

CONVERGENCE DIALOGUE BETWEEN T20 AND C20

T20 Task Force 3 - Reforming the International Financial Architecture - and C20 Working Group 1 - Fair, Inclusive and Anti-Racist Economies*

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The existing international financial architecture, established in the aftermath of World War II, has been ineffective in addressing rapidly evolving development challenges and facilitating the achievement of the Sustainable Development Goals. Designed by and for developed countries at a time when issues such as climate change, social inequality and systemic crises received little attention, today's system is failing to meet the needs created by escalating climate risks, growing geopolitical tensions, widening income and wealth gaps, and entrenched gender and racial biases. Less developed countries need fair financing that does not create more debt or conditionalities, but that addresses historical reparations. The kind that allows these countries to move towards economic transformation that is sustainable, inclusive and decolonizing. At present, this could be achieved through reform of multilateral financial institutions, sovereign debt relief and resolution, and a new tax architecture. This declaration combines priorities and recommendations of T20 and C20 in these three topics.

1. REFORM OF THE MULTILATERAL FINANCIAL INSTITUTIONS

As a major shareholder in the IMF and World Bank, the G20 should promote long-overdue reforms in the governance structure of international financial institutions to achieve fair and equitable gender, ethnic, racial and regional representation in decision-making bodies. The International Monetary Fund (IMF) and multilateral development banks (MDBs) are institutions with the capacity to offer financial safety nets, long term financing and bring together different national, regional, public and private

actors to local development agendas through financial and advisory support, research and capacity building. The IMF's lending policy, however, imposes an effective annual interest rate of up to 8% on borrowing countries, including surcharges, exacerbating financial instability during economic stress, while its procyclical nature burdens nations already dealing with crises like climate emergencies or conflicts. Meanwhile the growing financing gap to address the multiple crisis is further complicated by foreign exchange risks. Low- and Middle-Income Countries (LMICs) are capacity constrained and vulnerable, while MDBs have statutory and bylaws aversion to deal with those risks. These challenges demand that MDBs are enforced to fulfil their role within the International Financial Architecture as providers of global public investments.

RECOMMENDATIONS

1.1. Reform IMF governance, lending policies, and enhance resource allocation

The G20 should advocate to reform the IMF's quota system towards a fair representation of the Global South in the governance and to ensure that a larger share of Special Drawing Rights (SDRs) is made available to developing countries that need immediate investment in development and climate policies and to help them weather shocks and crises.

The G20 should advocate for a reform of the IMF's lending policy through a cap on the SDR interest rate to shield borrower countries from soaring borrowing costs during financial distress. Additionally, it must foster a countercyclical design for the surcharge system.

The G20 must also push for reforms to make the IMF's trusts - the Poverty Reduction and Growth Trust (PRGT) and the Resilience and Sustainability Trust (RST) - more accessible by relaxing strict economic conditions and eligibility criteria to provide affordable long-term financing to low- and middle-income countries.

1.2. Reform of MDBs to foster a more resilient and equitable international financial architecture

The G20 must ensure that MDBs are reformed and expanded with a focus on operational measures to facilitate access to MDBs finance by borrowing countries, expansion of its resources to ensure the MDBs system has the lending

capacity to support development needs, and the creation of mechanisms to maximize development impacts. The roadmap “Bigger, Better and more Effective” must aim to *work for all*, fostering a system of sustainable, resilient, inclusive and human rights aligned mandates. Policy frameworks should be flexible to adapt to local and regional realities, and the goal of the reforms must be to foster a global public financial ecosystem aligned with equitable development and just climate action.

The G20 should promote cooperation among MDBs to pool and share risks, explore diversification of sources, and expand and improve opportunities for the use of local currencies. It must foster local currency capital markets in middle-income countries, diversify their portfolios across a broad range of low- and middle-income countries’ currencies, and re-assess and undertake calibrated currency risk through currency diversification. Additionally, MDBs must prioritize public interests over guaranteeing private profitability in de-risking processes and make efforts to provide access to concessional financing to low- and middle-income countries.

2. SOVEREIGN DEBT RELIEF AND RESOLUTION

The public debt situation in developing countries has deteriorated sharply as a result of increased borrowing to cover fiscal gaps, devaluations and rising interest rates. The series of economic and political shocks – from Covid-19 to the war in Ukraine – have transformed vulnerabilities into a ‘silent crisis’: low-income countries continue to service their debt obligations but are forced into austerity. Current sovereign debt negotiations focus almost exclusively on creditors’ contractual rights, neglecting the debtor’s obligations to public social areas, human rights, or environmental treaties. This approach is incompatible with the broader responsibilities of both creditors and debtors. The G20 Common Framework for Debt Treatment has significant shortcomings: it excludes middle-income countries, relies on flawed debt sustainability analyses, does not compel all creditors to negotiate, lacks fair treatment across creditor classes, and is not linked to climate and development goals. The G20 should focus on reducing the burden and cost of debt, especially for low- and middle-income countries, in order to free up resources and create fiscal space to finance the implementation of the 2030 Agenda and the climate agenda.

RECOMMENDATIONS

2.1. Ensure Immediate Debt Resolution

The G20 must support immediate and comprehensive debt resolution for all countries in need, to free up resources and create fiscal space. Debt relief is necessary to transition to low-carbon, socially inclusive, and resilient economies. Debt service suspension clauses must be included in all future sovereign debt contracts to protect countries from economic, political, and climate shocks or other catastrophes. Private, bilateral official and multilateral official creditors must grant debt reductions that bring a distressed country back to debt sustainability and put countries on a path to achieving development and climate goals.

2.2. Enhance private creditor cooperation

All G20 countries should accelerate efforts in all national jurisdictions to strengthen and facilitate debt restructuring with bondholders. This includes passing the relevant UK and New York Bills to establish a comprehensive restructuring mechanism for sovereigns that codify sovereign debt restructuring law to ensure that (I) Creditors are obligated to participate in sovereign debt restructuring processes and negotiations; (II) Sovereign debtors' assets are protected from seizure when the debtor has initiated an orderly debt restructuring process and is actively engaged in debt treatment negotiations; (III) A limitation is imposed on the amount that a creditor can recoup from a sovereign if an agreement is reached with a majority of creditors.

The G20 should mandate the inclusion of collective action clauses (CACs) in all sovereign debt contracts across all countries to prevent private creditor hold-outs. These clauses would bind all bondholders to any agreement approved by a supermajority of bondholders. Additionally, CACs should be retrofitted into all existing sovereign bond contracts.

2.3. Reform of Debt Sustainability Analysis

The prerequisite for assessing which countries need debt relief or liquidity support lies in the accuracy and appropriateness of Debt Sustainability Analysis (DSA). The current DSA methods need to be reformed to account for both debt sustainability and development goals, and to be comprehensive including total public debt according to the current debt landscape. They should be designed to identify how to finance a country's investment needs, rather than to define a

country's investment trajectory. The definition of debt sustainability should go beyond short-term government finance to include: (I) SDG investment needs; (II) Climate finance needs; (III) Non-regression of human rights; (IV) Impact of climate and other shocks.

2.4. Undertake significant reform of the Common Framework

The G20 must accelerate the reform of the Common Framework for Debt Treatment, in particular in favor of the countries that are currently in the process, to establish a set of international principles guiding sovereign debtors and creditors in equitably meeting their environmental, social, and human rights commitments during negotiations. These principles should be translated into a publicly available policy statement, detailing how legal obligations will be met while protecting environmental, social, and human rights commitments from austerity measures, that would feed into a subsequent multilateral framework.

The Common Framework should adopt a new DSA in line with the previously mentioned recommendation (2.3). This DSA will categorize countries based on their level of distress and the required level of debt relief, thereby expanding the Common Framework to include middle-income countries and those not in debt distress but lacking fiscal space.

The G20 must also create incentive mechanisms to compel all creditor classes to participate and provide the necessary level of debt. The Fair Comparability of Treatment (FCT) principle should be applied across creditor classes, determining the haircut proportionally to the level of concessionality of the original debt, with more concessional lenders taking smaller haircuts.

The Common Framework must include a temporary, automatic standstill on debt service, halting repayments and preventing the increase in debt value during negotiations to incentivize private creditor participation. This standstill should lower the cost of capital and increase fiscal space for investing in a green and inclusive recovery.

2.5. Establish a UN Multilateral Framework on debt and development finance in the medium term

Based on the lessons learned from debt restructurings in the last decades, the G20 must lay the basis for a UN multilateral debt framework in the medium term. The principles and incentives raised in the proposals for a new Common

Framework should be adopted in a UN Debt Framework including a new DSA, incentives for private sector participation, expanding eligible countries, a Universal Code of Conduct, a debt registry, and commitments to protect future investment, as well as environmental, social, and human rights commitments.

The United Nations, with its core mandate to address critical global issues, and its unique position as neither a debtor nor a creditor, is the only inclusive multilateral and democratic entity with the legitimacy and competence to discuss and agree on a multilateral legal framework for preventing and addressing sovereign debt crises.

3. INTERNATIONAL TAXATION

Achieving fair, effective and inclusive international tax cooperation is urgent. Wealthy individuals and multinational corporations exploit loopholes, shifting profits to low- or no-tax jurisdictions, hampered by bank secrecy, increasing digitalization, and lack of tax transparency. The OECD/G20 BEPS framework prioritizes developed countries' interests, limiting developing countries' participation: it stands to shift revenues to source countries by giving wealthy countries the right to top up undertaxed profits even if the value did not originate in developed countries.

The G20 must promote structural changes in global tax policy in order to combat tax evasion and avoidance and address the imbalance in taxing rights between developed and developing countries. This requires an inclusive institutional and normative framework that will only be possible after the establishment and strengthening of global fiscal mechanisms led by the United Nations.

RECOMMENDATION

3.1. Push to expedite work on the UN Framework Convention on International Tax Cooperation (UNFCITC)

The G20 member states should fully support the creation and implementation of the United Nations Framework Convention on International Tax Cooperation (UNFCITC) as a binding space to ensure that all countries benefit equitably from the allocation of global revenues. The UN is better suited to represent both developed and developing countries inclusively.

The G20 must ensure that the UNFCITC has a democratic and inclusive governance architecture. It must ensure that it is capable of effectively addressing present and future international tax challenges, particularly the taxation of cross border transactions and high net worth individuals with the aim to make international tax rules fairer and simpler for all stakeholders.

G20 members must expand the scope of existing efforts on exchange of information, and significantly enhance tax transparency, particularly public country by country reporting. It is necessary to advance measures to exchange information on various classes of assets, and move forward in the creation of a public, Global Asset Registry within the UNFCITC.

G20 members must support, within the UNFCITC, the creation of a global minimum tax on wealthy individuals and families (“super-rich”) with political guarantees that the resources raised through this mechanism will be allocated for the realization of human rights, in particular in impoverished countries of the Global South.

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