CHAPEAU

The challenges that we are facing can be addressed only through stronger international cooperation. The Summit of the Future, to be held in 2024, is an opportunity to agree on multilateral solutions for a better tomorrow, strengthening global governance for both present and future generations (General Assembly resolution 76/307). In my capacity as Secretary-General, I have been invited to provide inputs to the preparations for the Summit in the form of action-oriented recommendations, building on the proposals contained in my report entitled “Our Common Agenda” (A/75/982), which was itself a response to the declaration on the commemora-ujpo!pg!uif!tfwfouz.Ågui!boojwfstbsz!pg!uif!Vojufe! Nations (General Assembly resolution 75/1). The present policy brief is one such input. It elabo-sbuft!po!uif!jefbt!Åstu!qspqptfe!jo!Pvs!Dpnnpo! Agenda, taking into account subsequent guidance from Member States and over one year of intergovernmental and multi-stakeholder consultations, and rooted in the purposes and the prin-djqmft!pg!uif!Dibsufs!pg!uif!Vojufe!Obujpot-!uif! Vojwfstbm!Efdmbsbujpo!pg!Ivnbo!Sjhiut!boe!puifs! international instruments.

PURPOSE OF THIS POLICY BRIEF

Uif!joufsobujpobm!Åobodjbm!bsdijufduvsf-!dsbgufe! in 1945 after the Second World War, is undergoing a stress test of historic proportions – and it is gbjmjoh!uif!uftu/!Eftjhofe!cz!boe!gps!uif!joevtusj-alized countries of the post-war period, at a time

a) Ijhifs! cpsspxjoh! dptut! gps! efwfmpqjoh! dpvousjft! jo! Åobodjbm! nbslfut-! fwfo! after taking into account default risk and market volatility; many governments dedicate a high share of revenue to debt service payments while being unable up! tvÆdjfoumz! jowftu! jo! uif! efmjwfsz! pg! fundamental rights in health, education and social protection;

b) Vast variation in countries' access to liquidity in times of crisis, with only a small share of special drawing rights)TESt*!bmmpdbufe!up!efwfmpqjoh!dpvousjft<! for example, the continent of Africa, home to 1.4 billion people and more than 60 per cent of the world's extreme poor, received only 5.2 per cent of the latest issuance of TESt<

c) Esbnbujd!voefsjowftunfou!jo!hmpcbm!qvcmjd! goods, including pandemic preparedness and climate action;

d) Wpmbujmf! Åobodjbm! nbslfut! boe! dbqjubm! Åpxt-! sfqfbufe! hmpcbm! Åobodjbm! dsjtft! and recurring sovereign debt distress, with dire consequences for sustainable development.

Similarly, the international tax architecture has not kept pace with a changing world. While countries ultimately need to rely on national resources up! Åobodf! jowftunfou! jo! uifjs! tvtubjobcmf! boe! equitable development, global tax evasion and avoidance restricts their ability to do so.

A two-track world of haves and have-nots holds clear and obvious dangers for the global economy and beyond. Without urgent, ambitious action to change course, this gap will translate into a lasting divergence, economic fragmentation and geopolitical fractures. It is in the interest of all developed and developing countries to reform uif!joufsobujpobm!Åobodjbm!bsdijufduvsf!jo!psefs!up!

What is the international f nancial architecture?

Uif!joufsobujpobm!Åobodjbm!bsdijufduvsf!sfgfst!up! the governance arrangements that safeguard the stability and function of the global monetary boe!Åobodjbm!tztufnt/!Ju!ibt!fwpmwfe!pwfs!ujnf-! often in an ad hoc fashion, driven by the policy preferences of large economies in response to fdpopnjd!boe!Åobodjbm!tipdlt!boe!dsjtft/!Uif! term "non-system"[1] has sometimes been used up!eftdsjcf!uif!fyjtujoh!tfu!pg!joufsobujpobm!Åobo- cial frameworks, rules, institutions and markets uibu!uphfuifs!nblf!vq!uif!joufsobujpobm!Åobodjbm!

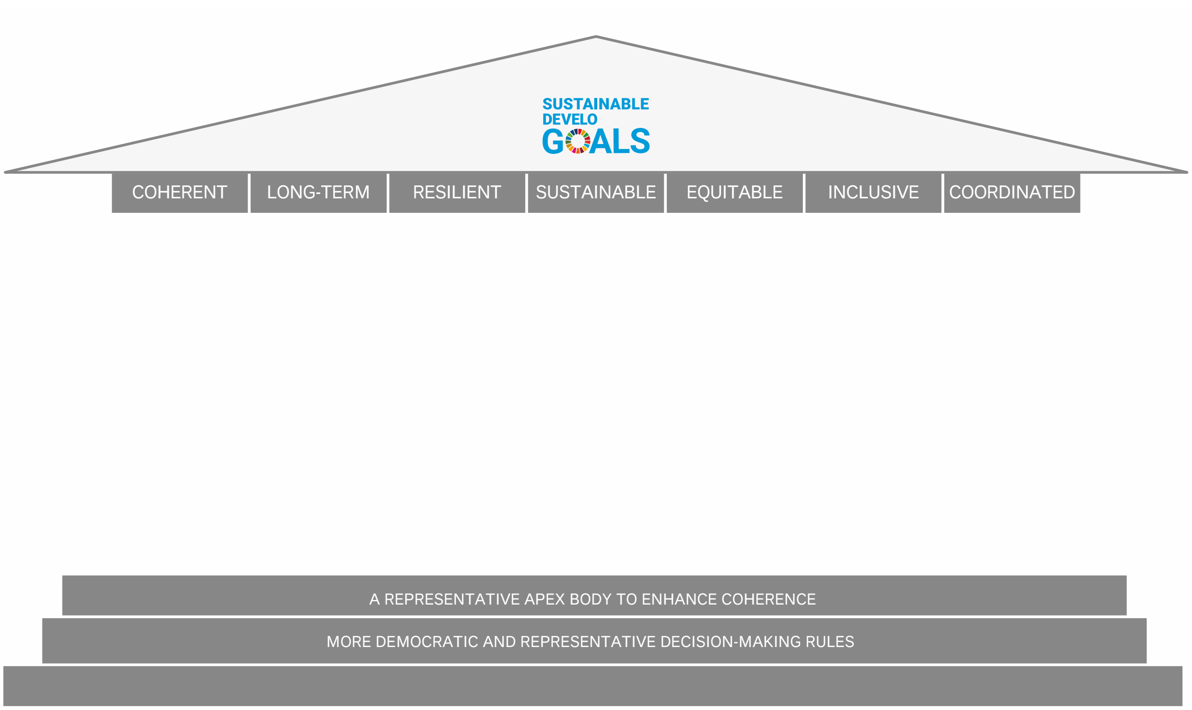
Reform and strengthen global economic governance

THE CASE FOR REFORM

Global economic governance has not kept pace with changes in the global economy, the rise of the global South and other geopolitical changes (including the end of colonialism and the recognition of the human right to self-determination). The current arrangement and governance of joufsobujpobm! Åobodjbm! jotujuvujpot! xbt! dsfbufe! bmnptu!91!zfbst!bhp!bu!b!Vojufe!Obujpot!dpogfs-ence with only 44 delegations present (compared with the 190 members of IMF and the World Cbol!upebz*/!Eftqjuf!sfqfbufe!dpnnjunfout!up! meaningfully adapting the system, and notwithstanding some improvement between 2005 and 2015, the representation of developing countries jo! joufsobujpobm! Åobodjbm! jotujuvujpot-! sfhjpobm! development banks and standard-setting bodies has remained largely unchanged in recent years. The Governments of the largest developed countries continue to hold veto powers in the decision-making bodies of these institutions, and changes up!wpujoh!sjhiut!bu!uif!joufsobujpobm!Åobodjbm!jotuj-tutions are some of the most contested reforms in global governance.

FIGURE I

REFORMED INTERNATIONAL FINANCIAL ARCHITECTURE THAT IS FIT FOR PURPOSE FOR THE TWENTY-FIRST CENTURY



bekvtu!uif!pwfsbmm!rvpub!tj{f!up!sfåfdu!efwfmpq-

WORLD BANK GOVERNANCE REFORM

Ijtupsjdbmmz-!uif!Xpsme!Cbol!boe!JNG!hpwfsobodf!

Lower the cost of sovereign borrowing and create a lasting

Efcu!dsjtjt!qsfwfoujpo!boe!uif!gbjs!boe!fggfdujwf! resolution of sovereign debt crises when they do arise have been long-standing concerns of uif!joufsobujpobm!dpnnvojuz/!Efcu!tvtubjobcjmjuz! is addressed in both the Monterrey Consensus of the International Conference on Financing for Efwfmpqnfou!)3113*!boe!uif!Beejt!Bcbcb!Bdujpo! Agenda (2015), in which it is noted that both debtors and creditors share responsibility for preventing and resolving unsustainable debt situations.

To prevent debt crises from arising, principles for responsible borrowing and lending highlight three common areas: responsible spending and debt management by borrowers; transparency by both debtors and creditors; and due diligence and enhanced risk management by creditors. Credit rating agencies and IMF/World Bank debt sustainability analyses, which provide information and analysis to creditors, play an important role in this area.

When debt crises do occur, both the Monterrey Consensus and the Addis Ababa Action Agenda call for debt resolutions to be timely, orderly, effective, fair and negotiated in good faith. Yet, in the absence of a rules-based international architecture, debt resolution has typically been upp!mjuumf-!upp!mbuf/!Sftusvduvsjoht!bsf!pgufo!opu!

ACTION 3: REDUCE DEBT RISKS AND ENHANCE SOVEREIGN DEBT MARKETS TO SUPPORT SUSTAINABLE DEVELOPMENT GOALS

- Vqebuf! qsjodjqmft! pg! sftqpotjcmf! cpsspxjoh! boe!mfoejoh!up!sfåfdu!uif!dibohjoh!hmpcbm! fo-vironment and the human rights obligations of States.
- Increase debt management and transparency.
- Improve debt sustainability analysis and credit ratings.
- Improve debt contracts, including by incorporating State-contingent clauses.

Gjstu-!uif!joufsobujpobm!dpnnvojuz!tipvme!gvmÅm! the long-standing commitment to work towards a global consensus on guidelines for sovereign debtor and creditor responsibilities. As noted in the Addis Ababa Action Agenda, this effort can build on existing initiatives by bringing together existing principles of responsible borrowing and lending and updating them to incorporate the Tvtubjobcmf!Efwfmpqn

Tvtubjobcmf! Efwfmpqnfou! Hpbm! Åobodjoh! ofet! cz! jodpsqpsbujoh! Åtdbm! tqbdf! gps! jowftunfout! jo! the Goals (in essence changing from a system of seniority that prioritizes payments to external creditors to a system in which seniority is given to social protection obligations and payments related to other domestic needs). Although this change would have the effect of increasing the estimated risk of default, it would more accu-sbufmz!sfåfdu!ipx!nvdi!pg!b!xsjuf.epxo!jt!ofdft-sary when defaults do occur.

Complementary reforms are needed in credit assessments by private credit rating agencies. The international community should regularly review and update the transparency of sovereign rating methodologies and should continue to reduce reliance on credit ratings in regulations, building on the peer review published in 2014 by the Financial Stability Board on its principles for reducing reliance on credit rating agency ratings. Credit rating agencies should also publish longer-term ratings and clearly distinguish between the model-based and discretionary components of sovereign ratings to help investors to better assess the objectivity of ratings. In parallel, public institutions should transparently publish comparable debt sustainability analyses for all sovereign issuers, which investors could then use as a benchmark to distinguish between model-based ratings and the judgments of credit rating agencies.[7]

Fourth, debt contracts should be improved. Financial instruments that tie debt service to economic conditions and non-economic shocks could reduce the likelihood of future crises. Lenders should consistently include force majeure clauses and State-contingent contractual clauses that automate debt service relief in the case of external shocks, such as disasters or pandemics,. Uijt! fggpsu! tipvme! cf! mfe! cz! pÆdjbm! mfoejoh! cvjme-joh! po! fyjtujoh! fggpsut!)f/h/! Gsfodi! Efwfmpqnfou! Bhfodz-! Joufs.Bnfsjdbo! Efwfmpqnfou! Cbol! boe! some export-import banks). Such clauses can be net-present-value neutral to have no or minimal qsjdjoh! jnqbdu/! Ipxfwfs-! uif! dboopu! beesftt! larger solvency problems, and countries may still require debt restructuring. For debt crisis resolution, it is also important to incorporate enhanced collective action clauses in bond contracts and majority voting provisions in loan agreements, along with additional measures discussed below.

In addition, the international community should promote the greater use of debt swaps for the Tvtubjobcmf! Efwfmpqnfou! Hpbmt! boe! gps! uif! dmj-mate, in particular for climate change adaptation, with a focus on making debt more affordable and investing savings into climate resilience and the Goals, for example by developing a reference framework for debt swaps-for-Sustainable Efwfmpqnfou! Hpbmt/

ACTION 4: ENHANCE DEBT CRISIS RESOLUTION THROUGH A TWO-STEP PROCESS: A DEBT WORKOUT MECHANISM TO SUPPORT THE COMMON ßr02tm-239OT TT WT MEO DC BT13 0 0 13 321

There is a need to urgently address well-recognized shortcomings of the Common Framework, including eligibility, timeliness and comparability of treatment, in a systematic manner. For example, the Common Framework does not have a mechanism to address comparability of treatn fou!cfux ffo!boe!bdspt t!dsfejups!dmbttft!)pÆ-cial and private creditors). A dt-

Massively scale up development and climate f nancing

THE CASE FOR REFORM

Bt! ijhimjhiufe! jo! uif! Tvtubjobcmf! Efwfmpqnfou! Goals stimulus, the international system must scale up both concessional and non-conces-tjpobm!bggpsebcmf!boe!mpoh.ufsn!Ápbodjoh!gps!uif!

development banks have operational challenges
beyond the need for tailored lending.9 T 3055c.1 (4s (t)0.7 .(k)1.8 (s 955ct)t(d)10.6r4 (s (o)-0.7 (n15.5 se)10.4 s)]TJE

-5

ACTION 6: CHANGE THE BUSINESS MODELS OF MULTILATERAL DEVELOPMENT BANKS AND OTHER PUBLIC DEVELOPMENT BANKS TO FOCUS ON SUSTAINABLE DEVELOPMENT GOAL IMPACT; AND MORE EFFECTIVELY LEVERAGE PRIVATE FINANCE FOR SUSTAINABLE DEVELOPMENT GOAL IMPACT

- Vqebuf! efwfmpqnfou! cbol! njttjpot-! qpmjdz-! practice, metrics and internal incentives to gpdvt!po!Tvtubjobcmf!Efwfmpqnfou!Hpbm!jnqbdu!

FIGURE III

Strengthen the global financial safety net and provide liquidity to countries in need

THE CASE FOR REFORM

The global financial safety net has grown in volume since the 2008 world financial and economic crisis but has remained relatively steady since 2012. With IMF at its centre, the global financial safety net also includes regional financing arrangements, bilateral swap arrangements and countries' own foreign exchange reserves. Despite the multilayered nature of the global financial safety net, access is uneven.

The new allocation of SDRs in August 2021 helped to bridge some of the gaps in the safety net. However, the mechanism for allocating SDRs in proportion to countries' quota shares in IMF meant that developing countries received only about one third of the 2021 allocation, with the most vulnerable countries receiving much less (see figure IV). While both G7 and G20 have called for a voluntary rechannelling of $100 billion worth of unused SDRs, a fraction of that number has actually been rechannelled, with about $30 billion made available to IMF as at the end of January 2023.[11]

Few countries turned to regional arrangements in 3131!bu!uif!ujnf!pg!uif!DPWJE.2:!tipdl-!jo!qbsu! because the amount of liquidity in most of the facilities is low and the conditions for access are

Reset the rules for the financial system to promote stability with sustainability

THE CASE FOR REFORM

ACTION 12: STRENGTHEN REGULATION AND SUPERVISION OF BANK AND NON-BANK FINANCIAL INSTITUTIONS TO BETTER MANAGE RISKS AND REIN IN EXCESSIVE LEVERAGE

- Sfhvmbuf! bddpsejoh! up! uif! qsjodjqmf! pg! “tbnf! activity, same risk, same rules” to address Åobodjbm! tubcjmjuz! boe! joufhsjuz! sjtlt! gspn! cpui! cbol!boe!opo.cbol!Åobodjbm!jotujuvujpot/
- Address short-term incentives through tax

Redesign the global tax architecture for equitable and inclusive sustainable development

THE CASE FOR REFORM

Ep n f tujd! uby! tztuf n t! bsf! gpvoebujpobm! up! u i f! social contract in which taxpayers contribute to society and Governments provide valuable pub-

ACTION 15: STRENGTHEN GLOBAL TAX NORMS TO ADDRESS DIGITALIZATION AND GLOBALIZATION THROUGH AN INCLUSIVE PROCESS, IN WAYS THAT MEET THE NEEDS AND CAPACITIES OF DEVELOPING COUNTRIES AND OTHER STAKEHOLDERS

- Explore options to make international tax cooperation fully inclusive and more effective.
-

Conclusion

The reforms outlined in the present policy brief

FIGURE VI

OVERVIEW OF PROPOSED REFORMS TO THE INTERNATIONAL FINANCIAL ARCHITECTURE

Endnotes

1

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