Shift Three | **Global Finance**

Ensure Sustainable Finance that Delivers for All

"No government, sector, or institution acting alone can underwrite the global investments we require."

The Summit of the Future is an opportunity to reconsider the reasons, places, and ways in which we invest. It is one in a series of events and global meetings that can shift the business-as-usual approach to global finance over the coming months.[73]

Delivering critical global public goods and inclusive economic development requires significantly greater investment in a long-term vision of collective resilience.

The SDGs are an integral part of this vision. However, we must also draw lessons from recent global shocks that have systematically undermined our ability to deliver progress for people and planet. For example, we have underinvested in health systems which, in the aggregate, will cost countries around the world USD 21 trillion.[74] We have also underinvested in our planet, which is rapidly becoming a place of brutal extremes.[75] Environmental changes are likely to plunge millions into food insecurity, exacerbating and multiplying global famines.

One global report after another warns that we are responding too late and with too little to avert crisis, despite clear warning signals.[76] 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.[77] United Nations resources are equally stretched, and its financing is nowhere near as reliable and predictable as it once was. The safety, security, and well-being of millions depend on the proper functioning and resourcing of these organizations.

Collectively, we have been unable to direct the available capital toward long-term productive investments at sufficient scale and speed to effectively mitigate risks in a shock-prone world, nor have we closed the gap between developed and developing countries in any meaningful sense.

No government, sector, or institution acting alone can underwrite the global investments we require. 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).[78, 79] Forests, an important carbon sink, together with other natural climate solutions, can deliver one-third of the needed emissions reductions, yet have received only 3 per cent of climate finance.[80] And while the digital economy picks up speed, more than 800 million people do not have the electricity they need to power digital devices.[81] A just digital and green transformation, with finance for infrastructure, capacities, and technology, will require many trillions (not billions) in new investments.

This Board joins the Secretary-General in calling for a rapid, sizeable increase in long-term investment for people and planet that reduces inequalities and safeguards our shared life support systems. The costs of inaction are clear: lives and livelihoods cut short, nations battered by recurrent crises, deprived of the opportunity to invest in a future of equal freedom. An effective multilateral response must translate into more investment, not less.

Building on the right to development, and national efforts to implement the SDGs and Agenda 2030, we recognize that development and sustainability will require a major step up in financing from all sources: national and global, public, and private. Good governance and regulatory systems must be enhanced to ensure effective domestic resource mobilization for sustainable development alongside fair access to affordable capital. Credible and coordinated international efforts to tackle corruption as a development obstacle must therefore also be strengthened.

Official development assistance (ODA) will continue to play a key complementary role in reaching the SDGs. Donor countries must meet their long-standing commitments to 0.7 per cent of national income for ODA. In this context, policies that erode the domestic resource base or support the excessive shifting of profits from the domestic resource base will undermine the goals of self-supported development pathways and creation of an attractive domestic investment climate.

Meeting these urgent challenges is in the interest of all States, and the reforms are within reach. Recent months have seen shareholders of the World Bank call on the global body to present a roadmap that would ensure a rapid evolution of the organization, allowing it to better respond to global challenges, including by systematically integrating and scaling funding for global public goods. A local initiative with global aspirations, the Bridgetown Initiative, is reaching critical velocity and is rallying support for collective action on climate financing, debt, and affordable capital for development.[82] The Secretary-General has offered a bold SDG Stimulus Plan. The Addis Ababa Action Agenda remains a highly relevant framework for collective mobilization of resources for the implementation of Agenda 2030. And both the United Nations Conference on Trade and Development (UNCTAD) and the IMF have forcefully argued for an improved global system to deal with debt.[83] The steps outlined in this report align with these efforts and ultimately aim to strengthen our investment in the global commons, improving resilience to global shocks, while remaining simultaneously committed to the unfinished business of poverty eradication.[84]

Recommendation **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.**

To be effective in the face of twenty-first century challenges, **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.[85]** The World Bank's global mandate and reach make it an ideal platform to address today's cross-border challenges. Its shareholders must provide it with regular capital increases so as to effectively discharge this expanded mission. Failure to invest in global public goods, and the institutions that finance them, will erode donor credibility as well as trust in the multilateral system.[86]

Other MDBs will also play an increasingly important role in a revitalized funding landscape: they combine experience, transparency, size, and reach in an unparalleled investment platform uniquely sensitive to regional needs. Crucially, they can serve as force multipliers, leveraging their capital to provide substantially more development finance in turn.[87] MDBs offer development and infrastructure funding with longer maturities and at better terms than international capital markets.

Implementing this recommendation will require:

- **Defining** a core set of global public goods and global commons investments;
- **Commitment** and direction from World Bank and MDB shareholders, and a greater sense of urgency;
- **Rationalizing** lending operations to maximize efficiencies; and
- **Reducing** risk to catalyse greater private investments.

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. The Biennial Summit between the members of the Group of 20 and of the Economic and Social Council, the Secretary-General, and the heads of the international financial institutions (IFIs), as called for in *Our Common Agenda*, might serve as a platform for this exchange, building on the priorities outlined in the reports of the International Task Force on Global Public Goods and the High-Level Panel on the Future of Multilateral Development Banking.[88, 89, 90] The expanded mandate might include, among other global public goods, support for: (i) a just digital transition; (ii) a global clean energy transition; (iii) strengthened capacity for prevention of and preparedness for global health threats; and (iv) access to education for all. The G20 Leaders' Summit in September 2023 will be an important milestone and should be used to advance key elements of this new vision and mandate.

Public financing is important for all activities that are not inherently profit-making or where potential returns are too low to attract private investors but are an important part of the investments required for meeting the SDGs as well as for addressing climate change challenges — for example, public financing accounted for more than 70 per cent of total climate financing provided to developing countries between 2013 and 2020.[91]

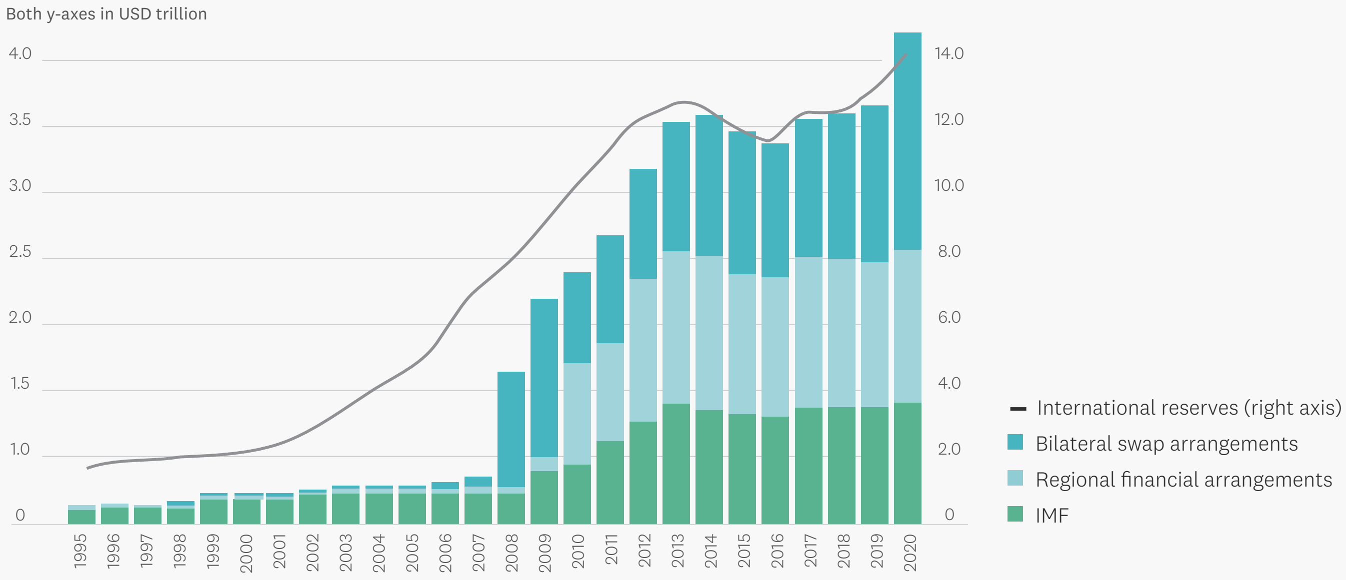
However, transformative change will only be possible if access to private financing is made easier, more affordable, and more predictable for poor and vulnerable countries.

There must be a greater focus on coordinated de-risking activities by MDBs to reduce overall system risk while facilitating new private investments.[92] **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.** These projects must be undertaken with appropriate contract design to protect the public interest, avoid extortionary rates of profit, prevent future debt crises, and minimize the potential fiscal burden over time. They also must be accompanied by conditions to ensure that such financing meets social and environmental goals. By facilitating private investments for global public goods projects, we can safeguard concessional financing for low-income countries.[93] Where public financing is used to de-risk projects, there should be a fair sharing of risks and rewards between the private and public sectors.

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. Country platforms have also been advocated by the Independent High-Level Expert Group on Climate Finance in November 2022, given the criticality of achieving scale and coherence in development finance to support the climate transition. Additionally, country platforms would help to achieve convergence around appropriately high standards while ensuring country ownership and flexibility to engage with the most suitable partners. Incentives and targets should be built into the operating models of the World Bank and other MDBs to encourage them to initiate, support, and participate in country platforms more consistently.

Ensuring that the available capital in MDBs is used effectively is key to generating the financing required for the major transformations discussed in this report — fair, equitable, green, and digital transformations. **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 dollars of new financing for development and the provision of global public goods.**

Global Financial Safety Net



Adapted from: Alina Iancu, Seunghwan Kim and Alexei Miksjuk, "Global Financial Safety Net – A Lifeline for an Uncertain World," IMF Blog, 30 November 2021.

Recommendation **2.** **Strengthen the Global Financial Safety Net.**

Countries very often face crises of a global nature such as pandemics, global financial crises, and war. The Global Financial Safety Net (GFSN) has evolved over time to ensure that when crises hit, financing is available on global, regional, and bilateral levels to support balance of payments for countries in temporary financial distress.[94, 95] However, this safety net has grown increasingly fragmented, with uneven coverage across Member States. Since the global financial crisis, the GFSN has become overly reliant on selective regional financial arrangements and bilateral swap lines offered by a few major central banks to selected jurisdictions. This weakness has left lower-income and middle-income countries with a protection deficit and few good alternatives. While some countries have built up self-insurance through reserve accumulation in the past two decades, this can come at the expense of development and growth needs.

Governments facing foreign exchange crises need to retain the ability to access funds in foreign currencies; typically, they can do so by drawing on domestic foreign currency reserves. Since the financial crisis of 2008, the number of central bank swap lines between countries has multiplied rapidly, and have become the principal way that governments can access foreign currencies in moments of global shock. While all four layers of the GFSN have expanded over the past few decades, much of the reserves are selectively positioned to aid bilateral partners or members of a regional group. Only the IMF provides universal and transparent access to external financing, yet today it represents only a small part of the overall safety net.

We need a global buffer to protect against the spill-over effects and negative impacts of crises, especially in developing countries and small countries. This can be achieved through a stronger GFSN that (a) pools resources efficiently, (b) lends more quickly and (c) has higher ceilings on financing once specific conditions materialize, to any country with need. This will require a stronger multilateralism at the heart of the GFSN.

It will require rethinking the value of regional self-insurance — through mechanisms such as the European Stability Mechanism in Europe or the Chiang Mai Initiative in Asia — while much of the rest of the world lacks the ability to self-insure. Furthermore, the accumulation of national reserves locks away resources that could be put to better use for domestic investments and development purposes.

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.

In addition, drawing from the lessons of the COVID-19 pandemic, **Member States must reform the IMF's lending toolkit to enable effective and timely crisis responses.** Existing instruments, including the Short-Term Liquidity Line (SLL) and the Fund's emergency financing instruments, are subject to approval delays and have limited access levels, with potential stigma faced by countries that request assistance even in a global crisis. There is scope to expand the IMF's lending toolkit by introducing enhanced pre-qualified facilities that disburse financing upon a set of pre-defined trigger criteria, with enhanced access levels.

Recommendation **3.** **Ensure greater automaticity and fairness in SDR allocations.**

IMF Special Drawing Rights (SDRs) are reserve assets that supplement a country's international reserves.[96] They can be exchanged for currency, used to repay debt, donated, or lent in transactions between members of the IMF or through prescribed institutions. They are best thought of as a "reserve sharing mechanism".[97] In a General SDR allocation, advanced economies with strong external positions receive the bulk of allocated SDRs.[98] This was specifically the case in the 2021 allocation valued at approximately USD 650 billion SDRs in the wake of the COVID-19 pandemic, which disproportionately favoured advanced economies.

While G20 Finance Ministers supported the channelling of SDRs on a voluntary basis to vulnerable countries, the process has proven to be cumbersome and time-consuming. If the aim is to provide support to vulnerable countries, the current SDR administration approach is inefficient, as the channeling process can extend beyond the moment of acute crisis.

A fundamental review of the Fund's SDR mechanism is required, to enable it to play a fuller role in the GFSN and with greater benefit to the emerging economies and developing countries. This should include regular annual allocations of SDRs, to achieve the original intent for SDRs to constitute a key component of global reserves. **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 SDR's reserve asset characteristic. This will ensure that reserves multiply through the capacity of MDBs to leverage for more inclusive development support and impact, taking advantage of the long-term nature of MDB financing at affordable terms for borrowing countries.

Photo: Jacek Waszkiewicz / World Bank Group. “The World Bank’s global mandate and reach make it an ideal platform to address today’s cross-border challenges.”

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

Our global financial architecture is rooted in the institutions and international regimes established at the close of the Second World War.[99] These include the Bretton Woods Institutions (the IMF and the World Bank), and other MDBs. These institutions catalysed development gains and fostered financial stability over many decades, but they have not always designed and pursued objectives in a manner that effectively incorporates the views and priorities of emerging majorities.

These institutions and their shareholders have taken some steps to address these shortcomings, such as in 2010 when the IMF enacted reforms of its quota and voting structures to provide greater representation for developing countries, while also protecting the voting power of low-income countries.[100] The global economic landscape has shifted radically in the decade since; it is time to invest in another round of progressive changes to ensure that decisions taken are congruent with the interests of the majority of shareholders and not only of its principal shareholders.

Change must begin with the leadership of these institutions. **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.** Dismantling of conventions on the leadership of these institutions — an American at the head of the World Bank, and a European at the head of the IMF — is long overdue. Unless these institutions embrace bolder reforms, they will face a rolling crisis of legitimacy.[101] Selection of leadership of the Bretton Woods Institutions must follow a merit-based system where the best candidates are appointed to these leadership roles, a strategy endorsed more than a decade ago by members of the G20 and advocated in a joint 2001 World Bank/IMF report, the recommendations of which have yet to be implemented.[102, 103, 104]

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.

A more representative leadership of the World Bank and IMF would better account for a world in which developing and emerging markets represent more than half of global output.[105] Better representation might also facilitate the reconsideration of IMF and World Bank programming — for example, improving the typical conditionalities associated with loans to take account of contemporary economic realities and their implications for inequality, human development, gender equality, the environment, and vulnerable groups.[106, 107] Inclusion of a dedicated window for refugees and host communities in the World Bank’s Fund for the Poorest is a positive example of inclusion of the most vulnerable that can be built upon.

Today, 24 Board members represent all 190 member countries of the IMF (double the number of countries at the time of the IMF's creation).[108] **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.** Similar changes have occurred in the past, most recently when the European Union Finance Ministers agreed to reduce their seats by two on the IMF Board to allow for greater representation of developing countries. This is a moment to marshal the same spirit of compromise and flexibility for the greater common good.[109]

It is also necessary to reform voting practices. For decades, world leaders have called for greater inclusion and modernization of the World Bank and IMF's governance structures to address the twin issues of poor representation and uneven voting power.[110] Several formulas have been proposed over the years. While the IMF has a well-established consensus-building approach for policy decisions, voting shares still matter significantly. The role of basic votes should be given specific consideration. Compared to when these institutions were established, the basic vote distribution (equal for every country) has been greatly reduced in significance — even accounting for recent increases — shifting the balance of power to large economies. **We call on shareholders to double the share of basic votes[111] to 11 per cent 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. The Fund's Articles of Agreement already allow for double majority voting — 85 per cent of voting power and a 60 per cent majority of members — to amend the Articles of Agreement. A double majority requirement would ensure that principal shareholders with sufficient collective voting power to direct the IMF's agenda would be required to secure the agreement of a majority of members for major decisions. The benefits of this change have been widely discussed; specifically, it will provide an incentive to traditionally influential shareholders to negotiate more broadly with developing country constituencies.[112]

Recommendation **5. Strengthen the global debt architecture.**

High-income countries typically recover more swiftly than others when confronted with a global crisis. Numerous factors reinforce this tendency, including the politics of cross-border credit and debt.

Today's global debt architecture stands in the way of development ambitions, crisis response, and recovery. While improved comprehensive measures to restructure debt are being worked out,[113] various debt metrics suggest that debts are growing more unsustainable. Sharp adverse changes in the global environment have already unleashed a wave of debt defaults across the world, and the ecological and humanitarian crises on the horizon foreshadow further declines in development and international cooperation on a wide range of issues.

We recommend establishing a global coordination platform for rapid, systematic, and reliable debt treatment. Raising the necessary financing for SDGs and climate action has never been harder for low- and middle-income countries and economies threatened by debt crises; they will find it nearly impossible to access additional sustainable credit.[114] **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.**

We have noted calls for an independent sovereign debt authority.[115] Whether an independent authority or a coordination platform, the solution must bring all major public creditors and private creditors together to coordinate debt workouts and restructurings. The heterogeneity of players makes this difficult, and we should therefore expect progress to be incremental.[116] If we cannot agree on a robust, inclusive debt architecture, we must at least take meaningful and significant steps towards this goal by working with the tools and instruments that have the support of key creditor groups and which can deliver urgent reprieve to indebted countries.

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.[117]

In some respects, these initiatives replicate the central goal of the Common Framework for debt treatment beyond the G20 Debt Service Suspension Initiative. The Common Framework was created to encourage coordination with multiple creditor groups, as the alternative, bilateral approach to debt restructuring is not in the interests of either creditor or borrower countries. However, the Common Framework as implemented thus far has been too slow, limited, and ineffective in dealing with existing or imminent debt crises. Eligibility is limited to low-income countries, despite widespread debt distress in middle-income countries. Of those eligible, only three countries have requested assistance through the Common Framework, and none have yet completed the process more than a year on. Full participation of all creditors has been lacking, and there has not been agreement amongst participating creditors on what debt should be covered or how comparability of treatment should be applied. The Common Framework is therefore currently struggling to maintain its credibility and is in urgent need of revamping.

The Common Framework requires stronger engagement, wider access, and more transparent principles. Some possible elements of the required reform include:

- **Clear and transparent knowledge of all the data on debt** held by sovereigns in various forms, as well as of all publicly guaranteed privately held debt. In addition to encouraging full disclosure of debt among creditors, the IMF and World Bank should be tasked with collecting full and accurate data of all (public and private) debt held by countries deemed to be in actual or potential debt distress, on an urgent basis.

- **Increasing rapidity of response.** A creditor's committee drawing on the recently launched "roundtable model" could be formed within four to six weeks of the request by a debtor country, with a transparent timeline of resolution within three months.

- **A standstill on all debt repayments** during the process would incentivize speed of restructuring on the part of creditors and provide some breathing space to debtors.

- **Eligibility should be expanded to include middle-income countries** in clear debt distress.

- **There should be clarity on the comparability of treatment** across all public creditors and private creditors, including IFIs.

- **Enforcement of outcomes should not rely on only voluntary compliance** by private creditors. Anti-vulture legislation in major creditor countries (particularly in the UK and US, where more than 90 per cent of sovereign debt contracts are made) would ensure that the process cannot be held up by a few hold-out creditors.

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. This will help ensure more predictable and fairer debt restructuring outcomes.

These recommendations address existing unsustainable debt stocks. However, as countries look to borrow to invest in development, debt-for-climate, debt-for-nature, and debt-for-SDG swaps become new viable tools. While such swaps cannot replace debt restructuring, they can complement other measures aimed at providing sustainable credit. Importantly, the success of these initiatives will depend on massively increasing the capacity of national authorities to develop suitable swap frameworks and relevant metrics to guide implementation.[118]

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. This should build on the International Organization of Securities Commission (IOSCO) Code of Conduct Fundamentals for Credit Rating Agencies (CRAs) to ensure fairer and more rigorous credit assessments, including through the introduction of legal liabilities and employee conflict of interest safeguards. We should also conduct a stocktaking of the progress made since the 2014 peer review on the Financial Stability Board's "Principles for Reducing Reliance on CRA Ratings", with a view to have more countries implement a wider array of practical complements to credit ratings.

Recommendation **6.** **Enable and facilitate strengthened regulatory frameworks for financial flows.**

Many of the measures required to stabilize financial markets must necessarily be national, and this is also true of measures designed to direct financing towards the desired social, developmental, environmental, and planetary goals. However, changes in regulation are increasingly coming up against legal barriers that are the by-product of a complex web of overlapping and interconnected international agreements, such as trade agreements, comprehensive economic partnerships, and bilateral investment agreements.

We must support efforts to re-orient regulatory structures to serve the interests of people and the planet, rather than only safeguard the interests of capital. **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 regulations aimed at addressing climate-related risks have been mainly focused on the risk to the balance sheets of individual financial institutions. However, this is unlikely to lead to a significant reallocation of capital to support the transition needed for a Paris-aligned net-zero pathway, as the largest risks are expected to manifest beyond the timeframe of most loans and assets on current balance sheets. **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.**

Recommendation **7.** **Pursue global taxation reforms.**

There is a need to review the current international tax architecture to keep pace with efforts to tackle illicit financial flows, tax avoidance, and tax evasion. Although various international platforms such as the Inclusive Framework on Base Erosion and Profit Shifting and the Global Forum on Transparency and Exchange of Information for Tax Purposes, each comprising more than 140 countries, have been established to strengthen international tax cooperation, we need to broaden participation in these forums and accelerate their work, including on the "two-pillar solution".

This Board also looks forward to the follow-up from the UN Second Committee resolution "Promotion of inclusive and effective international tax cooperation at the United Nations",[119] including the Secretary-General's report on the potential next steps to recommend actions on the options for strengthening the inclusiveness and effectiveness of international tax cooperation.

Ultimately, work on international tax cooperation should seek to achieve:

- Fairer and more equitable tax systems to ensure that all countries can benefit in the global tax system from a level playing field, while recognizing that each jurisdiction has the sovereign right to assess and calibrate its tax measures based on its fiscal needs and capacities;
- Greater accountability in global finance and business operations to tackle tax avoidance and counter money-laundering and the financing of terrorism, while protecting privacy and personal safety; and
- Greater collaboration and coordination between national governments and existing multilateral platforms on tax-related issues, including the sharing of information on beneficial ownership of all assets, while avoiding duplication of work and proliferation of tax forums that will hurt resource-constrained and low-capacity countries most.