TOWARDS A NEW FINANCING FOR DEVELOPMENT SYSTEM

If the 2030 Agenda is to be achieved, new resources must be mobilised to serve the Sustainable Development Goals (SDGs). The Summit of the Future 2024 and the Fourth International Conference on Financing for Development in 2025 present an opportunity to do that. It is a matter of identifying underutilised resources, closing channels through which developing countries leak funds and organising strategic areas for sustainable development. All this falls within the necessary reform of the financing for development architecture.

José Antonio Alonso
Professor of Applied Economics, Universidad Complutense de Madrid (UCM)

CIDOB REPORT
12- 2024

If the 2030 Agenda is to be achieved, new resources must be mobilised to serve the Sustainable Development Goals (SDGs). The Summit of the Future 2024 and the Fourth International Conference on Financing for Development in 2025 present an opportunity to do that. It is a matter of identifying underutilised resources, closing channels through which developing countries leak funds and organising strategic areas for sustainable development. All this falls within the necessary reform of the financing for development architecture.

Reform is a must

We are living through a particularly turbulent time on the global stage. Multiple crises (health, economic, environmental, humanitarian) happening at once have increased the severity of the challenges we must face. Meanwhile, the international atmosphere is becoming increasingly strained due to tensions between old and emerging powers and the rise of illiberal regimes little inclined to engage in international cooperation. Many challenges require a coordinated international response, yet at the same time such a response is looking increasingly unlikely in an environment where there are rising voices opposed to the multilateral

route as a means of tackling common problems. It is in this complex and contradictory international context that the necessary overhaul of the financing for development system will have to be undertaken.

The task looks unavoidable. We are two-thirds of the way down the road now, but the figures show that if we continue as we are, the goals of the 2030 Agenda for Sustainable Development are unlikely to be reached. Righting the course to get countries to quickly converge towards the goals requires mobilising more resources than committed so far and enlisting new actors, capabilities and instruments. We need changes in the rules and structures of the international financial architecture, then. There are some valuable precedents for such a task. These include the agreements resulting from the first and third editions of the International Conference on Financing for Development: the Monterrey Consensus (2002) and the Addis Ababa Action Agenda (2015). They also include the more visionary proposal drawn up in 2009 by the Commission of Experts on Reforms of the International Monetary and Financial System (also known as the Stiglitz Commission) (United Nations, 2009).

REACHING THE SDGs REQUIRES MOBILISING MORE RESOURCES, ENLISTING NEW ACTORS, CAPABILITIES AND INSTRUMENTS, AND MAKING CHANGES IN THE RULES AND STRUCTURES OF THE INTERNATIONAL FINANCIAL ARCHITECTURE.

There are two opportunities to make strides in this area coming up. The first is the Summit of the Future to be held in September 2024, whose agenda includes an item on the issue.[1] A second and more comprehensive opportunity is the Fourth International Conference on Financing for Development, which will be held in Spain in 2025. Both events must be leveraged to lay the foundations of a financing for development system capable of realising the SDGs, one that fosters a fairer distribution of global development opportunities.

The “holistic approach” announced in Addis Ababa should be adopted as the springboard for deploying the full gamut of financial resources available (public and private, concessional and market-based) in the service of sustainable development. There should also be agreement on the need to mobilise private resources to serve sustainable development,

1. See the paper by Víctor Burguete in this volume.

using the pulling power of public funds to draw them in through blended finance, venture capital funds or de-risking mechanisms, among other tools. With respect to the spirit of Addis Ababa, today it pays to be more critical regarding the prospects attributed to that mobilisation of private resources as a mechanism for closing the financial gap that the SDGs bring. The most reliable estimates put this component at around $50bn a year (OECD, 2023); not a negligible amount, but it falls well short of securing the transition from billions to trillions (World Bank Group, 2015) that the new agenda was calling for. To avoid frustration, expectations must be more realistic.

Instead, and without relinquishing the aim of mobilising private resources, this time more effort should be devoted to mapping the potential to boost development of hitherto little explored (if at all) public resources. More precisely, it is matter of triggering a double movement. First, identifying already available (or easily available) resources that could support countries in their transition towards sustainable development and, at the same time, closing the channels through which those same countries leak resources that could be useful for financing their own strategies.

Maximise sources, limit losses

An initial goal should be to trigger resource mobilisation mechanisms that are currently underused. Special Drawing Rights (SDRs), an important source of liquidity in the global economy created by the International Monetary Fund (IMF) in the late 1960s, are a case in point. The recent COVID-19 pandemic has shown that in times of crisis it is important for countries to have access to a source of international liquidity provision. While they were created with that purpose in mind, the effectiveness of the SDRs have fallen well short of their potential for three reasons: i) because issuances have been sporadic (five throughout history, the last coming in 2021); ii) because their distribution is determined in proportion to an IMF member country's quota, meaning most of the resources go to those who least need them, and iii) because the use of these funds has been highly restricted in international operations. These three obstacles should be removed. This liquid asset needs to be increased through sequential issuances, in line with the growth path of the global economy. And allocations must be decoupled from country quotas to ensure that the resources are available to those who most need them. Lastly, if the most recent issuance envisaged the possibility of the resources being used to cover the liquidity needs dictated by the pandemic, there is no reason why in the future those resources cannot be allocated to other international public goods that impact development.

Another underutilised resource provision mechanism is that of the multilateral development banks. Their diminishing weight in international financing is an illustration of the gradual dissociation of the business model with which these institutions were founded from the type of financing that countries require today. Multilateral banks are currently seen as under capitalised, overly bureaucratic, unimaginative institutions with little tolerance of risk. It is no surprise, then, that countries seek alternative financing mechanisms, be it in the private capital markets or among new suppliers (institutional investment funds or sovereign providers like China). Yet multilateral banks are more necessary than ever, given the levels of investment required for the green and digital transitions. For these institutions to perform their function, however, they would need to be better capitalised and overhaul their mandates and business models. Estimates suggest that the funds mobilised by these institutions could double if they undertook the proposed reforms (see, for example, Lee *et al*., 2023). At the same time, more cooperation should be encouraged between the multilateral banks and countries' development finance bodies (banks or not), which form a dense network of institutions with enormous potential.

THE INTERNATIONAL COMMUNITY CANNOT STAND BY AS DONORS REPEATEDLY FAIL TO HONOUR INTERNATIONAL ASSISTANCE COMMITMENTS ONE AFTER ANOTHER.

Apart from putting partially untapped mechanisms to use, it is also necessary to block those that deprive developing countries of resources. First among them is the global tax system, which is plagued with regulatory gaps and shady areas as there is little connection between spaces of revenue generation and those of tax collection. Certain progress has been made in the framework of the "Base erosion and profit shifting" (BEPS) initiative, a G20 and Organisation for Economic Co-operation and Development (OECD) project relating to the taxation of multinational enterprises. Developing countries, however, think (and rightly so) that this is insufficient progress, that the proposed distribution of what is collected is unbalanced and, above all, the body chosen for the agreements (the OECD) is unrepresentative. That is why in November 2023, embracing an African initiative, the United Nations decided to take on a more active role in the matter, overcoming the resistance of the developed countries. The result is the Platform for Collaboration on Tax, an initiative comprising the United Nations, the IMF, the World Bank and the OECD.

The absence of an effective and fair mechanism for dealing with sovereign debt crises is another major way developing countries lose resources. It is an important issue, because as the IMF and UN Trade and Development (UNCTAD) point out the number of countries facing financial stress has grown in the last decade (UNCTAD, 2024). The situation is likely not as serious as it was in the 1980s, but it is trickier to address the problems of over-indebtedness now. Official debt has lost ground to private debt and new actors (institutional funds and countries such as China) have emerged as major creditors, rendering previous mechanisms of concerted crisis management (like the Paris Club) less operative. It is necessary, then, to seek new institutional responses for a quick, efficient and fair exit from such situations. Some steps have been taken through the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative, promoted by the G20 and the Paris Club. But again, it is a limited initiative, one which excludes middle income countries. Moreover, if this initiative were to be extended, it would be necessary to move towards a statutory response to sovereign debt crises by establishing an inclusive and representative arbitration authority that fosters coordination among creditors and balance between the conflicting interests.

Strengthening global governance

Advances in tax cooperation have shown that it is not enough to find technical solutions to problems; it is also important that inclusive and representative institutions promote such agreements. A good deal of global economic governance rests on structures that reflect a world that no longer exists. Meanwhile, emerging actors choose to operate outside these structures because they consider them ineffective and unrepresentative. Part of the reform effort must be devoted to laying the foundations of a global economic governance that is not only more efficient but also more inclusive.

Progress must also be made on clearing up the muddled landscape of certain areas of international finance. Climate finance is one example. There is an imbalance between the funds allocated to mitigation (where provision is greater) and those geared towards adaptation or biodiversity protection, despite the fact that the latter funds are crucial for the poorest countries. Doner activism, moreover, has given risen to a dense architecture of funds and initiatives with overlapping mandates. This impairs overall effectiveness and makes it harder for countries with fewer capabilities to access resources. To make matters worse, there is neither proper identification of resources that are strictly for climate purposes, nor is there appropriate assessment of how much of the funds are additional, resulting in a clear underfunding of this area.

Reforms are also necessary in the field of development cooperation. It can no longer remain anchored to a metric – Official Development Assistance (ODA) – and an international body – the OECD's Development Assistance Committee (DAC) – that leave out a part of the system, such as South-South and triangular cooperation. At the same time, the international community cannot stand by as donors repeatedly fail to honour international assistance commitments one after another. Some sort of mechanism to ensure agreements are binding must be put in place. And it is also important to move towards exploring complementary avenues of resources via global levies on activities that generate global public ills (such as taxes on carbon emissions, financial transactions or international travel).

While they may complex to operate, none of the proposals set out above is unworkable. The important thing is that there is the political will to move forward with them. The Global South has backed many, which already featured in the Stiglitz Commission or in the more recent Bridgetown Initiative. Europe and the United States must now comprehend that there is little point in maintaining control over institutions that are increasingly inoperative. It seems better to relinquish that privilege and lay the foundations for sharing the organisation of tomorrow's world.

Bibliographical references

Lee, Nancy; Lankes, Hans P. and Humphrey, Christopher. "Yes, MDB shareholders can act now: six very feasible near-term decisions" (2023) Center for Global Development (online) https://www.cgdev.org/sites/default/files/mdb-shareholders-can-act-now-six-near-term-decisions.pdf

OECD. *Private finance mobilised by official development finance interventions* (2023) (online) https://www.oecd-ilibrary.org/development/private-finance-mobilised-by-official-development-finance-interventions_c5fb4a6c-en

UNCTAD. "A World of Debt. Report 2024" (2024) (online) https://unctad.org/publication/world-of-debt

United Nations. "Report of The Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System" (21 September 2009) (online) https://www.un.org/en/ga/econcrisissummit/docs/FinalReport_CoE.pdf

World Bank Group. "From billions to trillions: MDB contributions to financing for development". (2015) (online) https://documents.worldbank.org/en/publication/documents-reports/documentdetail/602761467999349576/from-billions-to-trillions-mdb-contributions-to-financing-for-development