

First session of the Preparatory Committee for the fourth International Conference on Financing for Development

Multi-Stakeholder Round Table Discussion on “Addressing systemic issues”

Wednesday, 24 July 2024, 16:30 – 18:00

Concept Note and guiding questions

United Nations Member States have given the Fourth International Conference on Financing for Development (FfD4) an ambitious mandate to address financing challenges “in the context of the urgent need to accelerate the implementation of the 2030 Agenda and the achievement of the SDGs and to support reform of the international financial architecture.” Reform of the international financial system continues to be a top policy priority as tight global financial conditions, geopolitical uncertainty and the lingering economic effects of the pandemic weigh on the financing for development outlook for countries across the globe.

Developing countries, particularly the poorest countries, suffer disproportionately from the international financial system’s failure to deliver adequate stable and affordable long-term financing to support sustainable development. Amidst a growing financing gap for the Sustainable Development Goals (SDGs), a transformation of the system is necessary, including a shift from short-term and volatile financial flows, boom and bust cycles, lack of access to affordable long-term finance and investment, and repeat cycles of debt crises and distress.

Most recently, the uneven recovery from the COVID-19 pandemic and adverse global economic trends, such as tight monetary conditions, have exacerbated developing countries’ financing challenges. High levels of sovereign debt, which is increasingly market-mediated, is severely curtailing countries’ ability to invest in the SDGs. Over the past five years, many developing countries have seen declines in capital inflows as well as continued volatility. These trends have posed challenges for policy at all levels. More countries have also been paying IMF surcharges, which add extra costs to precisely those countries that face the most severe balance of payment challenges. The IMF agreed in early 2024 to conduct a review of the surcharges policy, following calls to lower or remove them to free up resources for SDG investment.

At the global level, the global financial safety net continues to be severely stretched, with access uneven. The safety net was bolstered by the 2021 allocation of \$650 billion worth of special drawing rights (SDRs) aimed at supporting countries in navigating the economic fallout of the COVID-19 pandemic. Developing countries received around one-third of the allocation, which represented 0.42 per cent of their GDP. Some IMF members with sufficient reserves and strong external pledged to voluntarily rechannel over \$100 billion in unused SDRs, mainly to the IMF’s PRGT and RST. Even after these commitments, around USD 500 billion of the SDRs on central bank balance sheets in developed countries remain unused.

The African Development Bank (AfDB), jointly with the Inter-American Development Bank (IADB) has put forward an innovative proposal that allows countries to provide SDRs to MDBs as hybrid capital, which the MDBs can leverage three to five times to provide long-term financing for development and climate projects. On 15 May 2024, the IMF board approved the rechanneling of SDRs to MDBs. There are also calls to explore measures to speed up issuance and reallocation of SDRs in future crisis. In 2008–2009, it took 11 months after the onset of full-scale financial crises to agree on SDR issuance, while in 2020–2021, it took 17 months.

Underlying these challenges is insufficient alignment of the international financial architecture with sustainable development and shortcomings in global economic governance. Contrary to commitments in the financing for development outcomes, there has only been very limited progress in enhancing voice and representation of developing countries in global economic governance. After gains following the 2008 world financial and economic crisis, several international standard-setting bodies have experienced stagnant or declining representation of developing countries on their principal decision-making organs in recent years.

Questions for Discussion

1. Global economic governance

- What measures can be taken to accelerate governance reform of international financial institutions to increase the voice and representation of developing countries?
- How can the international community enhance coordination and coherence among different institutions and frameworks to create a more resilient and inclusive international financial architecture?

2. Macroeconomic stability and the global financial safety net

- How can the global financial safety net be strengthened to provide more equitable and effective liquidity support to developing countries in accordance with their needs, taking vulnerabilities into account?
- What reforms are needed to reduce volatility and provide a stable global macroeconomic environment that is conducive to sustainable development?