# REASSESSING THE FINANCIAL ARCHITECTURE OF THE UNITED NATIONS

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In recent years, the global financial landscape has grown increasingly strained, with global public debt reaching $313 trillion in 2023.[1] Developing countries are particularly burdened, with 25 nations spending at least one-fifth of their tax revenue on servicing debt. Furthermore, wealth disparity is stark, as the wealthiest 10% of the global population hold 76% of global wealth, and around 600 million people are expected to remain impoverished by 2030.[2] As new challenges arise, such as climate change and overpopulation, sustainable development and financial stability become more important than ever, but also more difficult to achieve. High interest rates and restrictive financial barriers - put in place by the international financial architecture - often exacerbate the challenges faced by low- and middle-income countries.

The international financial architecture refers to the systems put in place to ensure the continuation and success of global monetary programs, such as the World Bank and International Monetary Fund (IMF). These systems direct the flow of financial resources between states, monitor trade, and provide assistance to developing countries, and were put in place in 1945 following the Second World War.[3] In the decades since, the world has become increasingly globalized and faces challenges that the current system is ill-equipped to address, such as climate change and social inequalities.

The framers of the current financial architecture had that generation's industrialized societies in mind. Those nations, such as the United States and much of Western Europe,

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[1] UN Department of Economic and Social Affairs (DESA). (2024, April 15). *UN leaders urge 'wholesale reform' of global financial architecture.* https://www.un.org/en/desa/un-leaders-urge-wholesale-reform-global-financial architecture.

[2] World Inequality Report. (n.d.). *Global economic inequality: insights.* https://wir2022.wid.world/chapter-1/#:~:text =The%20poorest%20half%20of%20the%20global%20population%20barely%20owns%20wealth,or%20%24%2077 1%2C300)%20on%20average.

[3] United Nations. (2023, May). *Our Common Agenda Policy Brief 6: Reforms to the International Financial Architecture.* https://sdgs.un.org/sites/default/files/2023-08/our-common-agenda-policy-brief-international finance-architecture-e.pdf.

remain some of the wealthiest and most influential nations in the world. They do not feel the effects of climate change, natural disasters, or inequality as heavily as developing nations, to whom the financial architecture pays insufficient attention. Today's world leaders recognize that the current system is ineffective in addressing modern issues and providing equitable assistance to nations.

This system is also ill-equipped to promote the 2030 Agenda for Sustainable Development, the basis of which are the 17 Sustainable Development Goals (SDGs).[4] The SDGs target key points for global development and call upon Member States to take action for people and the planet. Readdressing the financial architecture system will improve national capacities to advance these goals. For all these reasons, the United Nations and its Member States have taken time to reflect on the current system and implement global financial architecture reform (GFAR).

**Government Coalition Proposals**

Various government coalitions, made up of regional actors, have developed GFAR frameworks, typically focusing on low-and-middle-income states. These coalitions have been effective in attracting international attention and spreading awareness on behalf of developing states, and some have been updated over time to remain relevant.

Released in September 2022, the Bridgetown Initiative addresses interconnected crises that global financial architecture fails to take into account due to their unprecedented nature:[5] 1) rising cost of living, caused by multiple factors including the war in Ukraine and the COVID-19 pandemic; 2) growing debt in developing countries, due partially to COVID-19 and climate-related disasters; and 3) general increase in climate-related disasters and rising

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4 UNDESA. (2024). Sustainable Development: The 17 Goals. https://sdgs.un.org/goals.

5 Mottley, Mia. (2022, September 23). Urgent and Decisive Action Required for an Unprecedented Combination of Crises: The 2022 Bridgetown Initiative for the Reform of the Global Financial Architecture. https://pmo.gov.bb/wp-content/uploads/2022/10/The-2022-Bridgetown-Initiative.pdf?utm_source=PassBlue+List&utm_campaign=72ad84667e-RSS_SetonHall_27Jan_UN-Study&utm_medium=email&utm_term=0_4795f55662-72ad84667e-54986885.

global temperature. Emphasizing that fiscal and financial stress impacts one in five countries, the Bridgetown Initiative seeks to alleviate these stressors, which have been compounded by the aforementioned crises. The Initiative proposes a plan to avoid worsening hardships, inequalities, and emissions by redirecting financial resources toward climate action and the SDGs. Mia Mottley, the Prime Minister of Barbados, spearheaded the 2022 plan and inspired the 2023 Summit for a New Global Financing Pact.[6] The 2022 initiative has three steps:

1) provide emergency liquidity to alleviate debt in developing countries;
2) expand multilateral lending to governments by US $1 trillion; and
3) activate private sector savings for climate mitigation and fund reconstruction after a climate disaster through new multilateral mechanisms.

Launched by Egypt at the 2022 UN Climate Change Conference (COP27), the Sustainable Debt Coalition aims to enhance future debt management by bringing together borrower and creditor countries. During the *2023 Conference of Ministers of UNECA,* key African Ministers of Finance endorsed the Coalition. Its proposal for financial reform includes borrower-defined Key Performance Indicators, climate contingency clauses, coordination and upscaling of blended finance, the Sustainable Budgeting Approach, prioritization of grant finance over debt finance, and debt swaps and other instruments.[7]

Following the Summit for a New Global Financing Pact in June 2023, thirty-five countries from Africa, Europe, Asia, and Latin America developed the Paris Pact for People and Planet (4P), focusing on accelerated debt suspension and better coordination among multilateral development banks (MDBs).[8] The 4P laid out four key principles:

> 1) no country should have to choose between fighting poverty and saving the planet; 2) every country adopts its own transition strategy, taking into account its

[6] Ellmers, Bodo. (2024, June 6). *Bridgetown Initiative 3.0 Released: What's the News?* Global Policy Forum. https://www.globalpolicy.org/en/news/2024-06-05/bridgetown-initiative-30-released-whats-news#:~:text=Promoted%20by%20Mia%20Mottley%2C%20the,in%20Paris%20in%20June%202023.

[7] Sustainable Debt Coalition. (n.d.). *The Sustainable Debt Coalition.* Retrieved September 4, 2024. https://sustainabledebtcoalition.org/.

[8] Paris Pact for People and the Planet. (2023). *The pact.* Retrieved September 4, 2024. https://pactedeparis.org/en.php#lepacte.

needs and its constraints when it comes to achieving the Paris Agreement targets;

3) States need a financial boost and more resources to assist vulnerable economies in helping populations out of poverty, while protecting the planet; and
4) the international financial system must be more efficient, and the role of private capital is key.

At the Africa Climate Summit in September 2023, African leaders on GFAR developed the Nairobi Declaration to express continental issues. The Declaration calls attention to rapid population growth (especially in urban areas), extreme weather patterns, lack of clean water for 600 million Africans, lack of electricity for 950 million Africans, the disproportionate effects of climate change, and a disproportionate reception of US resource investment.[9] In response to these concerns, the Declaration proposes a path to economic development that focuses on climate-positive growth and includes low-and-middle-income states in the conversation.

Finance in Common, an annual conference of Public Development Banks (PDBs), met for the fourth time in September 2023 to strengthen their partnership and reinforce their commitment to mitigating the effects of climate change through sustainable development.[10] The latest conference incorporated human rights, private capital mobilization toward the SDGs, and collaboration with civil society through a Latin American and Caribbean perspective, ultimately focusing on the following areas:

1) financial inclusion for small and medium enterprises (SMEs),
2) climate and biodiversity,
3) sustainable infrastructures, and
4) PBDs' institutional agenda.

The Vulnerable Twenty (V20) group advocated for debt, carbon markets, and climate risk management reform in its Accra-Marrakesh Agenda, which was most recently updated in

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[9] African Union. (2023, 6 September). *The African Leaders Nairobi Declaration On Climate Change And Call To Action.* https://www.afdb.org/sites/default/files/2023/09/08/the_african_leaders_nairobi_declaration_on_climate_change-rev-eng.pdf.

[10] Finance in Common. (2024). *Finance in Common 2023.* Retrieved September 4, 2024. https://financeincommon.org/finance-in-common-2023.

October 2023.[11] The V20 currently represents 68 of the most systemically climate-vulnerable states and 1.7 billion people. Keen on protecting the future of these people, the Accra-Marrakesh Agenda laid out four key GFAR initiatives:

1) make debt work for the climate,
2) transform the international and development financial system,
3) develop a new global deal on carbon financing, and
4) revolutionize risk management for our climate-insecure world economy.

**Multi-stakeholder Coalitions**

Outside of government, financial institutions at the state and global level have raised concerns regarding the international financial architecture and developed their own proposals for reform. Proposals from multi-stakeholder coalitions are useful for assisting Member States financially to accelerate reform. The Sustainability-linked Sovereign Debt Hub seeks to tackle debt via innovative investment in sustainability from think tanks and MBDs. [12] The Hub is hosted by NatureFinance with support from the MAVA Foundation, Children's Investment Fund Foundation, and State Secretariat for Economic Affairs. Its GFAR proposal includes rewarding positive climate outcomes through reduced cost of debt repayment, incentivizing investments that lead to a country's economic productivity, expanding financial flexibility to increase public spending, and advancing risk-sharing between debtors and creditors. The expected outcomes of this proposal include expansion in the size of the sustainability-linked sovereign bond market, increased access to concessionary financing and credit enhancement, scaling up of debt issuances linked to key performance indicators (KPIs), and reduced cost of deal structuring.

Through an informal collection of actors from the private sector, philanthropic organizations, local leadership, global civil society groups, international organizations, and

[11] Vulnerable Group of 20 (V20). (2020-2021). *Accra-Marrakech Agenda.* Retrieved September 4, 2024. https://www.v-20.org/accra-marrakech-agenda/.
[12] Sustainability-Linked Sovereign Debt Hub. (2022). *About the Sustainability-Linked Sovereign Debt Hub.* Retrieved September 4, 2024. https://www.ssdh.net/about.

think tanks, Sharing Strategies was born as a platform to avert climate catastrophe and achieve the SDGs via global reform.[13] The network has three primary work-streams:

1) advocating for SDG-smart financing by connecting local & global campaigns, creatives, and movements,
2) financing global public goods by raising between $2.4-3 trillion annually in quality public and private investment by 2030, and
3) delivering local public goods by using a data-driven pipeline and innovative technologies to simultaneously benefit people and the planet.

Led by the African Center for Economic Transformation, the Marrakesh Framework builds an African agenda for global financial architecture reform. The Framework includes five goals that the Center hopes to see implemented twelve to eighteen months from October 2023. The action plan calls upon global institutions to:

1) craft a real solution to the debt crisis,
2) provide more grant and concessional money to Africa,
3) ensure that at least five countries re-channel their Special Drawing Rights to the African Development Bank and other African financial institutions,
4) increase African voice in global decisions and decision-making bodies, and
5) commit to an ambitious green growth agenda for Africa.[14]

**International Institution Proposals**

Perhaps the most comprehensive action taken thus far is the United Nations' Common Agenda Policy Brief 6: Reforms to the International Financial Architecture,[15] which outlined and elaborated upon the following 17 goals:

1) transform the governance of international financial institutions,
2) create a representative apex body to systematically enhance coherence of the international system,
3) reduce debt risks and enhance sovereign debt markets to support sustainable development goals,

[13] Sharing Strategies. (2022). *Collective Intelligence for People and Planet.* Retrieved September 4, 2024. https://www.sharingstrategies.org/.
[14] MDB Reform Accelerator. (2023, 13 October). Marrakech Framework: An African Agenda for Global Financial Architecture. https://mdbreformaccelerator.cgdev.org/marrakech-framework-an-african-agenda-for-global financial-architecture/.
[15] United Nations. *Common Agenda Policy Brief 6* *https://indonesia.un.org/en/238877-our-common-agenda-policy-brief-6-reforms-international-financial-architecture*

4) enhance debt crisis resolution through a two-step process: a debt workout mechanism to support the common framework and, in the medium term, a sovereign debt authority, 5) massively increase development lending and improve terms of lending, 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,

7) massively increase climate finance, while ensuring additionality,

8) more effectively use the system of development banks to increase lending and sustainable development goal impact,

9) ensure that the poorest can continue to benefit from the multilateral development bank system,

10) strengthen liquidity provision and widen the financial safety net,

11) address capital market volatility,

12) strengthen regulation and supervision of bank and non-bank financial institutions to better manage risks and rein in excessive leverage,

13) make businesses more sustainable and reduce greenwashing,

14) strengthen global financial integrity standards,

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,

16) improve pillar two of the proposal by the OECD/G20 inclusive framework on base erosion and profit shifting to reduce wasteful tax incentives, while better incentivizing taxation in source countries, and

17) create global tax transparency and information-sharing frameworks that benefit all countries.

**Financing For Development**

Adopted in 2015, the Addis Ababa Action Agenda addressed the issue of financing for development and provided a groundbreaking global framework that included over 100 action items to alleviate debt and poverty.[16] The Agenda was put forth at the Third International Conference on Financing for Development (FdF) and received an endorsement from the UN General Assembly via resolution 69/313 of July 27, 2015. Addis Ababa included a plan to set up social protection systems with national spending targets, such as the target to spend 0.7% of gross national income on foreign aid and commitments to collect more taxes.[17] After its

[16] UNDESA. (n.d.). Addis Ababa Action Agenda of the Third International Conference on Financing for Development. https://www.un.org/esa/ffd/publications/aaaa-outcome.html.

[17] Chonghaile, Clár Ní. (2015, July 16). *Addis Ababa outcome: milestone or millstone for the world's poor?* The Guardian. https://www.theguardian.com/global-development/2015/jul/16/financing-for-development-summit outcome-addis-ababa-milestone-millstone-poverty.

adoption, the Agenda received backlash from critics who claimed it was exclusionary and exclusively provided strategies to reform taxes for developed states. Supporters negated these claims by arguing that it was the first step in a longer process.

The UN Economic and Social Council (ECOSOC) has discussed structural reform more extensively at recent FdF Conferences. The 2023 forum recognized that reforming the international financial architecture is crucial for developing countries to properly address the rich-poor gap and achieve the SDGs. The forum placed pressure on Bretton Woods institutions to collectively do more to boost liquidity and stimulus spending for developing countries. The ECOSOC Bureau, UN Member State PRs, and Executive Directors of World Bank and IMF all hope to strengthen the connection between the UN and Bretton Woods Institutions.

The 2023 FfD forum also addressed the unequal distribution of resources between nations. For instance, developed countries are currently 26 times more likely to receive Special Drawing Rights (SDRs) than developing countries, and 13 times more likely than all of Africa combined. SDRs boost liquidity in times of crisis, and would be effective when helping developing countries increase financial security. “We are at a crossroads. Without swift action, financing divides will become sustainable development divides,” said Council President Lachezara Stoeva of Bulgaria.[18] She also argued that the UN is in need of a reformed international financial architecture that does not just include developing countries, but places them at its core.

At the 2024 FdD forum, held in April, António Guterres, United Nations Secretary-General, elaborated upon the goals set forth during the 2023 forum, highlighting the $4 trillion annual financing gap.[19] The Secretary-General underscored the need for a $500 billion per year SDG

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[18] UN Meetings Coverage and Press Releases (MCPR). (2023, April 17). *With Inequality Deepening, Reform of Global Financial Architecture Key to Overcome Multidimensional Crises, Speakers Stress as Financing for Development Forum Opens.* https://press.un.org/en/2023/ecosoc7118.doc.htm.

[19] International Institute for Sustainable Development. (2024, May 2). *ECOSOC Forum Discusses Priorities for Fourth International FfD Conference.* https://sdg.iisd.org/news/ecosoc-forum-discusses-priorities-for-fourth international-ffd-conference/.

stimulus to bridge the gap and achieve the goals. To serve all countries and move toward a more sustainable development path, Guterres further called for:

- donor countries to meet their official development assistance (ODA) commitments and begin discussions on general capital increases for multilateral development banks (MBDs);
- MBDs to make better use of the resources they can already access;
- bold action to ease the debt distress; and
- increased developing country representation across the financial system and in every decision that is made.

**SIDS: A Crisis on the Horizon**

As global temperatures increase, GFAR with climate change and the SDGs in mind is critical. In recent years, more governments have become alarmed by rising sea levels, an issue not present when the global financial architecture was structured. Since 1880, global sea levels have risen eight to nine inches, and in 2023 global average sea levels reached 101.4 mm (3.99 inches) above 1993 levels for the first time.[20] This rise threatens coastal ecosystems and has a disproportionate effect on small island developing states (SIDS).

Despite being responsible for just 0.2% of global carbon emissions, SIDS have lost a greater percent of land area than other nations, which creates climate refugees, increases the risk of natural disaster, and threatens drinking water supplies.[21] World leaders adopted the Antigua-Barbuda Agenda for SIDS (ABAS) in May 2024 to address this critical issue. Attendees of the fourth International Conference on Small Island Developing States agreed that "the international financial architecture must make accessing concessional financing easier for such States." The Conference launched a Debt Sustainability Support Service on May 28, 2024 to expand financial support, alleviate the unsustainable debt burden, and address the unique issues facing SIDS. Prime Minister Gaston Brown of Antigua and Barbuda added, "This will be a

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[20] Lindsey, Rebecca. (2023, August 22). *Climate Change: Global Sea Level.* Climate.gov. https://www.climate.gov/news-features/understanding-climate/climate-change-global-sea-level.
[21] UN Office of the High Representative for LDCs, Landlocked Developing Countries, and SIDS. (n.d.). *Multidimensional Vulnerability Index.* https://www.un.org/ohrlls/mvi.

game-changer for islands."[22]

SIDS have furthermore requested financial assistance from the United Nations, Bretton Woods institutions, and Member States. Readdressing the international financial architecture to specifically address rising sea levels and providing monetary stability to SIDS is critical to protect these populations going forward. In partnership with the United Nations, SIDS are developing a Multidimensional Vulnerability Index to assess ecological and environmental vulnerability of individual nations. Such an index would provide assistance based on needs and would grant island states the additional funding necessary to deal with sea levels and develop a long-term solution.

**Conclusion**

The international financial architecture, backed by institutions like the World Bank and IMF, was designed with the intent to improve civilian lives and assist countries in times of need. As the global landscape continues to shift, the international financial architecture should shift with it to reflect civilian and state needs. Social inequalities and climate change cannot be rectified overnight, nor can one person tackle these alone. Upon this, developing and developed states from every continent agree.

Key frameworks - like the Addis Ababa Agenda - provide the language and guidelines to make these shifts. The annual Financing for Development forum, along with annual conferences that bring together regional and international actors, continue the conversation. Proposals from government coalitions, multi-stakeholder coalitions, and international institutions generate ideas concerning debt relief, need-based funding, taxes, economic productivity, and beyond. These ideas can be implemented through international cooperation and dedication, and go a long way to help achieve the SDGs.

Going forward, keeping SIDS and low-and-middle income countries at the forefront of

[22] UNMCPR. (2024, 30 May). *World Leaders Adopt Antigua and Barbuda Agenda for Small Island Developing States, as International Conference Concludes.* https://press.un.org/en/2024/dev3463.doc.htm.

discussions on financing for development and the global financial architecture is critical in ensuring these nations receive proper attention and resources. Addressing climate change and social inequality will remain critical talking points regarding structural reform. The path toward sustainable development is illuminated by inclusive conversations and frameworks that work to alleviate debt and poverty for all people.

## QUESTIONS TO CONSIDER

1. Do developed states have a responsibility to protect developing states, or does that task fall solely on international organizations?
2. What is the biggest issue on the horizon that requires GFAR (i.e. climate change, migration, pandemic preparation, economic assistance, poverty)?
3. How can the international financial architecture specifically address rising sea levels, loss of habitable land, climate refugees, and natural disaster?
4. What changes to the financial architecture does your country support, if any?
5. How can GFAR specifically address the advancement of the SDGs?

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