانية التي سببتها جائحة كوفيد-19، فإن أصحاب المصلحة المختلفين يفكرون بشكل مستمر في كيفية الانتقال من مرحلة الأزمة إلى الاستقرار وإعادة البناء. وأحد التحديات الرئيسية التي تواجه المجتمع الدولي هي كيفية إنفاذ التعاون متعدد الأطراف من أجل تقليل مخاطر الأوبئة المستقبلية. يسلط ملخص السياسة هذا الضوء على التحديات المصاحبة للتعددية، ويوصي ببعض التدابير السياسية التي ينبغي لمجموعة العشرين أن تتخذها من أجل تيسير التعاون المُعزز في المشكلات العالمية.



CHALLENGE

Individual states cannot effectively manage global public threats such as the COVID-19 pandemic on their own. Unless the international community can find a way to control the pandemic in all countries and population groups, there is a substantial risk of resurgence in communities and countries that thought they were virus-free. In sum, overcoming the current health crisis and rebuilding livelihoods can only be achieved through multilateral action on both the economic and social fronts. Failure to address either aspect will result in population movements or human interactions that run a high risk of re-activating the pandemic.

The COVID-19 pandemic and its economic consequences have revealed the weakness of the current arrangements for multilateral cooperation. International organizations with the mandate to play leading roles in dealing with international crises have not functioned effectively. The United Nations (UN) has been relatively silent during the crisis, which is a time when the institution should be playing a leadership role (UN News, 2020). While there has been activity behind the scenes, there is no evidence of the UN playing a robust and leading role as a convener of political solutions in the current crisis.

The World Health Organization (WHO) has been criticized for allowing political considerations to interfere with its responsibility to provide early warning to the international community. This has tarnished its reputation and complicated its efforts to galvanize collaborative action, including research for vaccine development.

Meanwhile, international financial institutions have been unable to provide adequate support to their member states. For example, despite the efforts of the International Monetary Fund (IMF), the World Bank, and the African Development Bank to provide African countries with adequate resources to deal with the economic consequences of the pandemic, sub-Saharan Africa is still facing a funding shortfall of at least \$44 billion in 2020. Other regions in the Global South are also facing similar dire situations. Notably, the IMF has been unable to activate its reserve currency, the Special Drawing Rights (SDR), to inject liquidity into the global economy. As a result, leading national central banks are now responsible for providing this support, which will result in liquidity being injected only in those states that the banks decide to support (Plant 2020, 3).

The G20 has been unable to mobilize an effective and unified response to the pandemic and its economic impacts. To date, the G20's only multilateral initiative has been a call for member countries to agree to a debt standstill until the end of 2020 on the official debts of the world's poorest countries.

These problems with multilateral institutions and arrangements are not new (Bradlow 2018, 213–236). There is consensus, in principle, regarding the need for reform. However, given the competing interests among member states and other stakeholders, there is limited political will to support lasting reform. Nevertheless, the COVID pandemic has highlighted the need to address these problems as expeditiously as possible. The G20 can be a catalyst for promoting these changes, thereby promoting its overarching mission of multilateral collaboration in pursuit of coordinated approaches to common problems.



PROPOSAL

The following proposals are not intended to be a comprehensive list of the necessary actions. Instead, this brief focuses on those proposals that appear to be both directly relevant to the COVID-19 pandemic and its social and economic consequences as well as feasible within the short term, given the current geopolitical climate.

Steps governments, acting through the G20, can take

The G20 played a leadership role during the global financial crisis of 2008. It helped the international community stabilize the global financial system and expedite economic reconstruction. As a result, it established itself as the premier forum for cooperation on issues that require global governance. However, the challenge facing the G20 in this crisis is more complicated. The international community has limited control over the virus and an imperfect understanding of its impact on the community. In addition, there is less global interest in international cooperation now than in 2008. Nevertheless, the G20 can again play a key role in stabilizing international markets, promoting multilateral approaches to combatting the virus, and managing its economic and social impacts.

Policy recommendations for the G20

Create a global health coordinator

The G20 should reinforce the capacity of the World Health Organization. A stronger and more responsive WHO can help the international community manage pandemics and other health challenges more effectively. It can provide early warning systems and coordinate rapid global responses to health emergencies. The pandemic has demonstrated that siloed national and regional approaches result in inadequate cooperation across borders, thereby enabling the spread of the virus around the globe.

The WHO will require three reforms in order to play this coordinating role. First, the international community must adequately fund the WHO. The current pandemic has revealed problems with the WHO's funding model.

The current approach, based on membership contributions—determined by a formula—plus voluntary donations from rich countries and philanthropic organizations, is overly politicized and constrains the WHO's freedom to act based purely on scientific and health considerations. At present, the WHO can only freely allocate the membership contributions, which form a relatively small portion of its total budget.

The G20 should, therefore, recommit to full funding of regular WHO budgets so that the organization can carry out the mission that the international community has assigned to it. The WHO also needs new funding streams to reinforce and improve the health infrastructure and rapid detection/response capacity of its member states.

Second, the international community must empower the WHO to work with governments and non-state actors on tasks such as data collection, vaccine development, and humanitarian support to victims.

Third, the G20 should encourage the WHO to reinforce global norms requiring states to inform the international community about pandemic risks at the first indication that a virus is spreading, and to work with the WHO to prevent future pandemics. A robust WHO could also play a coordinating role in managing the global response to any future pandemic, including oversight of supplies, vaccine development and deployment, and intellectual property issues relating to these vaccines. Finally, the WHO can also help member states develop their healthcare systems.

In order to credibly play this role, the WHO must evaluate and reform its processes and procedures. By analyzing whether these mechanisms contributed to delays in warning about the global implications of the novel coronavirus, the organization can identify what internal reforms are needed to improve its ability to act as the premier international public health organization. In summary, the G20 should call for the international community to support a more robust and effective World Health Organization, and for the WHO to undertake the necessary internal reforms needed to play this enhanced global role.

Global fund for universal social protection

The virus has demonstrated that many vulnerable states will need financial support to ease suffering and rebuild livelihoods. Economists anticipate that the pandemic will push a significant number of people into poverty, undoing progress on sustainable development (Gerszon Mahler et al. 2020). It is crucial to develop a global fund under the auspices of multilateral institutions such as the UN to provide social support to these people, particularly in the Least Developed Countries. This support should consist of both financial resources and advice on dealing with the tragic impacts of the pandemic. We call on G20 member countries both to help mobilize support for this fund from donor governments, international organizations, foundations, corporations, financial institutions, and individuals as well as ensure that it is established and operates in compliance with all applicable technical and good governance practices.

Reform of multilateral organizations to better combat global challenges

Significant reforms of international organizations require consent, often necessitating confirmation from member states through a formal ratification process. While the ratification process has proven to be a procedural obstacle, there are reforms that the management of international organizations can initiate that do not require formal ratification. In some cases, these reforms fall within the scope of the managements' prerogative. In other cases, member states need only acquiesce to the reform. For example, the management of multilateral development banks can change their information disclosure and other operational policies without a full membership vote. They can also enhance their engagement with non-state actors without necessarily requiring formal membership approval. We propose two steps that international organizations doing work relevant to pandemics should take immediately.

First, they should all have clear and publicly available operational policies that allow their stakeholders to understand how they operate and what their work plans are. This clarity would enhance stakeholders' understanding of their activities and core capabilities, thereby contributing to rebuilding legitimacy and public confidence. Similarly, transparent communications would help these stakeholders understand the challenging conditions in which these organizations work, given that they are addressing complex problems with imperfect knowledge and that they are often operating under time and resource pressures. By creating a culture of transparency, both the organization and its stakeholders have a clearer understanding of lessons learned from successes and failures and how to avoid making similar mistakes in the future.

Second, these multilateral organizations should create independent accountability mechanisms to allow stakeholders to bring complaints when an international organization fails to act in full compliance with its policies and causes harm to its stakeholders. These mechanisms must be focused on identifying organizational shortcomings and collecting lessons learned in the course of the multilateral organization's activities. It is important to stress that these accountability mechanisms would focus exclusively on the work of the concerned international organization. They would have no mandate to investigate the activities of other actors in these operations. Further, to be credible, these mechanisms must be independent of the management of the organizations, and their findings must be public. This approach could help build stakeholder trust in these organizations.

Financing of COVID-related expenses

The COVID pandemic is placing enormous pressure on the finances of all governments. However, the pressure is particularly intense in emerging markets and developing countries. Many, if not most, of these countries, cannot fully satisfy the demands that the pandemic is placing on their public finances. Some of them entered the pandemic with significant budget and current account deficits and rising levels of public debt. Many of them are now having to pay for rapid build-ups in their health-care systems and are being forced to buy expensive protective equipment in international markets. They also need to try and support populations that are facing rising levels of unemployment and increasing food insecurity. The result is that, for example, in sub-Saharan Africa, the IMF anticipates a funding gap of about \$120 billion for 2020. Even with all the support offered by donor governments and international organizations, there is still a shortfall of about \$44 billion. Least Developed Countries in South and South East Asia will face similar financing obstacles, with the IMF estimating that emerging markets and developing countries will need about \$2.5 trillion to deal with the pandemic and its impacts.

One particular problem that will arise with the existing debt of many of these countries is the risk of vulture funds buying these debts at steep discounts and then seeking to enforce them against the debtor countries. One approach that the G20 can adopt to address this issue is to support the creation of a DOVE (Debts of Vulnerable Economies) fund (Bradlow 2020). The DOVE fund, for example, in the case of Africa, will do three things.

First, it will buy African bonds on the open market at the prevailing discounted prices. It will then notify all other bondholders that it expects to participate in all future bondholder discussions about the management of African bonds.

Second, it will inform both the debtor country and the financial markets that it commits to holding the bonds and to implementing a standstill on any payments due until the global health crisis abates. The fund will also pledge that once the global economy begins to grow again, it will work with individual African debtors to ensure that the debt does not become an unreasonable burden on their efforts to rebuild their economies. It will stipulate that any future debt renegotiations will be consistent with all applicable international standards, such as the UN Guiding Principles on Business and Human Rights, the Principles on Responsible Investment, and the UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing.

Third, the DOVE fund will advocate that all private-sector creditors should participate in a comparable standstill, both on debt payments and bond trading, and should apply the same principles as the DOVE fund in determining what to do with the debt of the participating countries after the crisis ends. Participation in the DOVE fund should be voluntary. The fund will buy bonds on the market; therefore, it does not need the consent of either the creditors or the debtor state. However, given its overall mission, it should concentrate on the bonds of countries that choose to participate.

All countries that participate in the DOVE fund should receive the same debt forbearance for the duration of the COVID crisis. However, thereafter each country's treatment should depend on its specific circumstances. For example, some countries may be in a position to resume normal payments and should be expected to do so; others may need significant debt restructuring, with the new terms being the outcome of negotiations between the debtor and creditors. Still others might be unable to pay and will need debt waivers. This will require a case-by-case approach.

For the DOVE fund to serve these functions, the international community must find creative funding streams that involve all stakeholders—multilateral financial institutions, private financial institutions, foundations, companies, and individuals. Consequently, we propose that each of these stakeholders take the actions indicated below.

The IMF

The IMF's primary purpose is to ensure the stability of the international monetary system. This requires it to help its member states access as much financing as possible to deal with the COVID-19 pandemic and its impacts and to be able to use these resources as effectively as possible. In this regard, the most helpful step the IMF could take would be to make a large SDR allocation, to the order of \$500 billion, to its membership.

Even though only a minority of these funds—approximately 40%—would be allocated to the countries that need them most, this would still mean that these countries will receive approximately \$200 billion in immediately useable funds. We also propose that those countries that do not need to use their SDR allocation contribute a portion of their SDR allocations to support emerging markets and developing countries.

Development economists and academics have criticized the IMF for making funding conditional on rigorous austerity and privatizations of social spending. A full discussion of this issue is beyond the scope of this brief. However, this crisis should be used to find ways to both reprioritize and enhance investments in health infrastructure and

health systems and other social and economic development programs, such as education, small and medium-size enterprise support, and sustainable infrastructure. It is also an opportunity to reassess the unintended social impacts of austerity policies.

In this regard, it is important to stress that many countries lack the financial resources to deal with the health, social, and economic impacts of COVID-19. The IMF has estimated that \$2.5 trillion will be needed for these purposes. A new and substantial SDR allocation would be the quickest way to meet this demand.

IMF actions to support the DOVE fund

The IMF has significant gold holdings that were acquired when IMF member states paid part of their quotas in gold. The IMF values these holdings at their historical cost, which is \$4.2 billion. The market value is approximately \$138 billion. (IMF 2020) While the IMF needs to treat this asset with great care to avoid distorting the international gold market and penalizing its gold-producing member states, there is no reason that the IMF could not sell a small portion of this gold and use it to help some of its middle-income member states deal with their financing needs. Some of these funds could support the DOVE fund and help IMF developing-country member states deal with the vulture fund risk.

Multilateral development banks

Multilateral development banks face a challenge in providing additional support to their member states. They effectively have only one pot of money that they must use to provide financing to all their qualifying member states and to meet their debt obligations. Consequently, any debt waivers will either come at the expense of their creditors or their ability to help finance other member states.

However, they do have some unexploited flexibilities in their borrowing capacity. Currently, they all function very conservatively and are careful to protect their prime credit ratings. However, as researchers (see generally, Munir and Gallagher 2020) have shown, they could, at minimal risk and cost, afford to allow their ratings to drop one notch. This would enable them to borrow additional large sums that they could then lend to their member states to use during this challenging period. The DOVE fund would be an appropriate recipient for some of these funds, as it would strengthen their ability to deal with their debts and ward off vulture funds.

G20 governments

Many, but certainly not all, G20 governments have unutilized SDR holdings from the IMF's last allocation of SDRs. Given their current reserves, and their central banks' ac-

cess to US Federal Reserve Swap lines, they are unlikely to need these funds soon. It would be an act of enlightened self-interest for them to donate some of these holdings to a fund where their proceeds could support developing countries. Given that these allocations were simply granted to them by the IMF, the cost of doing this would be negligible. Additionally, the potential benefit they could accrue from helping developing countries, some of which are important export markets, would be high. Some of these funds could be applied to the DOVE fund to help developing-country member states deal with the vulture fund risk.

Private financial institutions and corporations

Many of these entities currently face severe COVID-induced risks. Financial institutions are facing a rise in non-performing loans and reduced earning potential. Many corporations are facing the prospect of lost markets and reduced sales in the developed and developing world alike. It is, therefore, in the interest of these actors to do what they can to help developing countries weather the current economic storms with as little permanent damage as possible. This would also be consistent with many firms' recently stated concerns regarding environmental, social, and corporate governance as well as with adopting a stakeholder-centered, rather than shareholder-centered, approach to business. It would also be consistent with the environmental, social, and human rights policies that many of them have adopted. Finally, extending aid is consistent with the UN Guiding Principles on Business and Human Rights that their governments endorsed in 2011.

One step, based on enlightened self-interest, that these companies could take, is to make donations to the DOVE fund to help these countries deal with their debt. Their contributions could be structured to offer them a return on their donation if the debt-or country, after the end of the crisis, can begin servicing its debts.

A particular case in this regard concerns those financial institutions that are creditors of developing countries. These institutions have a choice: they could make a direct donation to the DOVE fund, or they could contribute "in kind." The latter would mean that they would publicly commit that they will hold their developing-country debts to maturity and will manage them on the same terms as the DOVE fund.

Foundations, individuals, and civil society organizations

Foundations, philanthropic groups, and individuals who have the resources should consider providing support to developing countries. A critical way in which they can help is by providing support to the DOVE fund to help developing countries deal with their debts and the risk of vulture funds.

The purpose of raising funds from foundations, companies, and individuals is both political and financial. Their involvement will increase the pressure on other bondholders to comply with the DOVE fund's objectives. The DOVE fund could encourage these groups to participate by issuing a social impact bond that would only offer holders a return that is linked to the post-crisis growth rate of the participating developing countries and/or to the level of debt payments received by the DOVE fund after the crisis. Such bonds are likely to appeal, for example, to African individuals and companies, members of the African diaspora, and Africa's friends who are interested in contributing to efforts to deal with the profound COVID-19-induced crisis that the continent is facing. Similar bonds would have comparable appeals in other areas of the Global South.

In conclusion, this brief highlights the weaknesses in multilateralism that the COVID 19 crisis has exposed. It has also shown that the current crisis can catalyze the promotion of multilateralism and creative responses to other global challenges like climate change. The virus, just like climate change, migration, financial stability, or poverty, does not stop at borders, and one country's actions to fight it will always have direct or indirect consequences for other nations.

Relevance to the G20

Multilateralism is a vital issue that global policymakers have discussed in the G20 and T20 forums. Most recent T20 Communiqués have emphasized the role of multilateralism in resolving the world's most pressing problems:

Cooperation to Overcome the Challenges of Multilateralism (Argentina 2018) <https://t20argentina.org/publicacion/the-t20-communique>.

T20 Statement to the Extraordinary Virtual G20 Leaders' Summit (Saudi Arabia 2020) https://t20saudiArabia.org.sa/en/news/Pages/G20_Virtual_Summit.aspx.

T20 Reaction to the G20 Virtual Summit (Saudi Arabia 2020) <https://t20saudiArabia.org.sa/en/news/Pages/T20-Reaction-to-the-G20-Virtual-Summit.aspx>.

T20 Summit 2019 Communiqué (Japan 2019) <https://t20japan.org/wp-content/uploads/2019/05/t20-japan-2019-communique-eng.pdf>.

Disclaimer

This policy brief was developed and written by the authors and has undergone a peer review process. The views and opinions expressed in this policy brief are those of the authors and do not necessarily reflect the official policy or position of the authors' organizations or the T20 Secretariat.



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