Reform of the International Financial Architecture

SDG Stimulus, debt sustainability, beyond GDP, concessional finance, Multilateral Development Bank reform

In This Issue

A key theme for the High-Level Political Forum (HLPF), 10-20 July 2023, was the issue of the current international financial architecture (IFA) that disproportionality disservices low and middle-income countries.

Reforms to IFA, tackling debt difficulties for vulnerable countries, the SDG Stimulus, and references to SDG Summit, Summit of the Future and Summit for a New Global Financing Pact were highlighted by various Member States and other stakeholders at the HLPF and at the Summit for a New Global Financing Pact in Paris (22-23 June 2023).

Resources/Links

1. UN S-G's SDG Stimulus Plan
2. HLAB Report: A Breakthrough for People and Planet
3. Our Common Agenda Policy Brief 6: Reforms to the International Financial Architecture
4. High Level Political Forum: Programme, Media, Overview
5. Summit for A New Global Financing Pact: Chair's summary of discussions at the Summit on a New Global Financing Pact

High-Level Advisory Board on Effective Multilateralism

"While the World Bank's current resourcing may have positioned it to respond to medium-sized crises, it is not adequate to confront a future of overlapping crises, and existing buffers are dwindling rapidly. United Nations resources are equally stretched, and its financing is nowhere near as reliable and predictable as it once was."

Our Common Agenda Policy Brief 6: Reforms to the International Financial Architecture

"The existing architecture has been unable to support the mobilization of stable and long-term financing at scale for investments needed to combat the climate crisis and achieve the Sustainable Development Goals for the 8 billion people in the world today. It is plagued with inequities, gaps and inefficiencies that are deeply rooted in the system, including:

a) **Higher borrowing costs** for developing countries in financial markets– even after taking into account default risk and market volatility; many governments dedicate a high share of revenue to **debt service payments** while being unable to sufficiently invest in the delivery of fundamental rights in health, education and **social protection**;

b) Vast variation in countries' access to liquidity in times of crisis, with only a small share of IMF issued **special drawing rights (SDRs)** allocated to developing countries; for example, the continent of Africa, home to 1.4 billion people and more than 60 percent of the world's extreme poor, received only 5.2 percent of the latest issuance of SDRs;

c) Dramatic underinvestment in global public goods, including **pandemic preparedness and climate action**;

d) Volatile financial markets and capital flows, repeated global financial crises and recurring **sovereign debt distress**, with dire consequences for sustainable development.

Similarly, the international tax architecture has not kept pace with a changing world. While countries ultimately need to rely on national resources to finance investment in their sustainable and equitable development, global tax evasion and avoidance restricts their ability to do so."

Nepal on behalf of Least Developed Countries (LDCs) urges Reform of the International Financial Architecture

- "Member States must adopt and implement the **SDG Stimulus** and ramp up financing flows by at least US$500 billion by 2025. International financial architecture needs to be reformed. SDR allocations must be reviewed while ensuring a US$100 billion allocation for LDCs."

- "**Foreign Direct Investment (FDI)** to LDCs is only about 3 percent of developing-country inflows. The global poly-crisis has disproportionately affected investment flows towards critical sectors for the SDGs."

- "Thus, an investment promotion centre for LDCs needs to be established….Improving conditions for private sector development, for example, through enhanced access to sustainable energy is also crucial….The **0.2 percent ODA commitment** for LDCs…must be fulfilled in good faith by giving priority to grants over loans while aligning the country's needs and priorities. We also need to ensure the **debt sustainability** of LDCs."

- "**Borrowing at low cost** needs to remain an option for LDCs to invest in the future, including in resilient infrastructure. However, with high borrowing costs LDCs are facing high rates of debt servicing. This has compelled LDCs to spend more than one-fifth of their government revenues on interest payments leaving them with little fiscal space to cope with internal and external shocks."

- "The confluence of global shocks has resulted in unsustainable debt with currently 7 LDCs in debt distress and another 14 at high risk, showing the insufficiency of implemented measures to address debt."

- "Therefore, we call for coordinated policies aimed at fostering **debt relief**, debt restructuring, and sound debt management including **debt swap initiatives** for sustainable development and climate action."

UNSG at Paris Summit via GPF Twitter

"The international financial system is in crisis: halfway to the 2030 deadline, the #SDGs are drifting further away... It's clear the #InternationalFinancialArchitecture has failed in its mission to provide a global safety net for developing countries."

UN Secretary-General's report on SDG progress (A/78/80-E/2023/64)

"I urge Heads of State and Government to recommit to seven years of accelerated, sustained and transformative action, both nationally and internationally, to deliver on the promise of the Sustainable Development Goals. This calls for the strengthening of social cohesion in order to secure dignity, opportunity and rights for all while reorienting economies through green and digital transitions and towards resilient trajectories that are compatible with the goal of the Paris Agreement to limit global temperature increase to 1.5 degrees Celsius. It calls for a **once-in-a-generation commitment to overhaul the international financial and economic system** so that it responds to today's challenges, not those of the 1940s, as well as unprecedented collaboration among members of the Group of 20 and support for all developing countries to advance Sustainable Development Goals related and climate-related action.

I also call upon Member States to recognize and address the need for deep reforms of the international financial architecture through a **new Bretton Woods moment**, including by enhancing the voice and participation of developing countries in the governance of international financial institutions. This is essential in order to ensure that the financial architecture delivers for all developing countries and secures **urgent access to grants and long-term concessional finance** as they transition to renewable energy-based, climate-resilient, inclusive economies. It requires building on the lessons from recent efforts to **mobilize private finance**, including by revising risk appetite and the criteria used by credit ratings agencies and adjusting policies and instruments."

Portugal highlights importance of the Financing for Development (FfD) agenda

- "We need to focus constructively on the building of consensual solutions that address growing financing needs, while leaving no one behind."

- "The Outcome Document of the 2023 ECOSOC Forum on Financing for Development, co-facilitated by Portugal and Rwanda, sought to do that in every chapter, from domestic public resources to data, monitoring and follow-up. **Tax**, **debt** and **Multilateral Development Bank (MDB) reform** featured front and centre in this process…"

- "…In the more immediate term, the Political Declaration of the SDG Summit, whose negotiations are being ably co-facilitated by Ireland and Qatar, must provide appropriate follow-up, as should the High-Level Dialogue on Financing for Development, also aptly co-facilitated by Luxembourg and South Africa."

- "Portugal supports continued focus on the **FfD agenda**, which should take into account discussions in other fora, as most recently at the **Summit for a New Global Financial Pact** in Paris, while recognizing that the most inclusive space for this debate remains the UN, hence the centrality of the forthcoming processes."

- "Portugal will continue engaging in this discussion, supporting the mobilization of a diverse set of tools to support developing countries, from the **catalytic use of ODA** to the mobilization of other innovative instruments in partnership with developing countries, such as the recent 140 million Euro **debt for nature swap** agreement signed with Cabo Verde."

Republic of Nauru: "We will never 'graduate' from having a narrow, volatile economic base"

- "It is high time for a transformative overhaul in the international development financing mechanisms available to Small Island Developing States (SIDS) and countries like mine. Current practices (based solely on GNI and GDP) are not enough and are not effective."

- "Our ability to achieve the SDGs and build our resilience is determined by our eligibility to access sustainable financing, most especially **Official Development Assistance (ODA)**. Due to our multiple and inherent economic, social and environmental vulnerabilities, we will never be able to independently finance our development efforts and the 2030 Agenda."

- "From time to time, our GNI may [satisfy graduation requirement]; however, we will never graduate from the unique challenges of being a SIDS. We will never 'graduate' from having a narrow, volatile economic base nor will we ever graduate from the adverse impacts of climate change, remoteness and institutional and human resource capacity constraints. Hence, we call on the global community for support to bring about transformational change in key ODA agencies including consideration and adoption of the **Multidimensional Vulnerability Index (MVI).**"

IMF Managing Director (Kristalina Georgieva) Remarks at the Summit for a New Global Financing Pact

"For the IMF, we have a clear mission: macroeconomic and financial stability, growth, and employment.

But to implement this mission in the world I described – with the imbalances we face – requires us to take a much more comprehensive view. What does that mean in practice?

It means a more comprehensive view of the resilience of people – to ensure they are educated, healthy and have good social protection.

It means a more comprehensive view of the resilience of society – not just in the banking sector – because when society is unfair and unjust the economy cannot deliver the best fruit for all people."

South Africa: Abundantly clear that the solution is not to be found in a "business as usual" approach

- "Whilst no country, rich or poor, is spared of the negative impacts of the current global crises characterized by high food, energy and finance costs, it is critical that there is due recognition of the uniquely devastating consequences on African countries, LDCs and Land-locked Developing Countries (LLDCs)…."

- "… In light of this uniquely urgent situation for these countries, it is abundantly clear that the solution is not to be found in a 'business as usual' approach. Urgent action is needed to mobilize resources for Africa, LDCs and LLDCs. South Africa supports the **SDG Stimulus** proposed by the UN Secretary-General."

- "Yesterday a new report of the United Nations entitled, A World of Debt, was launched. It depicts a precarious situation where, in the words of the Secretary-General, countries spend more money **servicing debt** than serving their people."

- "Therefore, **short term measures to address debt,** including **standstills**, are needed. More **concessional finance** and grants are what will help these countries address poverty, hunger, and inequality, in the short to medium term."

Guatemala: Gross national income incorrect measure to classify countries as middle-income countries

- "Currently, the criterion that determines the income classification of the countries is a calculation of Gross National Income (GNI) per capita."
- "Guatemala, being a middle-income country by the criteria of GNI per capita, becomes a secondary candidate to receive cooperation, further needing to offer cooperation to other low-income countries."
- "...the criteria of income per capita is the main component considered for the allocation of cooperation funds for the development of low-income countries. This has impacted middle-income countries such as Guatemala to be able to invest in projects that can contribute to development…."
- "...in accordance with the data provided by the World Bank Group, 70 percent of the countries in the world are in the classification of middle income, but it would be **wrong to assume that there is homogeneity of conditions** in these countries for the simple fact of belonging to the same income qualification. According to the UN Economic Commission for Latin America and the Caribbean (ECLAC), it is necessary to take into account aspects such as: conditions of **poverty, social inclusion, institutional and financial productive capacity.**"
- "Middle-income countries have to make several moves to address the challenges, among which we can mention the following: a) Start with prioritizing the SDGs, according to the conditions socioeconomic and sociocultural aspects of the country….b) Give continuity and follow-up to an investment process focused on clear aspects of development, such as: education, health and productive infrastructure, so that the living conditions of its populations are homogeneous and thus reduce inequality gaps… c) Submit a **reclassification proposal for middle-income countries**, such as Guatemala, so that they can be candidates and qualify for funds for development cooperation."

Mia Mottley, PM Barbados at the opening ceremony of the Summit for a New Global Financing Pact

"What is required of us now is absolute transformation and not reform of our institutions. And that transformation is required because while the world knew since the 1890s [of] the climate we chose not to heed the advice of scientists and that which could have been done in more than a century is now being reduced to be done in less than a decade."

Mexico outlines solutions to challenges faced by middle-income countries in achieving 2030 Agenda

- "With regard to the realization of the 2030 Agenda, middle-income countries (MICs) face specific challenges, those that vary depending on the unique contexts of each country and others that share their **socioeconomic category**."
- "These challenges can be barriers to access additional financial resources, high levels of debt, the unequal income distribution, lack of data and statistics, among others."
- "Derived from the foregoing, Mexico highlights that, in order to face these challenges, it is necessary to: 1) Continue working to promote vulnerability measurement measures that will go **beyond Gross Domestic Product (GDP)** with the aim of supporting all countries in development to identify gaps in the implementation of the SDGs; 2) Evaluate **national contexts** through the identification of

obstacles and opportunities under an approach that takes into account the three dimensions of development; 3) Mobilize national resources through the restructuring and improvement of systems of effective taxation and the fight against corruption; 4) Strengthen governance and institutional frameworks to promote transparency, accountability and improve multi-stakeholder coordination; 5) Improve international cooperation and alliances with strategic partners such as the **private sector** in order to unlock access to financing, technical experiences and support for capacity development."

Jay Collins Vice Chairman, CitiGroup Statement at HLPF 2023

"First of all I have a view that many share that the public sector alone can't possibly finance anywhere near what we need to achieve the transition and climate adaptation and the range of SDGs…we do need massive private capital mobilization. The only way to do that is to have a fundamental rethink of the financial architecture of the world now. In particular we have this opportunity with the Multilateral Development Bank reforms. So many of you and your ministers, excellencies, ambassadors have engaged on more capital and the capital efficiency of the MDBs. I would urge you to be demanding a private capital mobilization multiplier of the MDBs."

Switzerland asks to reform MDBs, create Joint Fund for SDGs, and harness private sector investment

- "...in particular SDG 17 provides the appropriate frame of reference for moving forward into a more resilient and more sustainable world and the **Addis Ababa Action Agenda** provides the approach we need to finance the SDGs."
- "The recent ECOSOC Forum on Financing for Development highlighted the difficult macroeconomic environment which we are currently facing, in particular the developing countries development…setback in development progress and the increasingly worrying issue of **debt**."
- "At the recent Summit for a New Global Financing Deal organized by France, several Heads of State and Government underlined the importance of (1) **reforming the multilateral banks of development**; (2) to find new ways to finance development, climate according to the rules of **"polluter pays"** and **"responsibility shared but differentiated"**; and (3) to mobilize investments from the **private sector.**"
- "Switzerland supports the comprehensive **reform of multilateral banking institutions**….The MDBs are of paramount importance. They need to rethink how they can contribute to meeting the challenges and protect global public goods, without compromising their objective of combating poverty and inequality and without undermining their **credit ratings.**"
- "Switzerland also supports **mutual funds multi-partners**, such as the **Joint Fund for the SDGs**, which are essential to catalyse additional financing for sustainable development… [and] introduction of a global tax on CO2. In the context of sustainable finance, we develop and support initiatives in favour of ambitious coalitions and transparency."
- "It is increasingly imperative that we develop solutions to harness the power of the private sector… [by] channeling more funds, technology and expertise into Sustainable development. **Illicit Financial Flows** and corruption remain major obstacles to development and the fight against these two phenomena remains a priority for Switzerland…."
- "…The latest global report on sustainable development should serve as a warning signal. Let us take advantage of the **SDG Summit** and the **High Level Dialogue on financing for development** to find solutions making it possible to set up financing mechanisms durable and affordable."

Philippines: Tight fiscal space and high external debt most pressing issue for middle-income countries

- "The most pressing issue of particular importance to middle-income countries in our SDG implementation is **tight fiscal space** and **high external debt**. As debt distress and risks increase across the world, most middle-income countries were and are faced with a choice between development aspirations and fiscal stability."
- "The COVID-19 pandemic, global geopolitical tensions and conflicts, adverse impacts of climate change, and disruptions in food supply chains have also constrained countries' resources to address overlapping challenges."
- "The international community can best support MICs' recovery by: 1. Bolstering development cooperation that is more purposive to the needs of developing countries…2. **Tailoring support for MICs** according to their specific needs and vulnerabilities, in line with national development priorities…3. Building on **South-South and triangular cooperation** to support countries facing similar challenges and facilitate joint efforts in addressing regional and global issues.
- "Through this cooperation, partners, donor countries and/or organizations can be tapped to help mobilize financial resources and provide access to **assistance programmes.**"

Nepal on behalf of LDCs: Doha Programme of Action needs to be complemented by concerted actions from the international community

- "First, we call upon the international community to fully implement their commitments in the areas of **ODA**, **trade**, **debt relief**, technology transfer and capacity building urgently: achieve the target of 0.2 percent of GNI as ODA to LDCs, double the industry's share of employment and Gross Domestic Product in LDCs, double the share of LDCs' exports from its 1.00 percent current level and the share of aid for trade to LDCs, undertake comprehensive debt relief measures to support LDCs from debt distress, allocate at least US$100 billion of **SDRs** to LDCs, implement article 66.2 of the TRIPS agreement and meaningfully operationalize the UN Technology Bank."
- "Second, Member States must adopt and implement the **SDG Stimulus** and ramp up financing flows by at least US$500 billion by 2025. International financial architecture must be urgently reformed."
- "Third, we call upon developed country Parties to fully implement their **climate finance pledge**s and expedite the operationalization of the **loss and damage fund at COP28**.
- "Fourth, we call upon the UN system and development partners to ensure the **integration of the Doha Programme of Action (DPoA)** into their strategic priorities and support its implementation through scaled-up resources."

El Salvador: Reiterates its support to move beyond GDP

- "The foregoing reiterates that there is growing support from the United Nations system to address the **multidimensional challenges** facing developing countries, particularly middle-income countries, on their path towards sustainable development."
- "As a group of countries facing specific and multiple challenges, especially those related to the middle-income trap, we have strongly emphasized that relying on solely on economic aspects to measure growth and/or development has led to the **exclusion of MICs** from initiatives and relevant resources of international cooperation, and access to concessional and non-concessional financing…."
- "...In this sense, we recognize that the discussions on the establishment of measures **beyond GDP** are not new, there are useful past and ongoing initiatives that can be taken as a basis and considered to address the interconnectedness of the three dimensions of sustainable development."

High-Level Advisory Board on Effective Multilateralism

"Before the COVID-19 pandemic, the world was delivering USD 2.5 trillion less than required each year to achieve the SDG targets. Today, the SDG financing gap stands at between USD 3.9 trillion and USD 7 trillion annually (according to different estimates)."- HLAB

Their recommendations:

1. Repurpose the Multilateral Development Bank (MDB) system to catalyse a new generation of public and private investments in global public goods, development, and inclusivity.

➔The World Bank and the other Multilateral Development Banks must update and expand their mandates to include the financing of global public goods and the protection of the global commons, alongside the twin goals of poverty alleviation and shared prosperity.

➔To start, the World Bank's shareholders must encourage the Bank to work in conjunction with the United Nations to define a core set of global public goods that would benefit from enhanced and predictable global public investment, coordinated with other MDBs.

➔Member State shareholders should task the MDBs with developing de-risking and blended finance projects designed to catalyse the volumes of financing necessary for development from private as well as public actors; this could be similarly applied to the use of ODA to mobilize additional private financing through risk mitigation.

➔ The use of country platforms should be encouraged for all development partners, including MDBs, development finance institutions, UN entities, philanthropic organizations, and non-governmental organizations (including faith-based and charitable organizations) to overcome fragmentation and maximize development impact.

➔We endorse the conclusions and recommendations of the G20 Independent Review on MDBs' Capital Adequacy Framework, which outlines five ways that existing MDB capital can be used more effectively, unlocking several hundred billion US dollars of new financing for development and the provision of global public goods.

2. Strengthen the Global Financial Safety Net

➔To ensure that all countries have the necessary access to foreign currencies during global crises, the IMF should develop a multilateral swap facility, together with major central banks, to achieve greater global scale and overcome the selectivity and fragmentation posed by today's bilateral central bank swap arrangements. The criteria for drawing on the swap facility should be pre-agreed with the Executive Board to allow for greater automaticity in the case of extreme shocks. A revamped GFSN must provide support with minimal or no conditionality in cases of global shocks as well as climate shocks.

➔Member States must reform the IMF's lending toolkit to enable effective and timely crisis responses.

3. Ensure greater automaticity and fairness in SDR (Special Drawing Rights) allocations

➔The IMF's Articles of Agreement should also be reviewed to allow for "selective SDR allocation" — enabling only those countries that face weak external positions to receive SDRs in a general allocation. A further amendment should stipulate specific conditions under which these SDR allocations would be triggered to ensure a swifter global response.

➔In line with the other recommendations and priorities in this report, this Board also supports calls to extend the use of SDRs to strengthen the balance sheet of MDBs, while investing in efforts to determine how this might be done while preserving the SDRs' reserve asset characteristic.

4. Enact governance changes at the World Bank and IMF that improve representation and credibility

➔We call on Member States to urgently introduce fair selection procedures for the Managing Director of the IMF and the President of the World Bank.

➔Member States should advocate for enhancements including (a) the appointment of a search committee, (b) the holding of public hearings, as is done for the United Nations Secretary-General, and (c) adoption of a double majority voting mechanism to ensure that appointed leaders command the support of both principal shareholders and the majority of shareholders.

➔To improve representation, we call for the expansion of the IMF's Executive Board through the creation of additional seats for emerging and developing countries, and especially African States.

➔We call on shareholders to double the share of basic votes to 11 percent of total votes, and adjust vote shares automatically when quotas are increased.

➔Finally, we recommend extending the practice of double majority voting, which is prevalent in other international bodies, to major decisions taken in the IMF.

5. Strengthen the global debt architecture

➔We recommend establishing a global coordination platform for rapid, systematic, and reliable debt treatment.

➔We urgently need to reach an agreement on a coordination platform that allows for rapid, systematic, and reliable coordination for debt treatment, as well as greater debt transparency and sustainability.

➔This Board therefore welcomes the incremental steps taken by the IMF in recent months to convene a global sovereign debt roundtable that includes a range of creditors, including private and bilateral creditors, and borrowing countries.

➔We must also ensure widespread adoption of contractual reforms, such as collective action clauses (CACs) and state contingent debt instruments (SCDIs) in future sovereign debt contracts.

➔Strengthen safeguards in relation to credit ratings. There is a need to regularly review and strengthen the standards on transparency and accountability in credit rating methodologies to protect the integrity of the rating process.

6. Enable and facilitate strengthened regulatory frameworks for financial flows

➔We call for a special working group, possibly under the Financing for Development wing of the United Nations, to assess the implications of different intergovernmental economic agreements for regulation. While pursuing financial stability and ensuring financing for the SDGs and climate alleviation, we must also consider how negative implications from regulation can be minimized and how legal barriers can be lowered.

➔Financial regulators should therefore, in coordination with other public authorities, set more stringent targets for loans and other asset portfolios in support of the Paris Agreement goals, going beyond the immediate assessment of balance sheet risks.

7. Pursue global taxation reforms

Work on international tax cooperation should seek to achieve:

➔Fairer and more equitable tax systems

➔Greater accountability in global finance and business operations to tackle tax avoidance

➔Greater collaboration and coordination between national governments and existing multilateral platforms on tax-related issues.