

BLOG POST June 15th 2023

Summit for a New Global Financing Pact: what conditions for success?

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 Reading time: 5 min

On June 22-23, Paris will host the Summit for a New Global Financing Pact, under the aegis of President Emmanuel Macron, the Indian presidency of the G20, and the Prime Minister of Barbados, Mia Mottley. The aim is to lay the foundations for a new system to meet common global challenges, in particular the fight against inequality and climate change and the protection of biodiversity, to define the principles of future reforms, and to set a course towards a more balanced financial partnership between South and North. In a global context marked by multilateral tensions and acute environmental crises, what can we expect from a summit that is both necessary and under pressure?

A dysfunctional system, and crucial issues at stake

If the ambition for this summit is so high, it is because expectations are very high. As the United Nations¹ points out, the inability of the current international architecture to fulfill its essential missions and support stable long-term funding for the Sustainable Development Goals is widely shared. Delays in implementing the Paris Climate Agreement and 2030 Agenda increasingly appear to come from unmet financing needs², because, among other factors, of the inability of the international financial architecture to channel resources at the necessary scale and speed to the world's most vulnerable economies. For the UN Secretary-General, this failure poses a growing and systemic threat to the multilateral system itself, as it leads to increased disparities, geo-economic fragmentation and geopolitical divides across the globe.

At the beginning of 2023, 52 low- and middle-income developing countries, representing more than 40% of the world's poorest population, were either in debt distress or at high risk of debt distress; 25 of these countries have external debt service repayments in excess of 20% of their total revenues³. Thus, borrowing costs are higher for developing countries on financial markets, especially taking into account the risk of default and market volatility, and many indebted governments are unable to invest sufficiently in basic health, education and social protection rights. Countries' access to liquidity in times of crisis varies considerably, and only a small proportion of Special Drawing Rights (SDRs) are allocated to developing countries: the African continent, home to 1.4 billion people and over 60% of the world's extreme poverty, received just 5.2% of the latest SDR issue.

Low-income countries are therefore increasingly demanding progress on issues such as debt relief, and denouncing the inability of rich countries to meet existing global commitments, such as contributing \$100 billion in climate finance each year. Today, the flow of climate finance does not reach the countries that need it most, but is directed where it is most profitable⁴. As a result, the indebtedness of the poorest countries increases, making them even more vulnerable to the next catastrophe.

A new method, a new approach

The challenge for the June Paris Summit is therefore to rebuild confidence in the international system, and to determine fair rules that are more favorable to developing countries, in order to meet the challenges of development, the fight against climate change and the protection of biodiversity. Discussions are needed both on the reform of the Bretton Woods institutions, which can no longer be incremental, and on what is dysfunctional in the international financial system and its rules; all of which must be firmly anchored in the realities and needs of countries. To be effective, the reform of the financial system must better support existing national dynamics, so as to better identify needs and contribute to a coherent approach to finding solutions at national level, in line with long-term sustainable development trajectories.

A summit cannot meet these various challenges on its own, but it must be able to demonstrate a shared understanding and a political will at the highest level to find effective solutions to the problems identified. The feeling of a conversation scattered between several different fora, and within which the most vulnerable countries feel they have little voice, must first be dispelled. And the space for solutions will have to be more open to innovations, all too often deemed unrealistic, whether economically, legally, technically or politically. These options, proposed in particular by civil society⁵, the United Nations⁶ and the Bridgetown Agenda⁷, must nevertheless be analysed and debated, addressing the key points that stand in the way of successful reform of the multilateral financial architecture⁸:

- **Scale:** meeting development, climate and environmental challenges before the end of this decade requires a massive influx of capital beyond what countries can mobilise today. Beyond the slogan, "moving from billions to

trillions" requires a change of approach to achieve scale;

- **Innovation:** innovative approaches and instruments are needed to achieve this scale, which is unattainable within the current structure.
- **Systemic change:** only a radical, global approach can achieve the necessary scale and innovation.

What are the possible outcomes of the summit?

Some limitations and imperfections can be corrected this year and in the coming years, despite the lack of confidence in the system. Possible outcomes of the Paris Summit could include: the announcement of a framework for the suspension of debt repayments for countries hit by natural disasters (or even pandemics); a review of how developed countries might redirect their allocation of IMF Special Drawing Rights; new ways of redirecting SDRs; and the presentation and possible announcement of new partnerships for a just energy transition. But progressive changes, while useful, will not be enough for the countries that need them most, or to restore confidence between the countries of the South and industrialised countries.

Given the sheer size of the task, the Summit for a New Global Financing Pact is not an end in itself, but must contribute to reinforcing a political dynamic over a triple time horizon: (1) at the summit, consolidating a political framework and coalitions to implement it and the first concrete actions, (2) laying the foundations for more difficult decisions in 2023 and 2024 within the framework of the G20, drawing on the leadership of the current (India) and future (Brazil) G20 presidencies, (3) around 2030, opening even more politically difficult discussions on international financial mechanisms (such as the creation of a new SDR-backed mechanism to accelerate investment in the transition to a low-carbon economy and resilience) or the updating of financial system rules to better ensure stability and sustainability. These discussions are essential if we are to lay the foundations for a new system capable of meeting our common global challenges.

¹ <https://www.un.org/sites/un2.un.org/files/our-common-agenda-policy-brief-international-finance-architecture-en.pdf>

² <https://www.oecd-ilibrary.org/docserver/9fea4cf2-en.pdf?expires=1686727896&id=id&accname=ocid195751&checksum=566BAD1CB6C5A8A432EAA0D161348E26>

³ PNUD, 2023.

⁴ <https://www.cseindia.org/beyond-climate-finance-climate-ambition-in-the-global-south-requires-financial-system-reforms-11753>

⁵ <https://www.iddri.org/fr/publications-et-evenements/autre-publication/financer-les-pertes-et-dommages-panorama-des>

⁶ <https://www.un.org/sites/un2.un.org/files/our-common-agenda-policy-brief-international-finance-architecture-en.pdf>

⁷ <https://www.foreign.gov.bb/the-2022-barbados-agenda/>

⁸ <https://www.iddri.org/fr/publications-et-evenements/autre-publication/sommet-de-paris-sur-la-finance-internationale-comment>

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