



Rat für  
NACHHALTIGE  
Entwicklung

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Sustainable Development

# Financing the Transformation and Sustainable Development

## Reform of the international financial architecture

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Council members: Reiner Hoffmann, Gunda Röstel, Prof. Dr. Kathrin Böhning-Gaese, Zarah Bruhn, Katja Dörner, Saori Dubourg, Tanja Gönner, Jörg-Andreas Krüger, Prof. Dr. Mark G. Lawrence, Prof. Dr. Kai Niebert, Hubertus Paetow, Myriam Rapior, Dr. Werner Schnappauf, Dr. Franziska Tanneberger, Heidemarie Wiczorek-Zeul



## A. Starting point

Now, in 2023, the international community has reached the halfway point in the United Nations 2030 Agenda and the fulfilment of its 17 Sustainable Development Goals (SDGs). According to the UN's latest progress report<sup>1</sup>, only 12 percent of the 140 or so subgoals are developing in the right direction. Although the efforts towards almost 50 percent of the subgoals are showing slight progress, they are still off target – some moderately but some profoundly. For around 30 percent of the goals, we see either no or negative progress, or even a backslide to below the baseline value of 2015. Given that we have only seven years left to achieve the 2030 Agenda, this is a worrying trend, as the United Nations observed in May 2023.

Putting the 2030 Agenda into practice lacks the large-scale funding it needs. This yawning financing gap is also evident in the execution of the Paris Agreement (2015) and the Montreal-Kunming biodiversity agreement (2022). At the same time, the growing and mutually reinforcing crises – such as the impacts of the climate crisis, the Covid-19 pandemic and the Russian war of aggression in Ukraine – are causing many countries around the world to fall further into debt, most notably the poorest. The latest Global Sustainable Development Report (GSDR), compiled by a group of independent scientists appointed by the UN Secretary-General, also sees the funding gap for sustainable development as the greatest challenge to achieving the 2030 Agenda.<sup>2</sup> As such, there is an urgent need to promptly call a fourth global conference on financing sustainable development, with a view to renewing and boosting implementation of the Addis Ababa Action Agenda<sup>3</sup>.

In September 2022, the Prime Minister of Barbados, Mia Mottley, launched the so-called Bridgetown Initiative calling for reform of the World Bank and the International Monetary Fund (IMF). In parallel with other stakeholders, the USA in particular, Germany has also proposed ideas for reforms. These proposals aim to boost the mobilisation of capital for climate action and sustainability endeavours and should form part of a comprehensive reform agenda for the international financial institutions by autumn 2023. This debate is likewise unfolding both in parts of the German government<sup>4</sup> and in the annual conferences of the

<sup>1</sup> United Nations General Assembly (2023) [SDG Progress Report](#).

<sup>2</sup> International Group of Scientists, IGS (2023) [Global Sustainable Development Report](#) (unedited advance edition).

<sup>3</sup> [Addis Ababa Action Agenda](#), the global framework for international financing issues and the result of the Third International Conference on Financing for Development in 2015.

<sup>4</sup> BMZ (2023) [Deutschland fordert grundlegende Reform der Weltbank](#) [Germany calls for fundamental reform of the World Bank].



institutions<sup>5</sup> themselves. It is also in evidence at the United Nations in the Secretary-General's SDG Stimulus plan and the report of the High-Level Advisory Board on Effective Multilateralism (HLAB)<sup>6</sup> as well as in alliances of UN member states – including the aforementioned Bridgetown Initiative of September 2022<sup>7</sup>. The reform proposals in a nutshell are as follows: To support a just social and ecological transformation, the global financial systems should be reformed, based on four closely intertwined core concerns with high synergy potential: firstly, enabling fiscal tolerance for the most heavily indebted countries; secondly and thirdly, supporting both the development of the private sector in low-income countries as well as investment in “green infrastructure” for the energy transition in emerging and developing economies; and fourthly, mobilising innovative financing for countries that are especially hard hit by the climate crisis. Moreover, to discuss these key objectives and their realisation, French President Emmanuel Macron along with Indian Prime Minister Narendra Modi has invited numerous heads of state and government to a summit for a “New Global Financing Pact”<sup>8</sup> on 22 and 23 June 2023 in Paris. India holds the G20 presidency in 2023 and will host the G20 summit in New Delhi in the autumn.

A reform of the international financial architecture could be instrumental in achieving the climate and sustainability goals. Equally, the massive debt situation of many countries in the Global South must certainly be resolved if we are to prevent these countries from being unable to implement the necessary measures for achieving the SDGs for want of money alone. To successfully tackle the problem of excess debt, it is essential to actively involve China and the G20 process.

## B. Recommendations

At the Paris summit on the “New Global Financing Pact” at the end of June 2023 and the UN General Assembly in September 2023, this year's SDG Summit and the reform talks of the World Bank, the German Council for Sustainable Development recommends that the federal government should be seen to argue ambitiously for the following adjustments:

<sup>5</sup> See, for example, the [2023 Spring Meetings of the World Bank and IMF](#).

<sup>6</sup> United Nations (2023) [United Nations Secretary-General's SDG Stimulus](#) from February 2023 and report of the High-Level Advisory Board (HLAB) on the reform of multilateral institutions and the importance of international financing mechanisms (HLAB (2023) [A Breakthrough for People and Planet – Effective and Inclusive Global Governance for Today and the Future](#)).

<sup>7</sup> Bridgetown Initiative (2022) [Urgent and Decisive Action Required for an Unprecedented Combination of Crises – The 2022 Bridgetown Agenda for the Reform of the Global Financial Architecture](#).

<sup>8</sup> [Summit for a New Global Financing Pact: Towards More Commitments to Meet the 2030 Agenda, 22-23 June 2023 in Paris](#).



- I. **Remodelling the World Bank and other multilateral development banks (MDBs) into transformation banks:** The architecture of international development financing should be reformed such that MDBs establish business models that are committed to reducing poverty, but also make greater allowances for the impacts of global crises. Furthermore, they should create incentives for accelerating the energy transition, handling pandemics effectively, curbing species extinction and supporting social security systems. Reformed MDB business models should equally lead to national investments also benefiting global public goods and the world's population. In addition, MDBs should also be sensitised to inequalities in societies. Plus, the credit risks should be diversified as part of a reform such that financial markets can be used by the MDBs as a source of development assistance, releasing potentially billions more euros in additional financing. At the same time the countries of the Global South should be actively involved in the decision-making. This also means adjusting the governance and its composition in the financial institutions.
  
- II. **Here, proposals of the Bridgetown Initiative on new financial resources and special drawing rights** should be supported, as should a reform of the credit facilities for both developing and emerging markets, because this would open up the financing opportunities at favourable conditions for these countries also. As well as being more frequently affected by the impacts of the climate crisis, the countries of the Global South are also having to pay more to reform their economies. Bilateral and multilateral development banks should design their credit instruments in such a way that debtor countries can pause their payments in times of crisis, for instance through so-called hurricane clauses. The RNE supports this additional demand of the Bridgetown Initiative.
  
- III. According to the latest calculations, some one trillion US dollars a year are needed to implement the Paris Agreement and the 2030 Agenda in the developing and emerging countries.<sup>9</sup> **In light of its ever-increasing debt level, the Global South now requires an ambitious and global safety net to finance sustainable development.** This also includes multilateral debt relief, which should be tied to obligations to implement the climate targets and SDGs. We also support the idea of a trust fund for the MDBs as an efficient and targeted means to open up the prospect of sustainable development in heavily indebted countries in times of multiple crises.

<sup>9</sup> Ramos, L., Ray, R., Bhandary, R.R., Gallagher, K.P., and W.N. Kring (2023) [Debt Relief for a Green and Inclusive Recovery: Guaranteeing Sustainable Development](#). Boston, London, Berlin: Boston University Global Development Policy Center; Centre for Sustainable Finance, SOAS, University of London; Heinrich Böll Foundation.



Furthermore, the allocation of **IMF special drawing rights (SDRs)** should be comprehensively reformed. This would on the one hand provide regular liquidity and, on the other, release it where it is needed most. It also means uncoupling access to the SDRs from IMF quota shares in order to increase their effectiveness.<sup>10</sup> The value of the SDRs provided to Germany in 2021 is higher than the value of the SDRs for the 46 poorest developing countries put together. Germany should lead the way by allowing the funds distributed in 2021, which were administered by the German Central Bank, to instead be made available for development assistance via the IMF's Resilience Sustainability Trust (RST) or to the poorest countries via the MDBs.<sup>11</sup> The G7 countries reiterated their commitment to this in the corresponding G7 communiqué from Hiroshima in May 2023<sup>12</sup>. Moreover, the **instrument of debt swaps** should be expanded to enable indebted nations, instead of the full nominal value of the debts, to mobilise the corresponding amount in their local currency for agreed purposes of climate change mitigation and healthcare as fixed conditions. In the long term we need an **international framework for sovereign default** and in the short term, at least a coordination platform for dealing with debt relief and individual debt situations, especially to enable transparency and early-warning systems for individual indebtedness in the Global South.

A reform of the World Bank should be given the full support of the entire German government by the time of the annual meeting of the international financial institutions in autumn 2023. After all, as a standard-setting institution, the World Bank can also lead the way for the other bi- and multilateral banks with a new business model. In view of the financing needs arising from the impacts of the Covid-19 pandemic, the climate crisis and the Russian war of aggression in Ukraine, the federal government should make the case for a fourth international conference on development assistance, preferably around the time of the social summit planned by UN chief António Guterres in 2025.

<sup>10</sup> United Nations (2023) [Reforms to the international financial architecture](#). Policy Brief 6, Our Common Agenda.

<sup>11</sup> Bodo Ellmers (2023) [Die Bridgetown Initiative zur Reform der internationalen Finanzarchitektur](#) [The Bridgetown Initiative for Reform of the International Financial Architecture].

<sup>12</sup>G7 Hiroshima [Leaders' Communiqué](#).



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## About the German Council for Sustainable Development

The German Council for Sustainable Development (RNE) advises the Federal Government on issues of sustainability policy. It acts in this capacity as an independent entity, and since 2001 its members have been appointed every three years by the Federal Government. The Council consists of 15 public figures, comprising individuals from civil society, the business sector, the scientific community and the political arena. It has been chaired since 2023 by Reiner Hoffmann and his deputy, Gunda Röstel. The Council also carries out its own projects aimed at advancing the topic of sustainability in practical terms. In addition, it helps shape topically focused momentum within policy and societal dialogue. The Council is supported in its activities by an administrative office based in Berlin.

## Imprint

German Council for Sustainable Development (RNE)  
Office c/o Deutsche Gesellschaft für Internationale Zusammenarbeit  
(GIZ) GmbH  
Potsdamer Platz 10  
10785 Berlin  
↳ [nachhaltigkeitsrat.de](https://nachhaltigkeitsrat.de)