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Paris Finance Summit: how to build a coalition for system change?*

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NOTE

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To answer the growing gap in investment for sustainable development in least developed, vulnerable and even lower middle-income countries, the international financial architecture needs a transformational reform. Some limits and imperfections can be fixed this year and in the coming ones, despite the lack of trust in the system. Incremental change would not suffice for the countries most in need, nor to restore trust between southern countries and already industrialised countries. The Summit for a New Global Financial Pact organized by France in Paris June this year is an opportunity to raise political attention at the highest political level, build momentum and advance critical issues by bringing forward a "coalition of ambition". Different subjects might necessitate different champions, given the breadth of issues at stake: building such a coalition with a multiplicity of champions thus needs campaigning and sustained diplomatic and political effort, in preparation of but also as a follow-up to the Paris Summit.

In this regard, the June Summit could be useful to overcome the sense of a scattered conversation across many different tracks: indeed, building bridges and integrating approaches between climate, nature and human development is a way to address the three following issues which hinder a successful reform of the multilateral financial architecture.

— **Scale** – addressing climate impacts and protecting global public goods while doubling down on achieving SDGs before the end of this decade requires a massive influx of capital beyond what countries can mobilize today. Beyond the slogan, going "from billions to trillions" requires a change of approach to achieve the needed scale.

— **Innovation** – successfully solving this equation has been a challenge for years/decades and innovative approaches and instruments are necessary to reach this scale.

— **Systemic change** – it is critical to move away from incrementalism as only a radical and comprehensive approach can address both the scale and innovation needed.

With these goals in mind, several avenues are key to explore in order to address the multiple barriers faced by emerging and developing economies in pursuing jointly a just transition and a sustainable development:

— **Private sector mobilization:** In order to boost mobilization, a global approach might not be the panacea. More effort should be put to focus on countries' specific conditions. Private sector finance has been behind for years, so that investment is needed in ways to unlock these streams by making a diagnostic of what is holding them back, country by country, and by investing public support in the activities with high co-benefits, in order to increase leveraging. For it to happen in all countries, a dedicated international support to strengthening national institutions, policies and independent expertise is absolutely critical.
Mobilizing domestic private savings in developing markets would also help change the order of magnitude of the funding available to invest in the transition. And there is also a need to look as much into incentives as we do look at risks: The US or the EU have little problem subsidising their domestic transition, so the same should apply to emerging markets. However, for countries that do not have enough fiscal space it remains even more challenging.

— **Risks** are one of the main barriers to massive investments in the transition in the Global South. This could be seen as much a question of the appetite for risk–or aversion for risk–which limits the investment capacity of the World Bank and other Multilateral Development Banks (MDBs), as it is the–often outdated–perception of risks that financial actors and markets have. Looking in

*During the April 2023 Spring Meetings of the International Monetary Fund and the World Bank, IDDRI, the European Climate Foundation and the United Nations Foundation co-organized a closed-door dialogue gathering a dozen of country representatives. The goal of this meeting was to examine the limits and imperfections of the international financial architecture and to identify possible avenues to fix these dysfunctions in 2023 and in the coming years, despite the lack of trust in the system.

detail at Credit Rating Agencies (CRAs) and their approach to defining and measuring investment risks in developing economies is essential since they set standards for all financial stakeholders. MDBs can and should manage additional risks by reviewing their practices and operations, but they also need to redefine their risk perception since they are operating over long periods of time: it seems that a 2°C overshoot or a biodiversity collapse carry much bigger financial risks which are not correctly assessed. This risk perception actually prevents or makes difficult and costly the ability of governments to access finance from capital markets. And when they do, debt repayment hinders budgetary capacity to invest in public services, infrastructure or a just transition. Unpacking the different risks–regulatory risk, sectoral risk, country risk, currency risk–is necessary so they can be addressed separately. Suggestions exist regarding the possibility of building a dedicated vehicle meant to address currency risk which could be launched at the Summit.

— **New funding source**: many voices identify the need to determine new sources of funding to allow for a system approach–since public funding and private credit are structurally insufficient to meet the scale of needs–but insist on the need for those to be additional to current budgetary allocations, previsible and predictable, so they would be independent from domestic politics. These new sources of funding could include new international taxes: a process is currently at play at the International Maritime Organization to establish a levy on maritime GHG emissions, a part of which could then be redirected to deal with climate impacts. Interest has also been expressed in repurposing and redirecting existing instruments which have harmful environmental and human impacts such as fossil fuel taxes. There are also proposals to dedicate Special Drawing Rights emissions with a different allocation that could foster investments in most vulnerable countries at little cost.

— **Debt**: Despite efforts at G20 and in preparation of the June Summit, it remains unclear what the Summit could concretely do on the debt question which has been high on the agenda for years and particularly since the pandemic crisis; in that respect, the crippling implications on social budgets of long debt restructuring processes should be examined. Due to high interest rates debt, service repayment often eats up large portions of the domestic budget in countries where risk perception levels are high. But worse, when economies engage in restructuring conversations to avoid default, they end up trapped in a time warp for months, adding another toll. Cheap debt is a priority and restructuring comes next. The G20 Common framework in particular needs to address access and timeframe with utmost urgency to avoid that debt restructuring paralyzes public policy.

There are still divergences between countries' expectations and priorities depending on their particular circumstances, even among nations belonging to the same income group. The list of issues to be addressed is daunting with direct implications on one another, generating fears or resistances from some of an overhaul reform. Although it seems too early to solidify a unified coalition, the need for rapid collective action to reframe the multilateral response given the stakes is real, which is exactly what the Summit could build and the seeds it could sow, to be harvested in the coming months.

In conclusion, the Summit appears timely in a year paved with moments for corrective change, and its responsibility is to provide an uncensored view of the different worlds and realities coexisting, shedding a light on the structural barriers to change, **even if this particular moment could not fix it all**. Finally, since the task at hand is massive, time limited and that the Summit does not have a real institutional mandate, one of its value added could be in clearly laying out directions to effectively generate system change and establishing detailed processes coupled with roadmaps to pursue this long-haul effort over the next couple of years, including the upcoming G20 and COP28.

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