IDEAs-UFRJ Global Conference on

Retrofit for Purpose: Reforming the International Financial Architecture

August 7-9 (Inaugural 6th evening)

Hilton Rio de Janeiro Copacabana

A much discussed and long unresolved challenge facing the international community is the effort to reform the international financial architecture, or the channels, institutions and rules mediating the cross-border flow of capital. The most contentious debates have been around the flows of capital to the low- and middle-income countries (LMICs).

These countries, many of which record chronic deficits in their balance of payments, have been devastated by the effects of the Global Financial Crisis of 2008, the Great Recession that ensued, the fallout of the Covid pandemic, and the impacts of the volatile international geopolitical environment. The creeping crisis and the shocks they have experienced have been made worse by inadequate access to international liquidity (especially in periods of balance of payments stress) and by the higher costs and more stringent terms of even the limited flows they have access to.

Balance-of-payments constraints to growth have emerged repeatedly even prior to the most recent disruptive events, such as the COVID-19 pandemic. The international financial architecture has forced peripheral countries to bear most of the burden of external macroeconomic adjustment. The ensuing contractionary bias —a bias that is built into the international financial architecture— has resulted in mediocre growth rates across LMICs. In some regions, such as Latin American and Caribbean, these mediocre growth rates began well before the emergence of the COVID pandemic.

These issues have gained even more prominence in recent years, with widespread external vulnerability; the recurrence of debt crises that defy resolution; the financing challenge posed by likely shortfalls in meeting the SDG targets set for 2030; and the need to allocate resources to combat global warming and its climate change consequences. A system in which all adjustments in response to global imbalances and crises must be made by LMIC governments and their people has not only failed, but is clearly unfit for purpose to meet the urgent challenges of our times.

Reform of the international financial architecture can no longer be postponed and must be implemented now. In particular, there is need to urgently address debt stress and debt crises in the LMICs based on a perspective that sees the resolution of debt stress as a joint responsibility of the international community, and using a policy template that offers a solution rather than worsening the problem.

Crises can be pre-empted by substantially enhancing access to international (hard currency) liquidity at concessional or reasonable interest rates. This requires increasing bilateral contributions from the high-income economies to international funding channels, and increasing the proportion of these flows that are in the form of grants and concessional loans needed for low- or zero-return projects. Financing provided under the Poverty Reduction and Growth Trust must be stripped of conditionality, with favourable terms and no penalty surcharges. There is also need for periodic and enhanced issuances of international liquidity in the form of SDRs, changing the system of allocation to one based on needs, and finding mechanisms to put to use unutilised reserves. Finally, rules need to be evolved to reduce or minimize the spillover effects of monetary policy measures adopted by high income country central banks, such as excessive monetary easing and sharp changes in interest rates, that affect capital flows and the cost of servicing debts in the LMICs.

The international financial institutions, including multilateral development banks, need to be restructured, by altering their governance structures, changing the objectives, methods and rules of financing and putting in place a new framework to expand their lending. The Global Financial Safety Net, consisting of central bank swap lines, operations of the International Monetary Fund (IMF), regional financing arrangements (RFAs), national foreign reserve holdings, standstill clauses in sovereign debt instruments, new laws relating to debt contracts, a system for sovereign debt restructuring, and revised international norms on use of capital control measures, needs to be reinforced and made more flexible and accessible to LMICs. The independence of financing channels for climate mitigation and adaptation and Loss and Damage needs to be ensured.

A crucial requirement for all of this is an increased say for the global majority countries in the functioning of these institutions. In addition, coalitions and institutions such as the BRICS, the New Development Bank, and the Chiang Mai Initiative, besides South-South financial networks need to be strengthened, to amplify the voice of the South.

The Social Summit that would be held in Rio de Janeiro on November 15-17 and the G20 Leaders' Summit under Brazil's Presidency on November 18-19, 2024 provide an opportunity to advocate for such reform of the financial architecture. As part of the global effort to exert pressure on the international community to advance along these lines, IDEAs, a progressive, South-led network of development thinkers and practitioners, and the Institute of Economics of the Federal University of Rio de Janeiro (IE/UFRJ) propose to organise a conference in Rio in early August 2024. The conference will engage with these issues and contribute to the effort at reform by prioritising action needed in the current global economic and geopolitical environment.

Participants in the conference will include policy makers from the LMICs, development practitioners, civil society activists, representatives of democratic movements, academics, and young scholars from across the Global South.