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The demand for a fair international financial architecture

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UNU CPR

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> "Occasionally, the fields of economic policy and foreign policy converge. We are back in one of those phases of history and will remain so for some considerable time."
>
> **Sir Paul Tucker,**
>
> Global Discord (2022)[1]

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This updated report integrates feedback from several roundtables co-organized by UNU-CPR in the context of the *Building Momentum* initiative:

- 16 May 2024 | **Africa Policy Roundtable on International Financial Architecture Governance Reform,** convened by UNU-CPR and United Nations University World Institute for Development Economics Research (UNU-WIDER) in Maputo, Mozambique.
- 21 May 2024 | **We Common Future Agendas: China and the World,** SIRPA Global Talks, co-organized with the School of International Relations and Public Affairs, Fudan University in Shanghai, China.
- 24 May 2024 | **A Breakthrough for People and Planet: One-Year Anniversary Dialogue on the Proposals of the High-Level Advisory Board on Effective Multilateralism and Road to the 2024 Summit of the Future,** co-organized with the Center for International Security and Strategy and Schwarzman College at Tsinghua University in Beijing, China.
- 17–28 May 2024 | **80 Years After Bretton Woods Conference—Building an International Monetary and Financial System for All,** co-organized with Tsinghua University PBC School of Finance and the Reinventing Bretton Woods Committee in Hangzhou, China.
- 19–20 July 2024 | **The Rewiring of the Global Economy,** co-organized with the Reinventing Bretton Woods Committee, the Inter-American Development Bank and the Central Reserve Bank of Peru in Cusco, Peru.

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Executive summary

Executive summary

This report offers a critical examination of the Global South's proposals for international financial architecture (IFA) reform.[2] The authors focus on perceptions of inequity and how these perceptions are integrated within and driving IFA reform proposals in the post-pandemic period. This is accomplished by surveying official statements delivered by government officials in various forums and media, as well as at events and consultations organized by the United Nations University Centre for Policy Research in the context of the *Building Momentum* initiative.[3]

The dramatic changes witnessed in the global economy during the COVID-19 pandemic challenged long-held beliefs about macroeconomic stability and called into question the efficacy of global economic coordination mechanisms. While some economies bounced back quickly, many emerging and developing countries struggled to find a sustainable path out of the economic turmoil caused by the pandemic. Declining investments in development, poverty and climate agendas have contributed to a sense that the international financial architecture is failing, prompting calls for a radical overhaul.

The Global South's IFA reform proposals converge on a single overarching ambition: the creation of a more equitable and just international financial architecture. Our analysis of these proposals reveals six more specific objectives: enhancing representation (Space), increasing the speed and agility of international financial institutions (Speed), ensuring the scale of financial support matches and addressing the most pressing needs (Scale), securing sustainable and affordable financing (Sustainability), fostering global solidarity (Solidarity) and promoting economic self-reliance (Self-reliance).

Image source: International Monetary Fund | Flickr

International financial architecture reform objectives

Space:

Increased participation for underrepresented countries or groups in international financial institutions to amplify their voice, representation and power.

Speed:

A rapid response to increasingly complex global challenges by quickly halting resource outflows (extractive); quickly injecting new resources (additive); and quickly adapting institutions to respond to new challenges and shifts in the economic landscape (adaptive).

Scale:

An increase in the scale of funding available to ensure Global South countries can meet global climate goals, maintain Sustainable Development Goal commitments and address the ongoing poverty and development crises.

Sustainability:

A reduction of the debt service burden, improved lending conditions and rates and enhanced transparency of debt instruments and processes.

Solidarity:

Fair pooling of resources through reforms to international taxation, new metrics to determine access to concessional finance, and a balanced approach to tackling global challenges that acknowledges the uphill challenges faced by the Global South in achieving a just energy transition, poverty eradication and a reduction in inequalities.

Self-reliance:

Support for new institutions in the Global South that serve the Global South, including internal reforms with respect to the efficacy of macroeconomic policy planning and strengthening domestic revenue mobilization.

Image source: World Bank Photo Collection | Flickr

This framework was presented to participants at several regional consultations. They noted that the nuanced list of objectives made it easier to identify shared priorities and discuss areas of mutual concern. The framework also helped dispel the notion that the IFA reform agenda undermines international cooperation or existing international institutions. Many participants subscribed to the idea that safeguarding the sustainable development agenda requires more solidarity and cooperation, not less, and that effective international financial institutions played an important part in achieving both regional and global development ambitions.

The report's findings are especially timely given plans for several international summits designed to advance the IFA reform agenda, including the 2024 Summit of the Future, the Fourth International Conference on Financing for Development and the Second World Summit for Social Development in 2025. With these international summits in mind, this report offers several specific recommendations for ongoing negotiations.

A political push

The United Nations Secretary-General has promoted the 2024 Summit of the Future as a once-in-a-generation opportunity to reform the international financial architecture. The Summit and its outcome document (the *Pact for the Future*) address a broad array of public policy issues. Because of the breadth and ambition of the Summit of the Future agenda, delivering specific IFA reforms will be challenging. A more achievable goal would be a political push on a limited number of high-level commitments. Matching these high-level commitments to the six objectives outlined in this report would demonstrate that the Global South's demands are being meaningfully considered. It could also serve as a ready-made accountability framework used to monitor commitments following the Summit.

Commit to speed

Leaders could signal through the Pact for the Future a commitment to improving the agility of the international financial architecture. This would build on groundbreaking debt suspension initiatives, identify a path to automatic Special Drawing Right issuances and adapt lending frameworks to account for cyclical crises.

Acknowledge dependencies

While each IFA reform proposal should be assessed on its own merits, it is important to recognize that political support may be conditioned on an assurance of flexibility in other areas of the IFA reform agenda. Bold action on sovereign debt architecture is likely going to depend on progress in International Monetary Fund (IMF) quota reform. For the Summit of the Future to be successful, leaders will need to factor in the interconnections across reform proposals and commit to comprehensive IFA reform. Piecemeal reforms risk undermining confidence in multilateral processes and institutions.

Anticipate substantive and process complexity

Coordination across government ministries active in different dimensions of these negotiations will be crucial, as will coordination across the United Nations system and Bretton Woods Institutions, to avoid misunderstandings across a range of complex, technical subject matter. It will be necessary to develop tools that help overcome the complex landscape of IFA reform.

Invest in knowledge platforms

The large number of forums, platforms and conferences aimed at IFA reform can overwhelm decision-makers. Smaller countries face a significant burden in keeping track of many scattered debates and negotiations. Establishing a global, public and transparent clearinghouse of reform proposals would go a long way to mapping changing priorities and innovative proposals, as well as identifying emerging support for specific reforms. One such example is the Multilateral Development Bank Reform Tracker, launched by the Center for Global Development. It is a comprehensive tool to help shareholders, managers and other stakeholders evaluate progress on Multilateral Development Bank (MDB) reform. This approach should be extended to the full range of IFA reform proposals.

Debt: a benchmark for success

The reform of the international debt architecture is a critical measure of the success of IFA reform efforts. Considerable progress can be made by committing to (a) improving the efficacy, transparency and accountability of credit rating agencies and encouraging dialogue between MDBs, credit rating agencies and shareholders through the Global Sovereign Debt Roundtable and the G20; (b) supporting the establishment of borrowers' clubs; (c) strengthening the link between climate, nature and debt while ensuring appropriate transparency and safeguards; (d) committing to debt restructuring options for middle-income countries in debt distress; and (e) redoubling efforts to ensure that new loans contain robust contingency clauses that protect countries in the event of unforeseen shocks.

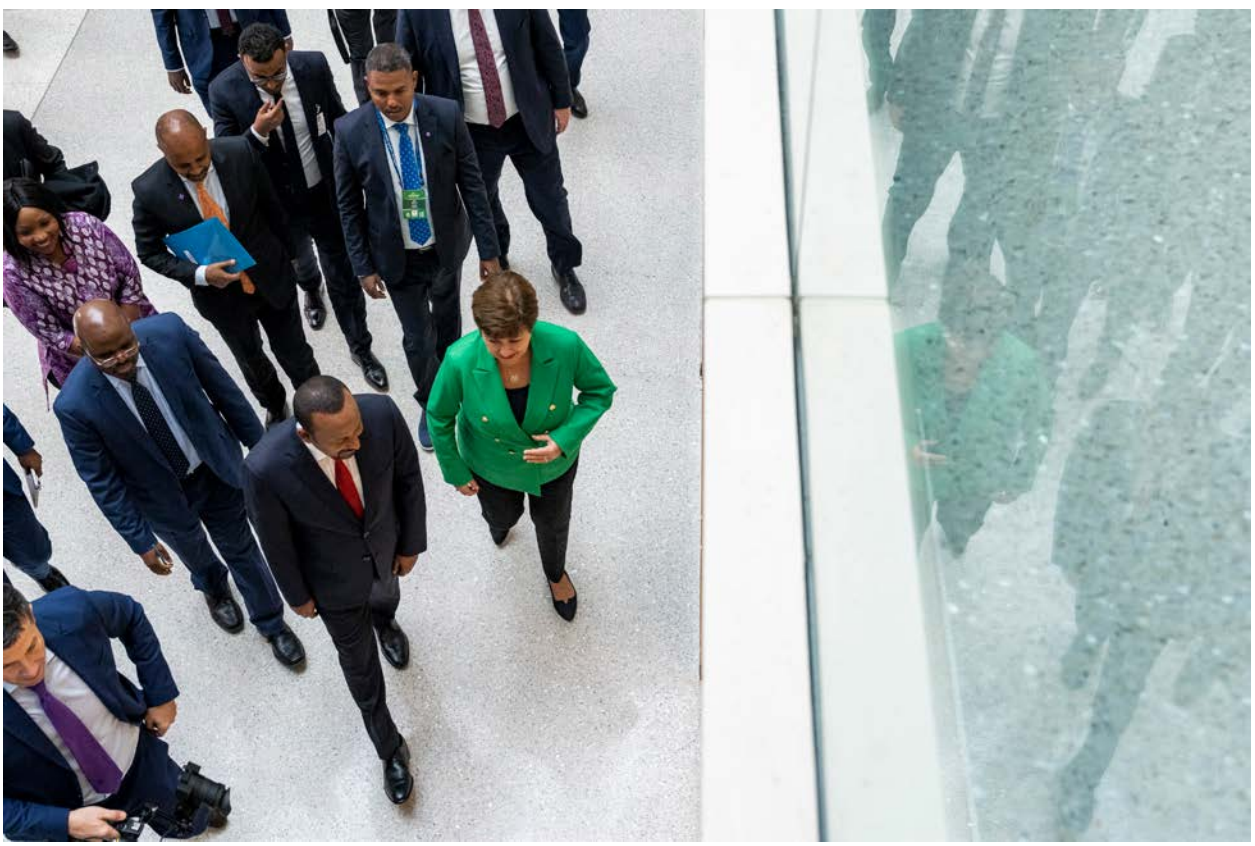


Image source: International Monetary Fund | Flickr

SECTION 1:

Scope

Scope

This report considers the perspectives of countries in the Global South on the reform of the international financial architecture (IFA). While countries in the Global South maintain a wide range of national positions, there is a tendency to view the current IFA as unjust, unfair and inequitable. Indeed, there is a widespread perception that the international financial system does not serve the interests of the global majority or the most vulnerable in the international community.[4] The international financial system is generally seen as the preserve of its post-World War II architects. Its response to both new and legacy development challenges has been slow and uneven, and it has been unable to prevent spillovers from global crises.[5] This is the foundation for the Global South's call for IFA reform.

These are neither new nor particularly controversial statements. Since the collapse of the Bretton Woods monetary system in the late 1970s, there have been calls by the Global South to establish a new global economic order.[6] The Group of Twenty-Four on International Monetary Affairs and Development (G24), created in 1971 to provide proposals on the provision of international liquidity, have over many years provided a counterbalance to developed countries in the international financial system. They have frequently challenged the distribution of power and representation in the IFA's key institutions—notably the IMF. At the United Nations, several groups, including the Group of 77 (G77) and the Non-Aligned Movement (NAM), have similarly attempted to provide an alternative perspective on international finance for development.

While groups such as the G24, G77 and NAM, have played an important role in advocating for developing country interests, it is necessary to acknowledge that no single State or coalition speaks for the Global South. Calls for IFA reform are based on diverse views – some specific to certain countries, while others represent coalition positions. This report disaggregates these views to spotlight differences and areas of broad agreement to support dialogue on IFA reform at upcoming international summits, such as the 2024 Summit of the Future, the Fourth International Conference on Financing for Development and the Second World Social Summit in 2025.[7]

The authors surveyed official statements delivered by government officials on aspects of the IFA included in policy documents, media and expert reports, or delivered orally in the context of ongoing negotiations, major international conferences and meetings organized by the United Nations University. There are clear limits to analysis that draws primarily on public positions taken by groups with very diverse membership, such as the G77, G24 and the Vulnerable 20 coalition (V20).[8] To begin with, differences among Member States in such coalitions may be more widespread than their public pronouncements initially suggest. At the G77 conference in September 2023, Sri Lankan Foreign Minister Ali Sabry observed that while the Group has called for reforms to the global financial architecture, member countries had "yet to develop a concrete strategy".[9] He went on to note that the position of the G77 on this issue "has changed over time and varies among [our] member nations based on their individual requirements and priorities".[10]

Overlapping membership across coalitions complicates the attribution and analysis of State positions and perspectives. The evolution of these coalitions matters, as do their changing dynamics over time. On some topics, countries that identify as belonging to the Global South may have more in common with their Western counterparts than with small and middle-sized developing or emerging economies.

Image source: International Monetary Fund | Flickr

Notwithstanding these caveats, the authors identify a set of reform positions that are gaining support and broad acceptance among influential blocs of Global South countries. This is why a report of this kind was deemed necessary: identifying common positions, as well as areas of divergence, provides a foundation for a more constructive IFA reform dialogue.

Finally, the authors acknowledge that the terms Global South and Global North are contested designations. Some suggest the terms are conceptually incoherent and risk reinforcing inaccurate and outdated dichotomies and stereotypes.[11] Others defend the continued use of the term *Global South* because it captures a common ethos and provides agency to countries and coalitions with commonalities across the developing world.[12] It is the lens through which this report explores calls for IFA reform because the expression continues to be relevant for developing countries and is also widely used in the context of United Nations negotiations.

SECTION 2:

Momentum

Momentum

> "... financial law—whether domestic or international—has always developed as a child of crises."
>
> **Mario Giovanoli** (2009)[13]

Every decade or so, a major shock unsettles the international financial system. These shocks frequently take policymakers by surprise and expose overlooked vulnerabilities. The collapse of the Bretton Woods monetary system in the 1970s was hastened by oil and food shocks and a rapid spike in global inflation. It led to the creation of the Group of Seven (G7), a bloc of democratic States drawn together by the collective desire to improve macroeconomic policy coordination. The Mexican 'Peso crisis' several decades later prompted innovations to sovereign debt workout mechanisms. In a sudden exodus, investors pulled their investments from the country in 1994–1995, causing a liquidity crisis which was only resolved through large bailouts that fully repaid private bondholders. The lessons of this period laid the groundwork for a discussion of more equitable burden sharing between public and private creditors.

The Asian financial crisis of the late 1990s and global financial crisis of the 2000s also reshaped the international financial system. The international community responded to the latter crises by strengthening prevention and surveillance capacities, agreeing to a new division of labour among international financial institutions (IFIs), and by giving the G20 a new leadership role in global economic policy coordination.

In 2020, the COVID-19 pandemic kicked off yet another financial crisis that triggered sharp currency depreciations, massive capital outflows and recession-like conditions. It contributed to steep increases in sovereign debt, high inflation and disrupted cross-border trade. Russia's invasion of Ukraine then compounded these pressures. The slow and uneven international response to these events has resulted in a more insecure world, one in which perceptions of inequity dominate.[14]

An upgrade

The agreements, compromises and ad hoc arrangements put in place to respond to crises, evolving development needs and shifting power dynamics are the building blocks of the institutions that today constitute the IFA.[15] The term international financial architecture refers to structures shaped by decades of institutional change and reinvention. The general consensus since the pandemic is that these arrangements must undergo another fundamental upgrade.

Change may be imminent, with 2024 potentially being a decisive moment of transformation owing to the opportunities presented by the Summit of the Future and the 80th anniversary of the Bretton Woods institutions.[16] These events have created an opening for activism by States and institutional leaders. The *Evolution Roadmap* spearheaded by the President of the World Bank and its shareholders, and the Bridgetown Agenda brokered by the Prime Minister of Barbados, Mia Mottley, are two notable examples. Other new, influential reform agendas include the V20's Accra to Marrakech Agenda, the 2023 Nairobi Declaration, the G20's New Delhi Leader's Declaration and the work of the Africa High-level Working Group on the Global Financial Architecture. As one workshop participant in Mozambique noted, these reform agendas are powerful because "when we repeat, we normalize".

Thanks to these initiatives, the 'what' or substance of the reform agenda is now clearer. For example, the Africa High-level Working Group on the Global Financial Architecture proposes to (a) unlock liquidity, (b) reform the global debt architecture and (c) enhance representation for African countries in global financial institutions.[17,18] The V20 coalition of climate-vulnerable countries prioritizes (a) making debt work for the climate crisis; (b) transforming the international and development financial systems; (c) securing a new global deal on carbon financing; and (d) revolutionizing risk management for climate-insecure economies. United Nations Secretary-General António Guterres expanded the universe of proposals even further. In 2023, Guterres issued two policy brief briefs containing a number of IFA reform proposals and also commissioned independent recommendations from a High-Level Advisory Board on Effective Multilateralism, all with a view to upgrading a financial system he describes as outdated, dysfunctional and unfair.

These global efforts have moved IFA reform to the top of international policy agendas and contributed new, substantive ideas to the debate. However, the 'where' and 'when' of these reforms remains the subject of much speculation. It is unclear if upcoming negotiations in New York, Washington or G20 capitals will deliver the transformation sought by the Global South. The Secretary-General hopes his recommendations will get traction with United Nations Member States at the 2024 Summit of the Future, drawing on international momentum for financial architecture reform. The most likely scenario is a series of regional and global events over the coming years that ratchet up pressure, as opposed to one landmark reform moment.[19]

Common ground

This reform agenda has adherents in both the Global North and the Global South.[20] Several factors are helping bridge historic divides between these groups: a growing concern about the climate emergency; awareness that rapid political and economic fragmentation will undermine growth in all countries; and the recognition that global challenges are multiplying and becoming more complex.

> "… there are increasing challenges to the UN Security Council, the IMF, the World Bank, etc. I mentioned this earlier in very direct terms; this is what I hear everywhere. And you only have to open the window to hear an outpouring."
>
> **Emmanuel Macron,** Conference of Ambassadors, Élysée Palace (2023)[21]

The flurry of new reform initiatives suggests that we are moving beyond rhetoric toward concerted action. During the post-pandemic period, new debt swaps took shape with the support of governments and institutions in developed and developing countries; plans solidified for a Blue Green Bank to catalyze investments for climate-vulnerable nations; cross-regional agreement was reached on a global carbon tax in the shipping sector; and the international community rallied to support the launch of a loss and damage fund to help developing countries cope with the effects of climate change.

The list of specific, action-oriented initiatives built on cross-regional collaboration is extensive. The 2023 Summit for a New Global Financing Pact was a good faith effort to examine how cooperation across regions could contribute to meaningful IFA reform.[22] The V20 coalition of climate-vulnerable States has signaled support for the G7's Global Shield for Climate Risks, which offers new forms of parametric insurance. During this same period, important changes were agreed to both IMF and G20 membership and several international debt restructurings advanced, notably in Chad, Ghana and Zambia.

In February 2024, Zambian President Hakainde Hichilema struck an optimistic note in remarks to the African Union, calling attention to new solidarity in pursuit of financial architecture reform across the North and South and convergence on key ideas:[23]

> We must accept that we had intense debates in the past and we had issues about the global financial architecture. Those debates were sometimes misunderstood, gravely misunderstood, especially between the North and the South. I want to encourage [us] to move on to get the job done. Checking with colleagues that we interact with individually as heads of state from the North, I sense that we have some convergence.[24]

While this cross-regional dialogue is generating crucial forward momentum there is still some scepticism that this reform agenda will manage to break existing power structures that are seen as an impediment to inclusive economic development. Global South coalitions are still advocating reforms that redistribute more power and privilege. This redistribution is generally framed as a matter of justice: a duty to make the international financial system more legitimate by addressing imbalances. It is also commonly framed as a matter of efficiency in a time of resource scarcity: giving the Global South a greater say in setting IFA priorities and programme design will ensure programmes are better adapted to needs in the Global South and stand a greater chance of delivering lasting change at lower cost.

In regional consultations carried out for this project, stakeholders made both justice and efficiency arguments. IFA reform is an opportunity to address the legacy of colonialism, exploitation and extractivism, as well as global 'double standards'.[25] Many countries want to see an international financial system emerge that fulfills prior promises and obligations, as well as structural improvements that allow the IFA to better respond to future crises.

Testing multilateralism

This reform is also part of a larger effort to renew trust in multilateralism. Member States marked the 75th anniversary of the United Nations in 2020 with a commemorative declaration in which they defended the idea of multilateral cooperation. Notably, they pledged unprecedented political will and leadership to tackle global challenges:[26]

> Through reinvigorated global action and by building on the progress achieved in the last 75 years, we are determined to ensure the future we want. To achieve this, we will mobilize resources, strengthen our efforts and show unprecedented political will and leadership. We will work together with partners to strengthen coordination and global governance for the common future of present and coming generations.[27]

In 2024, peace, security and development goals still lag far behind international aspirations. Two regional conflicts, in Ukraine and in the Middle East, have laid waste to reserves of political will. These conflicts weaponized technology, food, trade, finance, science and political dialogue, and exposed the vulnerabilities of global institutions. Given the chance to put principles into practice and demonstrate that global institutions still matter in an era of catastrophic risks, powerful States have been resistant to reforms that would cede power, wealth or privilege.

> "Beneath the surface, a growing mistrust is pulling the Global North and South apart, complicating the prospect of progress. The Global South's frustration is understandable. In many ways they are paying the price for the prosperity of others."
>
> **Ajay Banga,** World Bank Annual Meeting, Marrakech (2023)[28]

The Global South's re-investment in regional institutions is a reaction to this state of affairs. In United Nations University Centre for Policy Research (UNU-CPR) roundtables, Global South representatives acknowledged that significant funding for regional priorities would need to be found either domestically or regionally. While regional institutions in the Global South are being created or revitalized to help unlock new resources and increase lending capacity, international support will still be needed to build up productive capacities.

The Global South's IFA reform agenda does not represent a step away from global institutions like the World Bank and IMF—they aim to reform and rebalance these institutions.[29] The President of Kenya, William Ruto, recently observed that if the Bretton Woods conference were to take place today, global institutions would still be required, but they would likely focus on the intertwined challenges of development and climate change.[30] Countries of the Global South recognize that partnership with these institutions and the international community is vital to their long-term interests. They call for more collaboration, not less, but on new terms. A new terminology is needed to understand how the Global South advocates for multilateral cooperation while also being its most strident critic.

An anniversary declaration by United Nations Member States will not settle anxieties about the growing fragility at the heart of the multilateral system. The remedy to the deepening crisis of confidence in multilateralism is meaningful, concrete action that speaks to the concerns of leaders and the general public. This is the raison d'être of the Secretary-General's *Our Common Agenda* report and Summit of the Future initiative; they set out to demonstrate that collective action is possible, even in a fragmented world.

Variable geometry

The expression 'variable geometry' has been used to describe the United States' approach to a multipolar world where competition and fragmentation are more the norm than the exception.[31] Specifically, it refers to working through plurilateral groups of like-minded countries and piecing them together in practical ways. It is both a statement about the state of the world and a strategy for navigating geopolitics in this moment.

This practice is already widespread and may accurately describe the approach to IFA reform adopted by countries in the Global South. There is no doubt that recent months have solidified like-minded coalitions that are able to push for greater coordination on IFA reform priorities. However, this does not mean that countries that make up these coalitions always share a common purpose or common positions *on all issues*. There are complex motivations and priorities that animate reform agendas across the Global South and a degree of competition for influence.

The Canadian economists, Eric Helleiner and Hongying Wang, provide a useful way of thinking about IFA reform initiatives, drawing on recent BRICS experience.[32] They attribute the success or failure of BRICS reform initiatives to (a) the strength of common social purpose amongst BRICS countries and (b) the degree of structural power of established authorities (the powers challenged). Successful challenges to existing IFA practices and institutions require both common purpose among coalition members (a united front) and the ability to credibly challenge entrenched power and authority in existing institutions (credibility). Diverging national interests in the Global South will make it harder to build and sustain common social purpose. And where there is common social purpose, the entrenched power of global institutions lends them such influence and credibility that it may be very difficult to challenge or reform them.[33] The success of upcoming international conferences will depend on carefully crafted proposals that factor in both these considerations.

Recognizing these challenges, participants at UNU-CPR roundtables emphasized the need for more platforms to discuss IFA reform 'openly' and 'safely', and called for increased efforts to educate and empower stakeholders participating in this often-technical conversation. The inherent complexity of the IFA reform agenda can be particularly daunting for non-specialists. Furthermore, the growing number of international meetings addressing various aspects of IFA reform makes it difficult to track progress and identify key areas for strategic engagement. Some States advocate a root-and-branch reform, while others have hierarchical policy preferences. It can be difficult to discern which negotiations are strategically important or understand where consensus is building or breaking down. United Nations Member States and civil society groups have on several occasions reported being "perplexed" as to where the ambition stands.[34]

Workshop participants also noted that while the IFA reform discussion is predominantly a *global* dialogue, recent events like the June 2024 protests in Kenya over tax hikes show a rapidly growing local awareness. For example, the once vast gulf between international debt policy and local cost of living concerns has dramatically narrowed in recent years. International policymakers must now increasingly engage with a concerned public who are acutely aware of how global financial policies directly impact their daily lives.

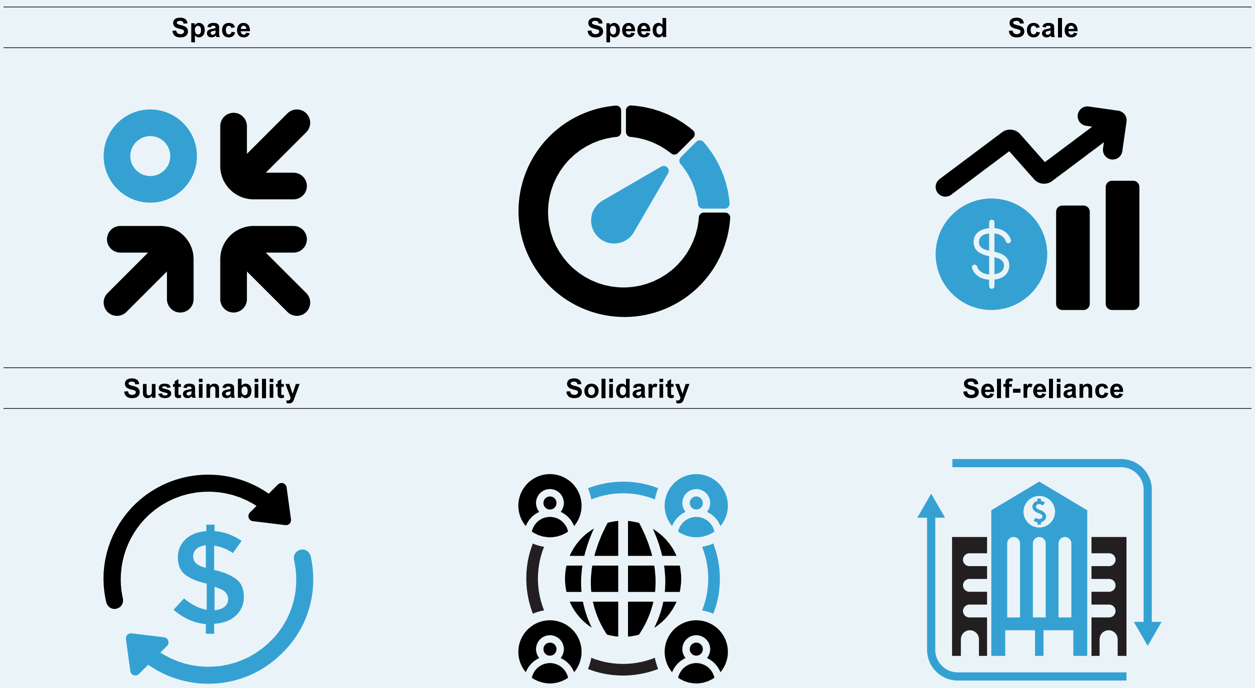
SECTION 3:

Key reform objectives

Key reform objectives

This section departs from the conventional thematic analysis approach (e.g., debt, concessional finance, taxation) and examines the IFA reform agenda through the lens of desired objectives and outcomes. A survey of official statements informed the development of the six-part outcome framework, visualized in Figure 1 below. These outcomes are presented as an inventory, not a hierarchical list.

FIGURE 1. Six-part outcome framework



Space

A persistent demand from the Global South is for greater representation within IFIs. This is often framed as making these institutions more "democratic" or addressing their "democratic deficit". It is also defended on corporate governance grounds, noting that empowering the Global South within institutions like the IMF would foster greater independence in decision-making processes.[35]

Recent proposals to increase representation and inclusivity in international financial institutions include expanding the number of seats reserved for developing countries on the IMF Executive Board; opening up the leadership of Bretton Woods Institutions (BWIs) to individuals outside of the United States and Europe; creating additional deputy managing director positions for underrepresented countries; formal recognition of issue-based or regional coalitions by IFIs; and improving the representation of regional groups within IFI staff.[36] It also includes quota reform since a country's quota shares in the BWIs has a direct bearing on their *voice* as expressed through voting power (and also determines their share of Special Drawing Rights (SDRs)).

> "I have some good news for Africa. We are advancing a preparation to have a third representative of sub-Saharan Africa in our executive board. Ultimately, what it will mean is a stronger voice for Africa."
>
> **Kristalina Georgieva** (2023)[37]

These governance reforms, while widely supported, have also surfaced tensions. The suggestion to create a 25th IMF Executive Director chair for Sub-Saharan Africa received broad backing from Global South coalitions, including the G24, V20 and several emerging market and developing economies (EDMEs). However, this proposal also met with some frustration from countries in the Middle East and North Africa (MENA) and Least Developed Countries (LDCs) who argued that increased representation for one region should not come at the expense of other regions. MENA countries specifically pointed to the IMF's own data showing that their region lags behind others in meeting staffing diversity benchmarks.[38] And while China supported the addition of an Executive Director seat for sub-Saharan African States, it emphasized that quota realignment was "fundamental to IMF governance reform", and other measures such as adding new seats at the table, were but 'complements' to the reform agenda.[39]

Even among G24, V20 and EDME supporters of IMF board enlargement, concerns about balanced representation persist. Negotiations on this issue have been characterized as a microcosm of geopolitical power struggles and rivalries.[40] At the recent International Monetary and Financial Committee (IMFC) meetings in Marrakech, Brazil advocated for a small ad hoc quota share allocation "to partially address the most blatantly underrepresented members" in the IMF. Some reports suggest that Brazil's support for an additional IMF seat for sub-Saharan Africa was contingent upon agreement to this proposal.[41] The V20 and LDCs insisted that that any alteration in quotas strengthen or preserve the voice and representation of their members.[42] Proposals to improve representation will face hurdles across different Global South coalitions, where there are competing priorities.

The call for greater representation within IFIs has also evolved in some notable ways. The V20 coalition, representing the world's most climate-vulnerable developing economies, exemplifies this shift. It has requested formal recognition at both the World Bank and the IMF that goes beyond observer status.[43] They seek formal intergovernmental status which would provide them with a formal secretariat to advance their work.[44] The prominence and impact of groups like the G24, recognized by the IMF's International Monetary and Financial Committee and the World Bank's Development Committee, suggest that formal recognition could be a powerful way to amplify the voices of issue-based coalitions, enabling them to better shape global economic policy and priorities. Fundamentally, this effort aims to reorient IFIs, aligning their mission and operations with the needs and priorities of the countries that rely on them most.[45] A Carnegie Council high-level roundtable on an African agenda for World Bank reform succinctly captured this sentiment: the World Bank has shaped Africa's development outcomes for decades; now Africa should have a say in shaping the World Bank.[46]

Accommodating all these proposals will be challenging. Determining the precise form representation should take requires further coordination among the diverse coalitions and blocs within the Global South. However, even if only a few of the reform proposals above are implemented, the Global South will be in a better position to achieve a realignment that will allow them to contribute to global economic agenda-setting more systematically.

Image source: World Bank Photo Collection | Flickr

Speed

A second set of proposed reforms centres on enhancing the IFA's responsiveness. Agility is a key outcome sought by the Global South across their reform agendas. It complements other desired outcomes, such as improving the scale and quality of finance.

The Global South's reform agenda targets both operational speed (how quickly IFIs address resource flows) and adaptability (how swiftly they can adapt and reform). This can be broken down into three areas:

1. Quickly halting resource outflows **(extractive).**
2. Quickly injecting new resources **(additive).**
3. Quickly adapting institutions to respond to global challenges and to reflect the changing global economic landscape **(adaptive).**

The concept of 'automaticity' features prominently in reform proposals from the Global South. African States have specifically called for a more responsive and evidence-based SDR allocation procedure that provides *automatic* stabilizers for global recessions and force majeure events.[47] These injections can prevent insolvency when crises arise, such as during pandemics and natural disasters. The G24 supports this proposal and advocates the creation of a new SDR contingency mechanism that can quickly release resources through Mulitlateral Development Banks (MDBs) during future crises.[48]

Countries of the Global South have also proposed upgrades to debt instruments to improve responsiveness in emergency and crisis contexts.[49] The emphasis on speed is evident in the language used by the international community to describe a strengthened international debt architecture. Nearly half of the most frequently used terms prioritize improvements in efficiency: predictable, timely, orderly, effective, systematic, fair, transparent, coordinated, comprehensive, inclusive and simplified. LDC countries have called for contingency frameworks in debt agreements to be automatically triggered in the event of public health, social, economic and environmental emergencies over a certain magnitude,[50] aligning with proposals in the Bridgetown Agenda. This may include automatic debt suspension or debt standstills.[51] There is also widespread, cross-regional and cross-institutional support for the expanded use of Climate-Resilient Debt Clauses in new lending for vulnerable countries. These clauses offer a critical lifeline by pausing interest repayments when climate disasters strike. Both the United Kingdom and Japan have shown leadership in this regard, advocating for a more shock-responsive financial system.

There is ample evidence that IFIs have been responsive during recent crises. The creation of the Resilience and Sustainability Trust, the historic issuance of $650 billion SDRs in 2021, and the creation of a new seat at the IMF for sub-Saharan Africa, are evidence of a system adapting to new needs and new economic realities. These shifts are significant. Nevertheless, the slow pace of change on the full set of reform priorities in the Global South over a period of years has prompted some countries to re-evaluate the benefits of establishing new regional institutions that may ultimately be more flexible and responsive.[52]

A more *adaptive* IFA would reflect major shifts in the global economy in a regular, predictable and timely manner. A step in this direction would be to review and update quota increases more frequently.[53] Commitments to revise the quota formula to better reflect members' relative positions in the world economy date back several years, and lack of meaningful action is fueling claims of 'broken promises'.[54]

The next major quota reform is anticipated to take place in 2028, meaning that a total of 18 years will have passed without meaningful consideration of quota adjustments (the last major changes were discussed in 2010 and implemented in 2016). Mark Sobel, of the Official Monetary and Financial Institutions Forum, a think tank, has suggested that the IMF's legitimacy would not be undermined if meaningful quota reform is not achieved.[55] This position contrasts with the views of other experts. David Lipton, former interim Managing Director of the IMF, and later international affairs counselor to United States Treasury Secretary Janet Yellen, calls the IMF "duty-bound" to reflect changes in the global economy at a faster pace.[56] Reflecting these changes with greater speed and predictability, he argues, would help the IMF retain global reach and resources and support a stable and robust international monetary system.[57]

The challenge lies in improving the agility of IFIs without sacrificing integrity by compromising safeguards. While many countries publicly acknowledge the broader geopolitical competition slowing the traditional machinery of international finance, they also caution that the slow pace of change sends a negative signal about commitments to improve multilateralism.[58]

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Scale

The scale of funding the Global South requires is significant. Estimates suggest that developing countries need $1–2 trillion annually in external climate finance by 2030, including resources to make up for loss and damage caused by extreme weather.[59] These resource needs will escalate significantly beyond 2030. Emerging markets and developing countries are projected to need $2.4 trillion annually to combat and adapt to the effects of climate change.[60]

The finance required to service the full Sustainable Development Goal (SDG) agenda is even greater, with estimates varying between $3.9 trillion per year (Organisation for Economic Co-operation and Development, OECD) and $4.3 trillion per year (United Nations Trade and Development, UNCTAD) for developing countries.[61] A more recent 2024 estimate by the Sustainable Finance Lab, projects the SDG and climate financing gap, excluding China, to fall between $3 and $4 trillion.[62]

Part of the solution to financing sustainable development and global challenges lies in better matching finance flows to needs.[63] Currently, a significant portion of climate finance is deployed in the same countries where it is generated. Additionally, trillions of dollars remain idle in central bank reserves and with private investors, funds that could be mobilized for resilience, development and climate projects.

Several high-level reports have also pointed out that MDBs could do more to fine-tune lending practices, instruments and operations to maximize existing resources.[64] However, fresh capital is equally important. According to World Bank President Ajay Banja there are simply not enough resources on the table, which no amount of creative stretching and engineering can fix.[65]

Seven common actions are proposed to generate the necessary resources:

1. Increase concessional funding, notably by strengthening the IMF's Resilience and Sustainability Trust and Poverty Reduction and Growth Trust, and the World Bank's International Development Association (IDA), possibly tripling its resources at IDA21 in 2025.
2. Capitalize MDBs.
3. Optimize MDBs and increase risk tolerance.
4. Fulfill and strengthen Overseas Development Assistance (ODA) commitments.
5. Leverage SDRs in development finance and increase channeling efforts.
6. Strengthen domestic resource mobilization, stem illicit financial flows and innovate taxation.
7. Increase private sector investments and blended finance solutions (e.g. JET-P, GFANZ).

In 2023, the United Nations Secretary-General promulgated a plan to accelerate investments in the SDGs, drawing on several of the actions above. The resulting SDG Stimulus Plan prioritizes three key areas: reforming the debt architecture and expanding debt swaps; significantly scaling up affordable long-term development finance; and enhancing contingency financing mechanisms.

The SDG Stimulus Plan's real value was in generating a political push to make existing ambitions a reality.[66] This push came in September 2023 by way of an endorsement from United Nations Member States in the 2023 SDG Summit Political Declaration. They not only welcomed the SDG Stimulus Plan but also committed to advancing its ideas "in a timely manner", overcoming resistance from a small group of Western States.[67] Many countries in the Global South reiterated support for the SDG Stimulus Plan and its proposals in the lead-up to the Summit of the Future.

The SDG Stimulus Plan's approach to public and blended finance solutions captures an important tension within the Global South. While many support "crowding in" trillions in private investment through de-risking strategies—a preference for trade and investment over aid—some countries see private capital as a poor substitute for public investment given the underlying profit motives and risk aversion associated with private investment. The scalability of private finance remains uncertain, and its profit-driven nature may not always align with development goals.[68] Given the uncertainties associated with private investment, countries in the Global South emphasize that private finance should be considered supplementary to a stable foundation of public investment.

The countries least likely to benefit from private financial flows are those that need support most: fragile and low-income countries. There is a risk that the most fragile countries will find it difficult to access private capital considering their governance challenges, which in turn may lead to an increase in tensions and disparities within the Global South itself. A 2021 IMF research report acknowledges these difficulties and concludes that "any transition from public to private finance in development sectors needs to be gradual and supported by sound institutions".[69] The G24 has thus advised cautious optimism in relation to the push for private capital mobilization "given the need for a dynamic combination of public and private sector cooperation" to achieve the SDGs.[70]

A complementary approach many Global South coalitions favour involves repurposing SDRs for long-term development financing, including for resilience, biodiversity and climate projects. Formulas for SDR use vary across regions.[71] The African Union has presented a proposal in two parts: a new climate-earmarked SDR issuance amounting to $650 billion, and earmarking $100 billion of voluntary on-lending from the 2021 general allocation of $650 billion specifically for Africa.[72] The lack of conditionality associated with SDR use is attractive, as well as the fact that it comes at no cost to taxpayers in issuing countries and does not add to any country's public debt burden.[73]

A parallel focus is on channelling unused SDRs that have already been disbursed. Brazil, in their capacity as G20 chair, is pushing for the G20 Financial Architecture Working Group to advance technical and political discussions on SDR channelling to MDBs. By treating SDRs as equity, recipient institutions could leverage them and on-lend to support development and climate projects. The G77 and China have called for voluntarily channelling up to $250 billon of the 2021 general allocation to developing countries through multilateral and regional development banks.[74] This is more than double the G7 pledge to channel $100 billion of SDRs. While the Bridgetown Agenda does not provide a unique SDR issuance formula, it does specifically support efforts to prioritize SDR channelling through the African Development Bank.[75]

Global plans for SDR channelling may move slowly owing to objections from the European Central Bank, even though many European countries favour channelling proposals. Christine Lagarde, President of the European Central Bank, has indicated that SDR on-lending to MDBs would violate the European Union's prohibition on monetary financing.[76] Despite these reservations, Japan, France, Spain and the United Kingdom have come out in support of channelling unused SDRs from the 2021 general allocation through hybrid capital mechanisms at the African Development Bank and the Inter-American Development Bank.

SDR issuances are generally only possible once every five years under IMF rules, which may frustrate calls for new issuances. This rule notwithstanding, in October 2023, many United States Senators and Members of Congress pressed President Joe Biden to support an entirely new $650 billion SDR allocation, arguing that the 2021 allocation was "by far the single most important action taken to support the economies of developing countries in the face of combined global health, debt, economic and climate crises".[77] While support from a predominantly Democratic coalition of United States officials alone may not guarantee the African proposal's success, it lends credibility to the concept of a new SDR issuance and supports the decades-old call from UNCTAD experts to establish a development link in SDR allocations. The IMF, as the custodian of SDRs, currently lacks a development mandate, and the SDR is not considered a development instrument. However, these recent proposals are rekindling efforts to reimagine the SDR as a tool in development finance.

Sustainability

Efforts to secure affordable, long-term development finance hinge on addressing the critical issue of debt sustainability. The pursuit of debt sustainability is not only a core concern of the current IFA reform effort, but also a fundamental prerequisite for achieving the Summit of the Future's overarching goals of a more secure future for current and future generations. During the UNU-supported Hangzhou dialogue, Chinese officials cautioned against the risks of continuously rising debt levels, emphasizing that, without an effective international solution, debt burdens could destabilize financial markets and impede global economic recovery.

Over the past few years, debt servicing obligations have surged due to rising interest rates and the prevalence of United States dollar-denominated debt, straining already limited fiscal resources in developing countries. Exchange rate depreciation has increased the cost of borrowing in foreign markets, creating new vulnerabilities among the most debt-ridden countries. According to the IMF, global debt remains above pre-pandemic levels, with small reductions in 2021 and 2022.[78]

In low-income countries, total debt increased to around 88 per cent of Gross Domestic Product (GDP) in 2022. LDC representatives stress that debt servicing payments consume more than one-fifth of government revenues, leaving little fiscal space to cope with internal and external shocks.[79] African countries estimate that 22 per cent of their revenues are spent on average to service their debts, diverting resources from social, health and education sectors, and stifling efforts to stimulate economic growth.[80] In the post-pandemic period, countries in Latin America and the Caribbean were allocating more than half of their revenue from exports to debt service payments.[81] Current debt burdens are unsustainable and will deny present and future generations the opportunity to achieve high living standards.[82]

The situation is deteriorating rapidly as the lingering effects of the Ukraine war, the COVID-19 pandemic and persistent inflationary pressures compound. Most low-income countries are teetering on the brink of debt distress and face a "debt financing cliff" over the next two years when a significant portion of debt repayments are due.

A sustainable debt solution is needed to support development goals, economic growth and solutions to the climate crisis. The SDG Stimulus Plan recommended a comprehensive review of the existing international lending framework, with a view to improving multilateral debt relief initiatives. Many support a complete overhaul of the multilateral debt architecture to provide better terms for low-income countries, expand debt restructuring options for debt-distressed middle-income countries, and address key shortcomings in the existing system, notably a lack of transparency and inadequate coordination among traditional, new and private creditors. Specific proposals include establishing an independent sovereign debt authority, creating a public debt registry and encouraging borrower clubs, mirroring creditor committees like the Paris Club.[83]

Borrower clubs, championed by UNCTAD for decades, received renewed attention in their 2023 Trade and Development Report, which advocated for their establishment as part of a reformed global debt governance architecture.[84] Some versions of the borrower club proposal envision a union-like arrangement—a group of countries negotiating debt relief terms together—while other proposals limit the ambition to knowledge exchange and mutual support.[85] The UNCTAD proposal is of the latter kind: a dedicated space to discuss technical issues, innovate and learn from borrowers' experiences.

At COP28, Egyptian Finance Minister Mohamed Maait announced the formation of a Sustainable Debt Coalition with similar objectives. It currently includes 16 countries from the Global South but the Coalition has called for the participation of all debtor countries "to better contribute to the international financial architecture reform". [86] This coalition includes a sub-group explicitly designated 'a borrower club' which has held meetings on the margins of several major dialogues on IFA reform. Like the V20 and other Global South coalitions, one would expect the Sustainable Debt Coalition to play a significant role in shaping the ambition and outcomes of the Summit of the Future.

There is also a renewed emphasis on the function of credit rating agencies in debt sustainability. An open, cross-border dialogue is needed to improve the transparency and accountability of credit rating agencies. Brazil's G20 presidency launched such a dialogue with credit rating agencies in the context of the MDB reform agenda. And in February 2024, the IMF-World Bank Sovereign Debt Roundtable convened a first discussion with G20 countries and credit rating agencies to discuss methodologies used to derive sovereign ratings.[87]

Strengthening regulatory frameworks for credit rating agencies can help address criticism that the Global South's balance sheets and economies are undervalued. [88,89] African States have advocated for the creation of an external recourse mechanism attached to credit rating agencies, which can be used to contest their credit assessments.[90] Other proposals include improving assessment methodologies to better account for climate risks, developing an international framework convention to regulate private creditor agencies and launching a pan-African credit rating agency and a BRICS credit rating agency to provide a more objective credit market assessment of Global South sovereigns. [91] [92]

A third important proposal from Global South coalitions suggests re-evaluating the economic policy conditions attached to new finance and debt instruments. Calls to end or reconsider the use of structural conditionalities have a long history and are common across the Global South reform agendas.[93] Recently, the G77 and China have pushed for a review of austerity programmes linked to debt repayment plans.[94] They argue that these conditionalities often undermine development objectives by hindering public sector investment and effectiveness, disproportionately impacting populations reliant on public services.

The IMF has acknowledged deficiencies in the use of conditionalities, notably in the period from the 1980s to the early 2000s. During the Asian Financial Crisis, policymakers in Asia became suspicious of 'top-down policies' imposed by the IMF, which they criticized for being designed without enough consideration of on the ground realities.[95] Since the early 2000s, the IMF has greatly improved its approach to structural conditions, including through the implementation of a new strategy for fragile and conflict-affected states.[96]

> "The issue of conditionality is central to the 'stigma' associated with IMF financing. Hence, the importance of lending by MDBs, which has no stigma associated with it."
>
> **José Antonio Ocampo** (2014)[97]

Solidarity

A key challenge in IFA reform is designing an international financial system that can effectively mobilize resources to address global challenges while giving equal weight to the development priorities of the Global South, such as energy transitions, poverty eradication and reducing inequalities. An effective, revamped IFA must also balance investments across the economic, social and environmental dimensions of sustainable development. The current international financial system struggles to achieve this delicate balance.

Three actions could immediately demonstrate solidarity with the Global South: (a) reforming international taxation to ensure a fairer share of corporate profits benefits developing countries; (b) adopting a 'fair shares' approach to funding global challenges, where contributions are based on the capacity to pay and historical responsibilities; and (c) moving beyond GDP-centric metrics to assess economic success and vulnerability, incorporating factors that better reflect the realities of developing countries.

Countries of the Global South have led a multi-year campaign to give the UN a central role in legislating global taxes, including, inter alia, the implementation of a global tax on international capital flows and coordinating the implementation of taxes across multinational companies. This push for improved global tax rules has strengthened ties across many States but has also spotlighted disagreements with a handful of developed countries. The proposed UN tax treaty is a riposte to OECD-led tax regulation efforts, which the Global South criticizes for having taken too long, ultimately yielding a framework that disadvantages them in important ways.[98] In November 2023, Zambia's ambassador to the United Nations, Chola Milambo, issued a direct appeal to developed countries on behalf of the UN's African Group to support a UN-led tax treaty:

> To our partners in the OECD, the EU, the US and the UK, I appeal to your understanding of our shared humanity. This Convention is not just a fiscal tool; it is a lifeline to millions who aspire for better healthcare, education, and a life of dignity. Your support is crucial in turning this vision into a reality.[99]

At stake in these negotiations is the ability to raise taxes today and in the future on key sectors, like digital services; taxing rights on the most profitable multinational enterprises; and accessible, affordable dispute resolution.

A reformed IFA that takes the calls for solidarity seriously would attempt to reconcile these positions. Better coordination of global taxation promotes a more equitable distribution of global resources and contributes to the sense that everyone is paying their fair share of the development bill. It is also a way of moving beyond aid to meet the costs of development.[100] On the margins of the V20 Finance Ministers meeting at COP28 in Dubai, Ghana's President, Akufo-Addo, emphasized that fair shares must be at the forefront of IFA reform discussions. The New Global Financing Pact agreed several months later, underlined the importance of finding new ways to finance development and climate priorities according to the rules of *polluter pays* and *common but differentiated responsibilities*.[101]

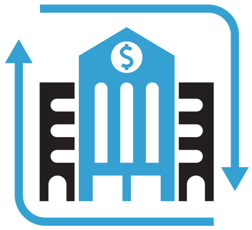
Fair shares arguments can lead to more innovative funding for global public goods. The World Maritime Organization (WMO) is moving forward with a plan to price carbon emitted in the shipping sector—a fee for every ton of carbon emitted.[102] This is akin to a global carbon tax in the shipping sector, closing a gap in taxable commercial activities on the high seas. The proceeds of the proposed shipping tax could be directed to tackling global challenges, like climate change, without taking money off the table for traditional development priorities. This WMO initiative could serve as a model for other innovative taxation schemes to supplement financing for global challenges.

Global South governments harbour deep concerns about tradeoffs that might arise in an era of growing climate finance needs. Many have already contended with dwindling aid allocations and worry that the pivot to funding global challenges will overshadow long-standing development concerns.[103] The G24 stress the importance of "a balanced approach" between new development priorities (global public goods, climate emergency, pandemic preparedness, fragility) and the traditional development agenda to ensure the collective progress of low-income and middle-income countries. South Africa's Finance Minister, Enoch Godongwana, cautions that efforts to reorient the World Bank's mandate to better address the climate crisis should not overshadow other critical investment areas for Africa, like poverty reduction, education and health. [104, 105] In 2021, the World Bank launched a new diagnostic tool (the Country Climate and Development Report (CCDR)), which will help examine any such trade-offs.

Global South countries have also called on IFIs to rethink the metrics that guide international development finance. Many Small Island Developing States (SIDS) and climate-vulnerable States oppose the extensive use of Gross National Income (GNI) and GDP in determining eligibility for concessional development finance. Efforts to address these concerns are already underway and may result in a better alignment of concessional finance with development needs. For example, the World Bank has committed, through its *Evolution Roadmap,* to consider vulnerability as an eligibility criterion for IDA and International Bank for Reconstruction and Development resources.

Overreliance on GNI and GDP can mask vulnerabilities, such as a volatile economic base, remoteness and institutional and human resource capacity constraints, in addition to the known risks and potential costs of climate change.[106, 107] The recent Multidimensional Vulnerability Index (MVI) is a promising development that also goes some way to addressing these concerns, elevating vulnerability in needs assessments and global economic policymaking.[108] The Alliance of Small Island States (AOSIS) describes MVI as "one of the most practical ways in which the desire to reform the international financial architecture can be made tangible."[109]

Self-reliance



Not all reforms aim at transforming Washington-based institutions. Efforts are being made to strengthen or create new institutions in the Global South that serve the Global South. These initiatives are expressly framed in terms of self-reliance and, at times, part of broader efforts to combat 'discrimination' in global institutions.[110]

Existing entities are relaxing their membership criteria and demonstrating a willingness to include new partners. A prime example is the "historic expansion" of the BRICS bloc in 2023, which welcomed Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates into its ranks. This focus on regional integration could eventually lead to a more decentralized IFA with reconfigured roles for the major IFIs, such as the World Bank and IMF.[111] The enhancement of South-South swap lines and BRICS support for a new global payment system to facilitate trade and investment throughout the Global South may mark the beginning of such a transformation.

African governments have proposed a variety of strategies to strengthen their autonomy in monetary policy and enhance self-reliance across regions of the Global South. The 2023 BRICS Summit in Johannesburg reiterated the principle of "African solutions to African problems."[112] The Alliance for African Multilateral Financial Institutions, also known as the Africa Club, was recently established to foster collaboration and coordination among African-owned and African-controlled Multilateral Financial Institutions, collectively managing assets exceeding $53 billion. African governments have also renewed calls to create a pan-African credit rating agency, and the further development of the African Continental Free Trade Area to close the regional trade gap (intra-African trade remains a quarter of intra-European trade). There have additionally been calls to create an African Stability Mechanism to promote macro-financial stability and a robust financial safety net for the region.[113] These initiatives promote self-reliance through increased financial autonomy and deeper regional integration.[114]

> "If we can increase the financial power of our own institutions, we are in a better place to finance our development."
>
> **Nana Akufo-Addo,** President, Republic of Ghana (2024)[115]

As several prominent African officials have pointed out, the IFA reform agenda is also about assisting Africa in retaining and utilizing its own resources.[116] The need for strengthened domestic resource mobilization efforts is widely acknowledged, including recently by African Union Commission Chairperson, Moussa Faki Mahamat, who noted this was an important measure to "reduce Africa's dependency."[117] If lower- and middle-income countries move closer to the 30 per cent domestic resource mobilization targets that upper-income countries on average reach they could generate significant additional income.

Strengthening domestic resource mobilization is an uphill battle in countries where tax collection systems are not fully digitalized, compliance is low and the tax base is constrained by a large informal sector. Ensuring greater autonomy in balancing sovereign debt repayments against development needs requires internal reforms in direct and indirect revenue mobilization systems and the administration and monitoring of such systems. It also requires strong support by the international community to ensure the regulation of multinational interests and private international investment in developing countries. Achieving more efficient and equitable domestic revenue mobilization is also a way developing countries can build stronger State capacity to address and finance their own development needs.

SECTION 4:

IFA governance reforms

IFA governance reforms

The six IFA reform objectives outlined in this report depend on a certain number of governance changes. Updating leadership conventions, the design of decision-making practices and rethinking spaces for global economic coordination can support the creation of a more equitable and just international financial architecture. These reforms will directly impact the Global South's ability to bring about change through formal channels.

Global coordination

Several years ago, José Antonio Ocampo, the former Colombian Minister of Finance, observed that a more representative international institution operating at the apex of the global economic system could address 'the elite multilateralism' the status quo encourages.[118] The 2009 Stiglitz Commission proposed such a body. The Commission's proposal for an Economic Co-ordination Council promised to improve the representation of developing countries in global economic decision-making. The body was envisaged as having a status comparable to the United Nations General Assembly and the Security Council and would bring together the BWIs, the World Trade Organization and all relevant United Nations institutions, with decisions reached via a constituency-based weighted voting system.[119] It was designed to improve inclusiveness and limit the capacity of informal groups to undermine the governing structures of treaty-based organizations like the IMF and World Bank.[120]

In his 2023 Summit of the Future Policy Brief on IFA reform, the United Nations Secretary-General revived this idea, proposing the creation of an *apex body* that could more systematically coordinate global economic policymaking. This body would convene at a biennial meeting (sometimes called a 'biennial summit on the global economy') at the level of heads of State and government, bringing together members of the G20 and the Economic and Social Council (ECOSOC), the Secretary-General, and the heads of the IFIs.[121]

Several versions of this proposal have been tested in the past. This idea previously failed to gain support because it was thought to require onerous changes to the charters of existing entities, and powerful countries were unwilling to campaign for such a major reform.[122] Some were resistant to the idea of upgrading ECOSOC's role from a deliberative forum to a decision-making council, while others felt that this new configuration would allow the G20 to exert more influence over the economic agenda of the United Nations.[123]

> "… the reform project designed to bring about an expanded forum at the apex of power could not overcome the formidable obstacles of political/diplomatic interests. The status quo remained more attractive to most of the G7/8 members than a leap into the unknown."
>
> **Andrew Cooper** (2009)[124]

Similar headwinds exist today. The United States is opposed to the idea of an apex body with the United Nations at the helm, claiming that it would potentially damage, confuse or duplicate existing workstreams and complicate the structures and processes of the

Image source: International Monetary Fund | Flickr

G20. It also argues that it is outside of the United Nations' remit to convene IFIs or other independent bodies, such as the G20.[125]

Over the course of the Pact for the Future negotiations, the concept of a Biennial Summit was preserved, even if support fell short of a full endorsement by all Member States at critical junctures. In February 2022, the G77 and China issued a statement in support of the Secretary-General's proposal for a biennial summit on the global economy, noting that it would "promote a more sustainable, inclusive, and resilient global economy".[126] Yet, during the same meeting, Mali, speaking on behalf of the United Nations African Group "expressed concern" over a perceived lack of inclusivity.[127] The proposal was only *noted* in the April 2023 ECOSOC Finance for Development outcome report.[128] The subsequent ECOSOC Chair, Paula Narváez, struck an optimistic tone, proposing that "a Biennial Summit of ECOSOC, the international financial institutions and the G20 to discuss high-level economic priorities and the contributions of different actors … merits further consideration". Given the substantial support for the initiative in the UN membership, a reference to the Biennial Summit will likely be retained in the final Pact for the Future. However, it is still unclear if consensus can be reached on a fuller endorsement of the proposal, overcoming objections by traditionally dominant States in global economic governance.

The landscape of support for an apex coordination body remains unclear. There does appear to be distinct regional positions both for and against the proposal. During the Pact for the Future negotiations, several countries acknowledged and noted the Secretary-General's proposal, again falling somewhat short of an emphatic endorsement.[129] The lukewarm support for such an initiative could be explained by longstanding concerns about institutional mandates, as well as the proliferation of parallel initiatives and institutions that cater more specifically to regional priorities and on more acceptable terms.[130,131] Opposition from major powers may have also had a chilling effect on the wider United Nations membership. Eric Helleiner and Hongying Wang's framework may once again prove instructive: it is quite possible that a calculation was made that a new apex body would not be able to overcome the structural power of established institutions.

We may nevertheless get the opportunity to see what such an economic summit looks like in practice in September 2024. President Lula of Brazil is committed to strengthening G20/United Nations coordination and has pledged to host a meeting of G20 foreign ministers at the 79th session of the United Nations General Assembly.[132] Member States may find this meeting format useful and worth preserving, possibly even expanding.

Image source: World Bank Photo Collection | Flickr

Leadership

In March 2023, African finance ministers reiterated their hope that the African Union would finally obtain a permanent seat in the G20, strengthening Africa's voice on the global stage.[133] In September 2023, they succeeded. The African Union is the second regional bloc to be admitted to the club of major economies, joining the European Union, a founding member. This goes some way in building a more representative and legitimate mechanism of international economic co-operation.[134]

> "The global financial architecture needs to be fixed. It must work for everyone and reflect the new dynamics. In this regard, we welcome the membership of the African Union in the G20. But we need to go further!"
>
> **Claver Gatete,** UNECA (2024)[135]

One additional proposal from the Global South is to end the geographic monopoly on leadership positions at the BWIs. The 2009 Commission for IMF Governance Reform, headed by Trevor Manuel, made a compelling case for this change more than a decade ago, which was subsequently endorsed by the G20. However, progress in implementing this change has been slow.

The closed leadership selection process of BWIs is symbolic of governance practices seen to be unfair, which in turn undermine the legitimacy of these institutions.[136] The BRICS Declaration of August 2023 called for a greater role for emerging markets and developing countries in the international financial system, including in leadership positions in the BWIs, to better reflect the role of EMDEs in the world economy.[137] In recent months, the G24 has also supported calls to overhaul leadership conventions in IFIs. These reforms look challenging but the growing momentum for MDB reform may pave the way to concessions in leadership conventions.

Decision-making

Another important category of proposals relates to voting power and decision-making processes. Several studies note there is scope to improve existing decision-making practices within the BWIs. In addition to distributing power, these changes would increase pressure to compromise on major policy decisions.[138] The BWIs are a source of significant development finance and sustain a global financial safety net. The more important the role these institutions play, the greater the need to review the way decisions are made.

The United States is the only country able to exercise a veto in the BWIs (on its own), because it enjoys more than the 15 per cent voting shares required to veto major decisions. Even though other large groups of countries could band together to oppose decisions at the BWIs, it is this unique veto power that adds to the charge of democratic deficiencies in major institutions of the international financial system.[139] Michel Camdessus' 2011 Palais Royal report addressed the de-facto United States veto in the BWIs and recommended lowering the bar for majority rule.

> "A more pragmatic approach would work towards a "double majority" system ... This would provide the Global South with an opportunity to express its opinion in the decision-making process of BWIs and to block programs and policies that oppose their interests."
>
> **Amin Mohseni-Cheraghlou** (2022)[140]

The Governor of the Bank of France used the example of the successful shift in voting rules in the Council of the European Union, from unanimity to qualified majority on most issues, to strengthen the call for changes to majority rule in the IMF.[141] Expanding the practice of double majority voting to a wider range of decisions would result in more democratic decision-making, ensuring that more decisions require the support of both principal shareholders and the majority of shareholders.[142]

An increase in basic votes allocated to each country would also support more balanced decision-making. Increases to basic votes have occurred in the past, notably in 2008 when basic votes at the IMF were tripled. However, the equalizing effect of basic votes has eroded over time as each quota increase shifted voting power to countries with more quota shares. The High-Level Advisory Board on Effective Multilateralism proposed doubling the share of basic votes to 11 per cent of total votes and called for a practice of automatic adjustments to basic vote shares when quotas increase. Some expert observers with longstanding ties to the IMF think that an increase in basic votes is possible in the coming year.[143]

This change to basic vote allocations does not go far enough for some countries, which call for more meaningful change through quota reform. The African High-Level Working Group is advocating a specific increase of African shares in the next quota review.[144] They are not alone—BRICS countries alongside several other developing and emerging countries are calling for a larger shareholding in the BWIs.

For China, quota reform is the most meaningful part of the IFA governance reform agenda. However, Western governments openly and publicly condition support for quota reform on China and other emerging economies, adopting a constructive

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approach to international economic cooperation.[145] In September 2003, United States Under Secretary for International Affairs, Jay Shambaugh, noted that an important part of the IMF quota formula reform process will depend on all countries "especially those that would see an increase in share" (such as China) respecting the roles and norms of the IMF and working to strengthen the international monetary system.[146]

The meaning of this statement is clarified by similar, expanded reflections offered by the Bank of France in October 2023. The Bank of France noted that emerging countries that will benefit from IMF quota reform, including China, will have to accept "common rules of the game", which includes "their fair share of debt restructuring and of the financing of global public goods, starting with climate change".[147]

SECTION 5:

Conclusions

Conclusions

While substantial challenges remain, momentum for IFA reform is undeniable. Progress will require a convergence of views and a better understanding of what the Global South expects to get out of the IFA reform agenda. This report highlights several specific reform objectives to pave the way for a more constructive dialogue and several specific recommendations to support upcoming international summits designed to advance the IFA reform agenda.

A political push

The United Nations Secretary-General has promoted the 2024 Summit of the Future as a once-in-a-generation opportunity to reform the IFA. The Summit and its outcome document (the Pact for the Future) address a broad array of public policy issues. Because of the breadth and ambition of the Summit of the Future agenda, delivering specific IFA reforms will be challenging. A more achievable goal would be a political push on a limited number of high-level commitments. Matching these high-level commitments to the six objectives outlined in this report would demonstrate that the Global South's demands were being meaningfully considered. It could also serve as a ready-made accountability framework used to monitor commitments following the Summit.

Commit to speed

Leaders could signal through the Pact for the Future a commitment to improving the agility of the international financial architecture. This would build on groundbreaking debt suspension initiatives, identify a path to automatic SDR issuances and adapt lending frameworks to account for cyclical crises.

Acknowledge dependencies

While each reform IFA proposal should be assessed on its own merits, it is important to recognize that political support may be conditioned on an assurance of flexibility in other areas of the IFA reform agenda. Bold action on sovereign debt architecture is likely going to depend on progress in IMF quota reform. For the Summit of the Future to be successful, leaders will need to factor in the interconnections across reform proposals and commit to comprehensive IFA reform. Piecemeal reforms risk undermining confidence in multilateral processes and institutions.

Anticipate substantive and process complexity

Coordination across government ministries active in different dimensions of these negotiations will be crucial, as will coordination across the United Nations system and BWIs, to avoid misunderstandings across a range of complex, technical subject matter. It will be necessary to develop tools that help overcome the complex landscape of IFA reform.

Image source: International Monetary Fund | Flickr

Invest in knowledge platforms

The large number of forums, platforms and conferences aimed at IFA reform can overwhelm decision-makers. Smaller countries face a significant burden in keeping track of many scattered debates and negotiations. Establishing a global, public and transparent clearinghouse of reform proposals would go a long way to mapping changing priorities and innovative proposals, as well as identifying emerging support for specific reforms. One such example is the Multilateral Development Bank Reform Tracker, launched by the Center for Global Development. It is a comprehensive tool to help shareholders, managers and other stakeholders evaluate progress on MDB reform. This approach should be extended to the full range of IFA reform proposals.

Debt: a benchmark for success

The reform of the international debt architecture is a critical measure of the success of IFA reform efforts. Considerable progress can be made by committing to (a) improving the efficacy, transparency and accountability of credit rating agencies and encourage dialogue between MDBs, credit rating agencies and shareholders through the Global Sovereign Debt Roundtable and the G20; (b) supporting the establishment of borrowers' clubs; (c) strengthening the link between climate, nature and debt while ensuring appropriate transparency and safeguards; (d) committing to debt restructuring options for middle-income countries in debt distress; and (e) redoubling efforts to ensure that new loans contain robust contingency clauses that protect countries in the event of unforeseen shocks.

FRAMEWORK:

International financial architecture reform

The Global South's reform agenda can be broken down into six distinct objectives: Space, Speed, Scale, Sustainability, Solidarity and Self-reliance. This section assigns specific reform proposals to these category headings.

Objective 1: Create space

- Reform leadership conventions: balance regional representation in the appointment of heads and senior management at BWIs and create room for underrepresented regions.
- Formal recognition for specific issue-based coalitions, e.g. V20.
- Create an apex macroeconomic coordination body.
- Add more chairs at the table:
  - A 25th seat for sub-Saharan Africa in the IMF Executive Board, constituting a third executive director seat for African countries.
  - A fifth deputy managing director to improve regional representation, specifically for EMDEs.
  - Improve representation of the MENA region to a minimum of three chairs.
- Quota reform:
  - Quota increase and share realignment to reflect relative weights in the global economy.
  - Quota formula should reflect non-GDP and GDP elements.
  - Increased shares for EMDEs and Africa.

Objective 2: Adapt and deliver quickly

- Automatic stabilizers from IMF for global recessions and force majeure events.
- Develop approaches for quota realignment.
- Debt:
  - Strengthening contractual provisions to minimize economic disruptions arising from natural disasters.
  - Automatic suspension of debt service (automatic standstills).
  - Timely, orderly and effective debt restructuring mechanism(s).
- Automatic SDR allocations.

Objective 3: Finance at scale

- Triple IDA resources in the upcoming replenishment.
- Increase capital contributions for MDBs.
- Implement the United Nations Secretary-General's SDG Stimulus Plan.
- Better leverage MDB balance sheets to scale up concessional finance to at least $500 billion/year.
- Fulfil and recommit to ODA and long-term, stable public finance.
- Scale nature/climate debt swaps and bonds.
- A new $650 billion SDR issuance.
- Scale private sector investment through de-risking and credit rating agency reforms/regulation, including objective, independent, accurate and transparent credit rating agency analyses.

Objective 4: Sustainable debt

- Improved terms of lending: lower cost of borrowing and longer maturities.
- Re-examine conditionalities and austerity measures linked to loans and debt.
- Review and modify the IMF's surcharge policy.
- Review practices, methodologies and governance of credit rating agencies.
- Finance global challenges at affordable rates without additional conditionality.

- Improve debt sustainability frameworks to account for structural constraints and long-term investment requirement for SDGs.
- Enhance the G20 Common Framework improving access for middle-income countries.
- Mainstream climate risks in lending instruments.

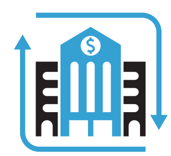
Objective 5: A solidarity-oriented international financial architecture

- Visions, missions and mandates crafted to ensure balanced investments in global challenges and longstanding development challenges, such as poverty eradication, education and health.
- Better reflect vulnerabilities in the international financial system.
- Implement beyond GDP and MVI metrics with resourced secretariats and data collection capacities.

- Support natural capital accounting.
- Strengthen international tax cooperation at the United Nations.
- Strengthen the Global Financial Safety Net for emergencies and long-term central bank swap arrangements.

Objective 6: Support self-reliance

- Launch an African Financial Stability Mechanism to complement the global safety nets offered by the IMF.
- Establish BRICS and Pan-African Credit Rating agencies, reducing reliance on big-three credit-rating agencies.



- Support the African Central Bank, the African Investment Bank, the African Monetary Fund and the Pan-African Stock Exchange as crucial steps to combine African resources and expertise.
- Strengthen domestic resource mobilization efforts.

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