Extract from the report:

Building new foundations: Reimagining the International Financial Architecture

Views and proposals from civil society

Introduction: Reforms to the international financial architecture – a work in progress

By Bodo Ellmers
and Jens Martens

With contributions from

Introduction: Reforms to the international financial architecture – a work in progress

By Bodo Ellmers and Jens Martens

Reforms to the international financial architecture are among the most contested and controversial issues on the global political agenda. Many governments, United Nations (UN) institutions, expert groups and civil society organizations (CSOs) are critical of the network of institutions and rules that currently shape global monetary and financial policy and control global financial flows, arguing they are not fit for purpose when it comes to addressing the current global crises.

UN Secretary-General António Guterres described the international financial architecture as “outdated, dysfunctional and unfair” [1] and called for a “new Bretton Woods moment” to adapt the architecture to today’s economic realities and power relations.[2]

However, what we refer to as the ‘international financial architecture’ encompasses much more than the Bretton Woods institutions (i. e. the World Bank and International Monetary Fund (IMF). According to a definition used by the UN Conference on Trade and Development (UNCTAD):

> “the international financial architecture (IFA) is a framework of institutions, policies, rules and practices that govern the global financial system. Its aim is to promote international cooperation with a view to ensuring global monetary and financial stability, enabling international trade and investment, supporting the mobilization of the stable and long-term financing required for economic development, combatting the climate crisis, and achieving the Sustainable Development Goals.” [3]

The way the current architecture is structured, however, is far from robust enough to fulfil these ambitious tasks.

The challenges are immense

When the UN Member States agreed the 2030 Agenda and its Sustainable Development Goals (SDGs) in 2015, the annual financing gap was estimated at US$ 2.5 billion per year. By 2024, this gap had risen to US$ 4 billion per year, as stated by the UN Secretary-General in his speech at the UN Financing for Development Forum 2024.[4] In other words, the international community is not just failing to close the financing gap, the chasm has widened substantially over the past decade. On the one hand, this increase in financing needs is due to the failure to mobilize sufficient funds in previous years, which has led to a backlog in investments. On the other hand, the cascading crises of recent years that the current IFA institutions have not been able to prevent or cushion have set back development progress. The current system is neither resilient to these crises nor is it able to provide countries with the support they need to deal with them. To

1 https://www.un.org/sg/en/content/sg/speeches/2023-09-18/secretary-generals-remarks-the-high-level-political-forum-sustainable-development

2 https://estatements.unmeetings.org/estatements/10.0010/20230920090000000/tV32tvvz19xc/797EyWwwkqqt_en.pdf

3 UNCTAD (2023), p. 102.

4 https://www.un.org/en/desa/un-chief-urges-%E2%80%98surge-investment%E2%80%99-overcome-4-trillion-financing-gap

make matters worse, countries in the Global South are disproportionately affected by these challenges.

The COVID-19 crisis was an eye-opener: countries in the Global North had access to almost unlimited finance at near-zero interest rates, enabling them to increase health spending and finance gigantic stimulus and social protection programmes, effectively shielding their economies and societies from economic shocks. In turn, many countries in the Global South, hit hard by the economic turbulence caused by the pandemic and the responses to it, were quickly shut out of financial markets and unable to access affordable financing on the scale required, either from public or private sources. The result was severe economic recessions, sharp increases in poverty, unemployment and hunger, and a general setback in development progress. When the UN reviewed progress towards the SDGs in its 2024 report, the findings were sobering: only 17 percent of the SDG targets are on track; nearly half are showing minimal or moderate progress; and trends for more than a third have stalled or even gone backwards.[5]

Today's IFA is ill-equipped to provide foundations for the financial conditions necessary to address other crises, particularly the global climate crisis. The countries that are most affected by climate change do not have access to affordable finance for adaptation or compensation for loss and damage. Efforts to mitigate climate change are being hindered by insufficient investment in the green transformation.

To make matters worse, the prevailing monetary hierarchy in the global economy means that poorer and smaller countries are hit hard by the policy decisions of richer and larger countries. The decision by major central banks in the Global North to raise interest rates in 2022 – initiated by the US Federal Reserve in response to rising inflation at home (i.e. domestic needs) has had major negative spillovers for countries in the Global South.[6]

The cost of servicing increased debt levels has skyrocketed. In summer 2024, the UN Global Crisis Response Group (UN GCRG)-Technical Team at UNCTAD reported that 54 developing countries were spending more than 10 percent of their public revenues on interest payments, up from 30 countries a decade earlier.[7] According to this *World of Debt Report 2024*, debt service on external public debt reached US$ 365 billion in 2022, which is equivalent to 6.3 percent of export revenues. By way of comparison, the report emphasizes that the 1953 London Agreement on Germany's war debt limited the amount of export revenues that could be spent on external debt servicing to 5 percent to avoid undermining the recovery.[8]

The main reason for the increase in debt servicing is the massive borrowing costs. Countries in the Global South have to borrow at rates that are two to four times higher than those of the USA and six to 12 times higher than those of Germany.[9]

Increasing transfers to creditors have serious implications for the ability of governments to finance development and public services. Higher debt service payments combined with lower government revenues are considerably restricting governments' financial room for manoeuvre. Urgently needed funds for healthcare, education, climate and social spending is not available. The UN GCRG warned that 3.3 billion people now live in countries that spend more on interest payments than on healthcare, and 2.1 billion people live in countries that spend more on interest payments than on education.[10]

In 2022, net transfers on external debt from low- and lower-middle-income countries to private creditors were negative at US$ –52.2 billion. This means that even the positive flows still provided by multilateral

5 United Nations (2024).
6 Ellmers (2022).
7 United Nations Global Crisis Response Group (2024).
8 Ibid., p. 10f.
9 Ibid., p. 14.
10 Ibid., p. 18.

development banks and the IMF (US$ 32.3 billion) and bilateral creditors (US$ 3.7 billion) no longer financed development, but simply allowed heavily indebted countries to continue transferring money to private creditors, absorbing scarce financial resources that were badly needed elsewhere.[11]

Debt indicators around the world have deteriorated to such an extent that Development Finance International is already warning of “the worst ever global debt crisis”.[12]

In particular, the poorer countries of the Global South are falling through the financial safety net and do not have access to sufficient liquidity. Only a fraction of the Special Drawing Rights (SDRs) issued by the IMF are available to them. This is not least due to the fact that their interests are still underrepresented in the decision-making bodies of the international financial institutions, in particular the IMF and World Bank. This also applies to international tax cooperation, where African countries in particular are pushing for equal participation under the umbrella of the UN. Finally, there is a considerable need for action in the regulation of financial markets. The inadequate supervision of the non-banking sector in particular is a ticking time bomb for the financial system – and for the global economy.

In view of all these unresolved challenges, it is becoming increasingly clear that systemic reform of the IFA is long overdue.

Systemic problems require systemic solutions

In his speech at the opening of the High-Level Dialogue on Financing for Development on 20 September 2023, UN Secretary-General António Guterres emphasized:

> “It is clear that the systemic problems of financing for sustainable development require a systemic solution: reforms to the global financial architecture. That architecture was created at a time when many of today’s developing countries were still under colonial rule. It is deeply skewed in favour of the developed world. And it has not kept pace with the growth of the global economy.”[13]

But Guterres’ recognition of the need for fundamental reform of the international financial architecture is by no means new. Discussions have repeatedly broken out in response to crises – from the debt crises of the 1980s and 1990s to the global economic and financial crisis of 2007–2008. Over the past four decades, academics and expert panels such as the Commission on Global Governance (1995)[14] have developed proposals for the creation of a global decision-making and coordinating body for economic and financial issues, for example, under the name Economic Security Council. As early as 1999, the Colombian economist José Antonio Ocampo explored areas of consensus and divergence in the disputes over the reform of the international financial architecture.[15]

In its report in preparation for the first Financing for Development Conference in Monterrey in 2002, the so-called Zedillo Panel (Chaired by the former President of Mexico, Ernesto Zedillo) proposed *inter alia* the creation of an International Tax Organization.[16] And in 2009, the Stiglitz Commission (led by American economist Joseph Stiglitz) presented a comprehensive and far-reaching list of measures to regulate and reform the global monetary and financial system.[17]

Over the years, the crises and the resulting calls for reform have led to numerous initiatives and changes in global economic governance. The G20 was upgraded, the banking system was given stricter capital ade-

11 https://findevlab.org/the-collapse-of-external-finance-to-developing-countries/
12 https://development-finance.org/files/Debt_Service_Watch_Briefing_Final_Word_EN_0910.pdf
13 https://estatements.unmeetings.org/estatements/10.0010/20230920090000000/tV32tvvz19xc/797EyWwwkqqt_en.pdf
14 Commission on Global Governance (1995).
15 Ocampo (1999).
16 Zedillo Panel (2001).
17 Stiglitz Commission (2009).

quacy rules (Basel III),[18] the Organisation for Economic Co-operation and Development (OECD) attempted to combat harmful tax competition and aggressive tax avoidance by multinational companies with its Base Erosion and Profit Shifting (BEPS) project,[19] and the IMF provided its Member States with additional liquidity in 2021 in response to the COVID-19 crisis by distributing Special Drawing Rights (SDRs) worth US$ 650 billion.[20]

However, these and other piecemeal measures have failed to address the fundamental problems in the global financial architecture. As we have seen above, the countries of the Global South are still under-represented in the decision-making bodies of economic and financial institutions, there are still trillions of dollars missing when it comes to financing sustainable development, the risk of worsening debt crises is growing and there are still significant gaps in the regulation of global financial markets.

New momentum

In view of the unresolved challenges, global efforts to reform the IFA have recently gained new momentum. A number of initiatives were launched to overcome the acute reform backlog. One example has been the Bridgetown Initiative, which was initiated by the Prime Minister of Barbados Mia Mottley in 2022. It includes a call (in version 2.0) on the shareholders of the IFIs "[to] update the 1945-based institutions to be more inclusive and equitable, including issues of governance, voice, representation, and access to finance".[21]

In June 2023, French President Emmanuel Macron convened a Summit for a New Global Financing Pact in Paris. It formulated the ambitious aim "to lay the foundations for a renewed international financial system, creating the conditions for a financing breakthrough so that no country has to choose between reducing poverty, combating climate change and preserving biodiversity".[22] Ultimately, however, the main purpose of this summit was to promote the discourse on IFA reforms and to prepare decisions in multilateral meetings at G20 and UN level.

At the UN level, Member States have followed the Secretary-General's proposal and made IFA reform a priority topic at the UN Summit of the Future (SotF), which took place in New York on 22 and 23 September 2024. The outcome document of the Summit, the Pact for the Future, contains a chapter on "Transforming global governance", which includes six so-called 'actions' to accelerate IFA reform. While governments decided in general terms to "(c)ontinue to pursue deeper reforms of the international financial architecture to turbocharge implementation of the 2030 Agenda",[23] they failed to reach consensus on any fundamental reform steps.

They noted "with appreciation" the initiative to convene a Biennial Summit at the level of Heads of State and Government "to strengthen existing and establish more systematic links and coordination between the United Nations and the international financial institutions".[24] They also committed "to engage constructively in the process towards developing a United Nations framework convention on international tax cooperation" and to "(s)ecure an ambitious outcome at the Fourth International Conference on Financing for Development in 2025 to close the Sustainable Development Goal financing gap (…)."[25]

In view of its inadequate results, the Summit of the Future was not the endpoint, but merely a milestone in a lengthy process of reshaping the IFA, which will continue at the UN level with the Fourth International Conference on Financing for Development (FfD4) in Spain (30 June to 3 July 2025).

---

18 https://www.bis.org/publ/bcbs189.pdf
19 https://www.oecd.org/en/topics/policy-issues/base-erosion-and-profit-shifting-beps.html
20 Ellmers (2021).
21 https://www.globalpolicy.org/sites/default/files/Bridgetown2.0-1page%20(2).pdf
22 https://www.elysee.fr/en/emmanuel-macron/summit-on-a-new-global-financing-pact
23 United Nations General Assembly (2024), Action 47.
24 United Nations General Assembly (2024), Action 49.
25 United Nations General Assembly (2024), Action 4.

Continuing reform efforts in various fora

The FfD4 Conference is expected to adopt a successor document to the 2015 Addis Ababa Action Agenda. It will encompass multilateral agreements on domestic and international sources, as well as private and public sources of financing for development, and on the institutions that govern the financial flows. As such, the FfD4 outcome will become the international community's most comprehensive international agreement on financing for development and international financial architecture. It will accompany the Agenda 2030 for its remaining years and will be a central pillar of its means of implementation, and thus a key factor for determining the success or failure of SDG implementation.

There are parallel fora that are relevant for IFA reform, however. Agreements on climate finance and related institutions, for instance, have traditionally been made at the UN Framework Convention on Climate Change (UNFCCC) annual Conference of Parties. The UN strives to negotiate a Framework Convention on International Tax Cooperation until 2027 in an Intergovernmental Negotiating Committee, entering a process innovation in the area of tax norm-setting, which was dominated by the OECD for decades. Norm-setting in the area of financial regulation is dispersed in several plurilateral bodies (and has lost traction recently as the memory of the global financial crisis has faded, while a reform of the Basel Accords and other relevant agreements seems long overdue).

Reform of the IMF and World Bank will also continue to be discussed in the institutions' own governing bodies. One of the main points of conflict at recent UN summits was the question of whether decisions on IFI reform can also be taken under the auspices of the UN or whether they should be reserved exclusively for the governing bodies of the IFIs themselves. Almost the same Member States are represented in both, but with differently weighted voting rights. Most of the IFA reforms of the past two decades have been pre-agreed de facto by the G20 and its Annual Summits. This means that about 90 percent of the world's countries were not directly represented at the negotiating table when these decisions were made. Regaining lost space from the G20 was one of the UN's main intentions for the Summit of the Future.

The interplay between these different fora is complex, especially because many institutions are norm-setters and implementers at the same time. Sometimes one forum sets a mandate for the other to implement (and vice versa). A general feature of global governance is that the outcome of a policy-making process is determined by the process, and the process is determined by the institutions, by the forum that hosts it. The choice of the forum is therefore crucial.

Calls for transformative steps in IFA reform

The contributions to this report take the urgency of fundamental steps towards reform of the International Financial Architecture seriously. The authors deal with various aspects of IFA reform from different perspectives, both geographically and thematically. What they have in common is the conviction that progress and economic justice can only be achieved if all countries are fairly represented in the financial architecture institutions; that the mandates of these institutions are reformed so that the protection of human rights is given top priority; and that the institutions are updated and upgraded with new and effective instruments to address the challenges of our times.

Maria Ron Balsera, Maria Emilia Mamberti and **Matthew Forgette** from the US-based Center for Economic and Social Rights (CESR) address the important topic of debt architecture reform. Since the current non-system is hopelessly overwhelmed by the severe debt crisis, they suggest a transformative approach that integrates existing soft law principles with a new independent statutory mechanism under the UN. This could ensure that governments prioritize social spending over debt service, and thus promote fiscal justice and enable them to fulfil their human rights obligations.

Patricia Miranda from the Latin American Network for Economic and Social Justice (LATINDADD) presents Special Drawing Rights (SDRs) issued by the IMF as an alternative financing instrument that provides liquidity to developing countries without creating

debts. She advocates new SDR allocations, using a fairer distribution key that is more closely aligned with the needs of the IMF Member States, so that developed countries could rechannel unused SDRs to developing countries as grants rather than loans. This would thus improve and expand the existing options for rechannelling, currently limited to IMF lending facilities.

Researchers **Oliver Pahnecke** and **Juan Pablo Bohoslavsky** look at one of the key reasons for surging debt levels and debt crises, the high-risk premiums that countries in the Global South have to pay. They identify recommendations on banking regulations issued by the Basel Committee on Banking Supervision, the Basel Accords, on weighted risk as a key reason why creditors charge high-risk premiums to some debtors. A reform of these regulations in the direction that risk premiums would be legally treated as collateral in future could make loans significantly cheaper, because risk premiums would have to be returned after full repayment, or adjusted over time in accordance with the real default risk.

The contribution by **Chenai Mukumba** from Tax Justice Network Africa focuses on one of the most relevant recent innovations in global economic governance – the process leading to a UN Framework Convention on International Tax Cooperation that was initiated in 2024. She describes the Convention as an essential element for creating a fully inclusive tax system, which has been a priority for African countries that have been sidelined by norm-setting on other bodies, in particular the OECD. At the same time, the still-to-be negotiated Convention promises to create a more effective tax system, raise more public revenues and help to curb illicit financial flows.

Avantika Goswami and **Sehr Raheja** from the Centre for Science and Environment in India deal with the important area of climate finance. The authors emphasize the need to mobilize substantially larger amounts of international climate finance transfers. This is reflected in the negotiations on the New Collective Quantified Goal to be set by the UNFCCC. They argue that the IFA needs to mobilize significantly more public finance and that transfers must come in the form of grants rather than debt if support is to be effective and sustainable.

Daniel Kostzer from the International Trade Union Confederation looks at the reform of international financial institutions, in particular the World Bank. He argues that a governance reform that gives borrower countries more influence is a prerequisite for the Bank to work in a more client-oriented way and to become more effective. In addition to a package of operational reforms, he emphasizes above all that the World Bank itself must be larger and better financed. Revenues from a financial transaction tax, he argues, could serve this purpose.

Daniel Oberko from Public Service International (PSI) contributes an analysis of the situation in Ghana, a country that has had recent experience of the IFA, especially with debt crisis management under the G20 Common Framework, and IMF programmes. He argues that the policy prescriptions imposed on Ghana by IMF conditionalities are not working for the country and have stifled health spending. Instead, he argues, the government should improve the accountability and efficiency of public spending, and embark on tax reforms, remove spurious tax incentives and close loopholes for tax abuse.

The chapter by **Ohiocheoya (Ohio) Omiunu** and **Chioneso Samantha Kanoyangwa** from the African Sovereign Debt Justice Network (AfSDJN) looks at the IMF from the viewpoint of social legitimacy. Like Kostzer, they advocate for a fundamental IMF governance reform. This reform should go beyond the minimalist approach that the IMF has taken, which was adding a third African chair to its Executive Boards. It must elevate the quota of low-income countries. Debtor creditors should also be included in IMF-hosted policy forums, such as the Global Sovereign Debt Roundtable, and IMF tools such as the Debt Sustainability Framework need to be reformed to de-emphasize the commitment to austerity.

Conclusion

Reforms of the international financial architecture have emerged as a priority in international relations, both to raise sufficient and more affordable finance for development and public goods, and to protect countries and people from the multiple crises facing our planet. A growing number of civil society actors are tackling this important issue, honing their critique while also making proposals for reform. The contributions to this report show that it is possible to redesign an international financial architecture based on the principles of human rights and economic justice. The key now is to keep up the public pressure on policy-makers around the world to make the most of the opportunities ahead to drive forward the necessary reforms quickly and successfully.

References

Commission on Global Governance (1995): Our Global Neighborhood. Report of the Commission on Global Governance.
https://www.gdrc.org/u-gov/global-neighbourhood/

Ellmers, Bodo (2022): Interest rate turnaround. A turning point for development finance? Aachen/Berlin/Bonn: Brot für die Welt/Global Policy Forum/Misereor.
https://www.globalpolicy.org/en/publication/interest-rate-turnaround

Ellmers, Bodo (2021): IMF Special Drawing Rights. Exiting the COVID-19 crisis via a historic cash injection? Aachen/Berlin/Bonn: Brot für die Welt/Global Policy Forum/Misereor.
https://www.globalpolicy.org/en/publication/imf-special-drawing-rights

Ocampo, José Antonio (1999): Reforming the international financial architecture: consensus and divergence. Santiago de Chile: CEPAL.
https://repositorio.cepal.org/server/api/core/bitstreams/03693719-929d-407a-a805-c3739be41d49/content

Stiglitz Commission (2009): Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System. New York: UN.
https://www.un.org/en/ga/econcrisissummit/docs/FinalReport_CoE.pdf

UNCTAD (2023): Trade and Development Report 2023. Growth, Debt and Climate: Realigning the Global Financial Architecture. Geneva.
https://unctad.org/system/files/official-document/tdr2023_en.pdf

United Nations (2024): The Sustainable Development Goals Report 2024. New York.
https://unstats.un.org/sdgs/report/2024/

United Nations General Assembly (2024): Summit of the Future Outcome Documents September 2024. Pact for the Future, Global Digital Compact, and Declaration on Future Generations. New York.
https://www.un.org/sites/un2.un.org/files/sotf-pact_for_the_future_adopted.pdf

United Nations Global Crisis Response Group (2024): A World of Debt – A growing burden to global prosperity. Geneva: United Nations Trade and Development (UNCTAD).
https://unctad.org/publication/world-of-debt

Zedillo Panel (2001): Report of the High-level Panel on Financing for Development. New York: UN (UN Doc. A/55/1000).
https://ycsg.yale.edu/sites/default/files/files/2001%20Report%20of%20the%20High%20Level%20Panel%20on%20Financing%20for%20Development.pdf

Jens Martens is Executive Director and **Bodo Ellmers** is Director of the Sustainable Development Finance Programme of Global Policy Forum Europe.

Published by:

Global Policy Forum Europe
Königstr. 37a
53115 Bonn, Germany
europe@globalpolicy.org
https://www.globalpolicy.org

With the support of
Brot für die Welt and Friedrich-Ebert-Stiftung

Brot für die Welt

FRIEDRICH EBERT STIFTUNG

Authors:
Juan Pablo Bohoslavsky, Bodo Ellmers, Matthew Forgette, Avantika Goswami, Chioneso Samantha Kanoyangwa, Daniel Kostzer, Maria Emilia Mamberti, Jens Martens, Patricia Miranda, Chenai Mukumba, Daniel Oberko, Ohiocheoya (Ohio) Omiunu, Oliver Pahnecke, Sehr Raheja, Maria Ron Balsera

Editorial Assistance:
Vicky Anning, Tobias Gerhartsreiter, Paul Wege

Coordination:
Bodo Ellmers and Jens Martens, Global Policy Forum Europe

Photos:
Adobe Stock

Design and Print:
Kalinski Mediendesign und Druck, Bonn. www.kalinski.media
Printed on 100% recycled paper

The views and opinions expressed in the articles are those of the authors and do not necessarily reflect the positions of the publishers, the editors, other authors, or funders.

The Deutsche Nationalbibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data are available in the internet at http://dnb.d-nb.de.

ISBN 978-3-943126-60-0

Bonn, September 2024