



## Bond media briefing – New Financial Pact Summit Paris, 22-23 June 2023

The [summit for a new global financial pact](#), hosted by the French President Emmanuel Macron, is held against a backdrop of the climate, hunger, debt, extreme poverty and conflict crises which all require urgent, bold and aligned action. The summit has the potential to mobilise critical political support across rich and low- and middle-income countries to reform global financial architecture, which is failing the people and planet.

Rising interest rates, the impacts of Russia's war in Ukraine, and the Covid-19 pandemic have all decreased chances of lower-income countries to build climate resilience and achieve Sustainable Development goals (SDGs). Oxfam [estimates](#) that low-and-middle income countries face a \$27 trillion black hole – increasing at around \$3.9 trillion a year to 2030 –when it comes to meeting costs of climate related-loss and adaptation, alongside their health, education and social needs.

There is an urgent need to mobilise and repurpose all existing resources, reimagine systems and institutions, and rethink our approach to global development. We need a fairer global financial system, which is built on justice, equity and solidarity, and which can deliver better outcomes for people and planet.

### Solutions – What is needed

Though the summit and the [Bridgetown Initiative](#) focus on the mobilisation of public and private finance and the reorganisation of the World Bank and the International Monetary Fund (IMF) to provide more financial support for lower-income and climate vulnerable countries, more money is not enough. It needs to go hand in hand with two other important reforms: **governance of global financial architecture, and a new approach to development.**

1. We need a complete overhaul of the global financial system, which was designed 80 years ago and is not fit to deal with 21<sup>st</sup> century challenges. Countries that are key shareholders of the World Bank and the IMF - typically the richest countries, like the UK – must champion **governance reform** of these institutions by improving fairness, effectiveness and transparency while giving lower-income and climate vulnerable countries a seat, and a voice, at the table. They can do this by supporting decisions of international importance to be taken within the UN (e.g UN Tax body etc), ending the 'gentlemen's agreement' on the European and American monopoly over the leadership of IMF and WB, and push for ambitious quota reforms to rebalance the shares of shareholders and increase the vote share of lower-income and climate vulnerable countries.
2. Giving more resources without a critical assessment and **review of the development model** promoted by the [Bretton Woods institutions](#) risks promoting systemic inequalities and could further erode trust between richer and lower-income states. We need to re-assess the impact of private sector-led development – is more of it an answer to the current problems or will it continue to reproduce global inequalities?

Regarding finance, there are **five** further areas of focus:

**3. Debt relief** – 28 of the lowest income countries [now spend twice as much on debt interest payments](#) as they did a decade ago. In 2021, lower-income countries [spent an average of 27.5%](#) of their budgets on debt repayments - this was double the proportion spent on education and four times that spent on healthcare. Reliance on debt-based finance and on leveraging private finance will risk further debt crises and create more inequality and human rights abuses. The Bridgetown Initiative started off wanting to mobilise funding in ways that avoided deepening debt, so it is important to focus on that goal to generate better sources of long-term finance to lower-income countries without increasing debt distress.

**What the UK government should do:** The UK should call for urgent cancellation of debts (without economic conditionality) by external creditors, including private lenders and multilateral lenders, for all countries that need it and adopt [a new law](#) requiring all private debt contracts enforced in the UK to participate in coordinated debt relief.

**4. Climate Finance** - Countries at the forefront of climate disasters, despite contributing the least to the problem, need sustainable long-term solutions now. Too much climate finance is provided as loans rather than grants, meaning that climate change is driving the debt crisis in many countries both through impacts and through increased borrowing to address the crisis. The costs of climate change are unfairly falling on those least responsible for the crisis and are being 'punished' twice: first, experiencing direct impacts of climate change and second – borrowing vast amounts (or not being able to borrow at all) for adaptation, loss and damage.

**What the UK government should do:** The UK is reasonably good on grant-based climate finance, so the UK should continue to offer grant-based finance for climate adaptation over loans and encourage fellow governments to do the same. The UK should prioritise delivering its climate finance commitments through mechanisms such as the Green Climate Fund, Adaptation Fund, and the forthcoming Loss and Damage Fund. Climate finance must be additional to aid - the UK should meet the commitment to 0.7% as soon as possible, ensuring that all UK aid is fully aligned with the SDGs and Paris agreement commitments.

**5. Re-channel Special Drawing Rights (SDRs) - SDR allocations have been proven to work:** the benefits of the 2021 \$650 billion issuance of SDRs were enormous. 98 lower- and middle-income countries used these SDRs to procure vaccines, fund welfare payments and wages, and for budget support, among other things. 55 countries also used them to repay \$7.6 billion worth of IMF debt.

**What the UK government should do:** The UK has already pledged to re-channel 20% of its allocation. Other governments are now stepping up their commitments with France raising its pledge to 30% and Japan to 40% - as well as matching these more ambitious channelling targets, the UK has an opportunity to take a leading role and utilise the freedoms it now has after Brexit to [re-channel SDRs through the African Development Bank](#).

**6. Tackling Tax avoidance and illicit finance** - About \$15-24 trillion of assets are hidden offshore; profit shifting has been estimated to cost governments between \$500 billion and \$600 billion a year in lost tax revenues. African countries lose at least \$50 billion a year due to tax avoidance because of international tax rules benefiting multinational companies and facilitated by a web of jurisdictions offering low tax rates and/or secrecy.

**What the UK government should do:** The UK should support a universal UN Framework Convention on Tax and a global tax body and advocate for the introduction of comprehensive beneficial ownership registries in all countries and jurisdictions to curb illicit financial flows and tax abuse.

**7. New sources of finance:** Tackling climate change requires all governments (including the UK) to consider greater taxation of wealth, especially when it coincides with polluting behaviour. This could include expanding the existing windfall tax on fossil fuel company profits (as a contribution to loss and damage costs), taxes directly on wealth, equalising capital gains with income tax rates, reforming non-dom status or considering shipping levies and financial transaction tax [as proposed by President Macron](#).

**Stephanie Draper, Chief Executive of Bond, the UK network for NGOs said:**

“Our global financial system is broken. Urgent reform is needed to design a system that supports lower-income countries at the forefront of the global climate, debt, poverty, food, and humanitarian crises. But this is only possible if richer countries, like the UK, demonstrate global leadership and commit to reforming our global financial system, working with lower-income countries to deliver solutions that ensure the long-term sustainability of our planet.”

## Notes for editors

*Elements of this briefing have been informed by Bond member and partner organisations.*

**Bond** is the UK network for organisations working in international development. Bond unites and supports a diverse network of over 400 civil society organisations from across the UK, and allies to help eradicate global poverty, inequality and injustice.

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