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Joining the Dots...

Key issues for transforming the international financial architecture & shaping the fourth international conference on financing for development

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Introduction

The current international financing architecture is inadequate to address the multiple, intersecting crises that disproportionately impact those with the least power and the greatest vulnerabilities. Climate crisis drivers and consequences are not being met with the urgent and balanced response needed for the wellbeing of both people and the planet. Inequalities, both between and within countries, continue to grow, exacerbated by human-induced conflicts and disasters and fuelled by the blind pursuit of GDP growth as an end in itself. Financial flows are either insufficient or actively harmful and extractive. Public services and social protection systems are chronically underfunded, largely due to austerity measures which amount to an assault on women and girls, profoundly impacting women's livelihoods, incomes, care work, access to essential services, jobs, safety and freedom from violence.

ActionAid considers the fourth International Conference on Financing for Development (FfD4) to be a crucial moment in 2025 for making urgently needed transformations to the international financial architecture. To this end we have offered full support to the collective submission of the Civil Society FfD Mechanism (CSO FfD Mechanism) submitted to UNDESA on October 15th 2024 as part of the formal preparatory consultation process.

This briefing paper pulls together some of the evidence from research and advocacy across the ActionAid federation over recent years, developed with our allies, notably in women's rights organisations, trade union federations, climate justice, economic justice and feminist movements, collating the insights that are most relevant for overhauling the international financial architecture. We focus on the **interconnectedness of issues**, notably around climate, debt, tax, austerity and the gendered impact of all of these, laying out the case for a feminist just transition. If we are to transform the international financial architecture, and make it fit to address intersecting systems of discrimination and multiple crises, we need to join the dots.

1. Linking the Climate and Debt Crises

In negotiating FfD4, States must recognise that the **global debt crisis is an accelerator of the climate crisis**. In 2023, ActionAid analysed data from the top third of countries deemed to be most vulnerable to the climate crisis, based on their level of exposure to climate change and their capacity to adapt to its negative effects on key sectors such as food production, water availability, the environment, key infrastructure, housing, and health. Our analysis published in The Vicious Cycle (April 2023) finds that, where data is available, **93% of the countries**

that are most vulnerable to the climate crisis are in debt distress, or at significant risk of debt distress. Countries are obliged to service their debts before spending government funds on anything else. We found that 38 out of 63 most climate vulnerable countries are already spending so much on debt servicing that they are cutting spending on public services. Indeed, research published in October 2024 found that the least developed countries are spending twice as much on servicing their debts, as they are receiving in climate finance.

The links between the debt and climate crises are clear. External debt always has to be paid in foreign currencies (and mostly in US dollars), and so, to pay back their debts, countries must earn foreign currency quickly - which can only be done by having an export-oriented economy that services the demands of the present global economy. This reinforces a subservient role for most low-income countries, perpetuating colonial relationships, based on exporting raw materials for low prices whilst having to import processed goods from high-income countries at high prices. In effect this acts as a major accelerator for investing in extractive industries, exploiting fossil fuels and other natural resources. It also accelerates investment in industrial agriculture that can produce commodity exports such as soybeans or palm oil on a large scale (to earn foreign currency). This is a profound contradiction because fossil fuels and industrial agriculture are the two biggest contributors to climate change.

External debt forces countries to shape their economies to service the global market with its long supply chains. If freed of debt, countries would be able to pursue more sustainable and inclusive paths, investing in universal social protection and gender-responsive public services, properly regulating and taxing the biggest export-oriented businesses, investing in renewable sources of energy, smallholder farmers, agroecology and climate resilience. But these positive choices cannot be made if you are a country in a debt crisis. In a circular fashion, the loss and damage caused by climate-related disasters can then exacerbate external debt as countries have to borrow, often on commercial terms, with higher interest rates, to recover and rebuild. Outrageously, the most acutely affected small island states end up paying the highest interest rates on loans they take out, as the likely impacts of the climate crisis are deemed to put countries' ability to repay at risk. The assessment of climate risks has become a routine part of debt sustainability analysis. As a result, being more vulnerable to the climate crisis actually makes you even more vulnerable to a debt crisis.

Even highly concessional loans coming in the name of climate finance, or official development assistance, can contribute to a national debt crisis - as these loans still have to be paid back in dollars or other foreign currencies. Any crisis in exchange rates between the domestic currency and foreign currencies can send the price of servicing these debts rocketing. It is thus alarming that most currencies in developing countries were depreciating in 2022. In this context, sending the majority of climate finance (two-thirds at present) in the form of loans can actually make the climate crisis worse! **In FfD4 States must confront this contradiction and recognise that they need to act immediately to end the debt crisis, not least because this is a crucial step towards addressing the climate crisis.**

2. Debt and Austerity

High levels of debt make countries dependent on the policy advice and conditions of the **International Monetary Fund** - which is both the lender of last resort and the enforcer of debt repayments. Countries are obliged to service their debts before spending on anything else. Recent statistics from UNCTAD show 19 countries pay more on debt interest than on education and 45 countries pay more on debt interest than on health. At least 48 countries, home to 3.3 billion people, are underinvesting in education or health due to their debt burden.

Despite some shifts in climate rhetoric, in practice the standard package of the IMF forces countries to further open up their markets to international competition, lengthening rather than shortening supply chains and encouraging investments that will quickly yield dollars. In practice the IMF continues to routinely recommend austerity, cutting public spending (and particularly public sector wage bills – that pay for teachers and nurses), further undermining public services and the capacity of countries to develop or to respond to the climate crisis. The IMF combines loan conditions and coercive policy advice to shape economies across the Global

South in ways that replicate and perpetuate colonial era control. This is perhaps unsurprising because the IMF's governance and voting structure was largely fixed 80 years ago and little has changed. Whilst former colonial nations have individual seats on the board, there are only 3 seats reserved for the whole of Africa, and the US retains most power, with an effective veto on any structural policy changes.

Austerity policies leave women and girls triply disadvantaged - being the first to lose access to public services, the first to lose frontline public service jobs and the first to take on the burden of unpaid care work which rises when public services fail or when climate-induced disasters hit. Austerity-related labour flexibilisation pushes women into precarious, poorly paid and exploitative jobs, many of which are in export processing industries and value chains. These jobs are typically gender segregated and lack social protection coverage. The privatization of public services put them out of reach for most women and girls, with the situation being worst for those facing intersecting inequalities based on race, income, class, age, disability, indigeneity, location, sexual orientation and gender identity. This is combined with the direct impacts of the climate crisis on women and girls which are exacerbated by discriminatory legal systems and governance structures and unequal power distribution, resulting in limited avenues of access to participation, public services and infrastructure. Violence is multiplied when women and girls are displaced and/or in emergency shelters where there no reporting or protection mechanisms. Trafficking in women and girls - for domestic labour or sexual exploitation - has been found to increase up to 30 per cent in displacement sites and during a disaster.

In the UN COP climate negotiations, there is an explicit and established recognition of a debt owed by countries historically responsible for pollution to the countries experiencing the worst effects of the climate crisis. In this context it is shocking that mainstream discussions about climate finance presently involve the Global North supposedly meeting its climate debt to the Global South by *further* indebting countries, many of whom are already facing a debt crisis – especially when we know that debt crises are a key instrument in entrenching a failed economic model that itself accelerates the climate crisis.

Extensive debt cancellation and radical reform to the global debt architecture ought to become a central focus of FfD4 in 2025. There is an urgent need for a new **UN Framework Convention on Sovereign Debt** and a UN based debt workout mechanism that breaks with decades of IMF control that benefits the Global North. There has to be a fairer, representative process for resolving debt crises which does not lock countries in the Global South into subservience and dependency on ideological and self-interested advice from rich countries. Only when their countries are free of the excessive burdens of external debt can governments take their own decisions about how to pursue a more sustainable economic model and invest in a just transition. Worryingly, the IMF is presently seeking to position itself as a key actor in climate finance, ignoring the contradictions laid out above and how its own advice undermines a just transition and accelerates multiple crises.

FfD4 should also demand action on overhauling the IMF's Special Drawing Rights, calling for an immediate new allocation and regular SDR allocations following a simplified, predictable, needs-based process to ensure all countries have non-conditional access to international liquidity, without exacerbating debt. At present the vast majority of SDR allocations got to Global North countries that do not need them. A regular and targeted allocation of SDRs could help to break the cult of austerity.

3. Challenging private banks, financial institutions and public subsidies that fuel climate crisis

ActionAid's report in September 2023 - How the Finance Flows: The Banks Fuelling the Climate Crisis – showed how financing provided by commercial banks to the fossil fuel industry in the Global South reached an estimated US$3.2 trillion in the seven years since the Paris Agreement on Climate Change was adopted – and that bank financing provided to the largest industrial agriculture companies operating in the Global South amounted to US$370 billion over the same period. This must end. In FfD4, States need to call out finance flows that undermine sustainable development, like they did in the Addis Ababa Action Agenda.

Much of the external debt owed by Global South countries is owed to commercial banks with their headquarters in the Global North. In many cases these banks have lent money to governments in an irresponsible way, seeking quick profits and knowing that they can force governments to pay even when interest rates are prohibitively high. There is an urgent need for global guidelines that address both irresponsible borrowing and irresponsible lending. Alongside their governments, commercial banks based in the Global North who are continuing to subsidise fossil fuels, should be forced to cancel the external debts of countries in the Global South. This would be part of the payment banks are liable for, owing to their continuing support for climate-destroying investments.

We also note that too many governments are spending public resources to subsidise the fossil fuel industry or industrial agriculture. ActionAid's latest report in September 2024 shows how the industries fuelling the climate crisis are draining public funds in the Global South. Corporate capture of public finance needs to be explicitly challenged in FfD4, with priority given to using public resources for public services and sustainable solutions to the climate crisis – through investments in sustainably produced renewables and agroecology.

There is also a need to challenge unregulated corporate power more broadly, including working rapidly towards a legally binding instrument to regulate the activities of transnational corporations and other business enterprises, including those in the digital economy, through **a UN Binding Treaty on Business and Human Rights**. Big corporations, backed by powerful governments and driven by profit maximization continue to cause massive environmental degradation and refuse to take accountability for their contribution to the climate emergency. They are also directly responsible for poor labour conditions and failing to prevent violence and harassment in the world of work. The extractives industry in particular is responsible for weaponized sexual violence, deepening gendered division of labour, constraints to freedom of movement enforced by government or private security, as well as impacts on respiratory and reproductive health. We strongly support the key recommendations from the Feminists for a Binding Treaty.

It is also crucial to properly regulate the **Credit Rating Agencies** which concentrate too much power, serving the interests of powerful nations and having a clear bias against countries in the Global South, especially those that are most vulnerable to the climate crisis. It is time for an international public credit rating agency at the UN that can be more transparent and equitable in assessing the creditworthiness of countries.

4. Climate Finance and Tax Justice

The 29th Conference of the Parties (COP29) is set to meet in Baku, Azerbaijan, for climate negotiations under the United Nations Framework Convention on Climate Change (UNFCCC) at the end of 2024. Governments at COP29 are set to agree a new post-2025 climate finance goal to allow **climate vulnerable 'developing' countries**[1] to respond to climate impacts and transition to a sustainable future. For the world to have a realistic chance of averting catastrophic climate chaos, climate vulnerable countries urgently need **rich high polluting 'developed' countries**[2] to provide the climate finance necessary to respond to climate impacts and transition to greener pathways. To have a credible chance of addressing the climate crisis, the new climate finance goal should be based on grants (not loans) and should be **set in the trillions of dollars every year rather than billions**, and with a clear obligation on rich, high-polluting countries (known as Annex 2 countries in UNFCCC terms) to provide this finance.

In April 2024 ActionAid published Finding the Finance that shows that a target of trillions of dollars every year is achievable through action on tax justice **in four areas:**

1. **Expanding tax-to-GDP ratios in the existing 'Annex 2' rich, high-polluting countries, which could raise up to US$ 2.15 trillion every year. This expansion in tax-to-GDP ratios must be achieved through progressive, gender-responsive, and climate-sensitive tax reforms.**
   – **progressive** – or redistributive – tax policies ensure the largest contributions are made by the wealthiest individuals and companies. Too often tax systems are regressive – passing more burden onto people who are least able to pay. Yet it is people on high incomes and with considerable wealth who have

disproportionally contributed to the climate crisis. In this context a focus on progressive tax is particularly important to ensure increased tax rates do not unfairly penalise those on low incomes. If care is not taken to ensure progressivity, this can result in greater burdens and hardship for people who are already struggling to cope with a high cost of living. Regressive tax policies in the name of climate action can also lead to public backlashes that hinder progress in climate action.

– **gender-responsive tax polices** ensure that women and girls are not disadvantaged – which they often are by taxes like Value Added Tax (VAT) – is particularly important as there is a well-documented gender face to the climate crisis: women and girls are often the most significantly impacted by climate crises, so tax reforms should not further disadvantage them.

– **climate sensitive tax policies** are taxes that incentivise sustainability and discourage behaviours that accelerate the climate crisis. This is a relatively new area for tax policy and one where more work needs to be done to apply just transition principles that ensure people have access to alternatives, and that people on low incomes are not unfairly burdened. The key will be to ensure that activities, behaviours, and investments that contribute positively to climate adaptation / mitigation are supported to thrive through lower tax rates. At the same time, activities, behaviours, and investments by companies or consumers that contribute to the climate crisis should be taxed at a higher rate in ways that do not pass on the costs to people living on low incomes.

2. **Changing how global tax rules are set and enforced through a new UN Framework Convention on Tax.** Many low- and lower-middle income countries (as well as high income countries), are limited in their potential to raise fair taxes owing to unfair global tax rules set by the club of rich countries in the Organisation for Economic Cooperation and Development (**OECD**). There is a huge opportunity to transform this through the new **UN Framework Convention on Tax**. The OECD's role over 60 years of setting and enforcing global tax rules has been described as a litany of failure, creating a system that largely suits the interests of the wealthiest countries and big business. Some rich countries are still trying to undermine the UN Framework Convention on Tax but progress is crucial to create a conducive environment for raising more tax revenues in both the rich Annex 2 countries responsible for historic and current pollution, as well as in climate-vulnerable countries. FfD4 in 2025 must reinforce the importance of strong, framework convention on tax.

3. **Enabling climate vulnerable countries to expand their own tax-to-GDP ratios** through progressive reforms, to reverse decades of austerity, so countries can reclaim sovereignty over economic policies and achieve their own climate commitments as well as be well-placed to use international climate finance. This will be facilitated / accelerated if fairer rules are agreed under a UN Framework Convention on Tax. Progressive action in the most climate-vulnerable countries to **expand tax revenues by five percentage points** (as deemed realistic even by the IMF), **could enable countries to raise an estimated additional US$ 341 billion every year**, for their own use. Combined with active regulation of corporate excesses, this could transform state capacities and enable governments in climate-vulnerable countries to redistribute resources to deliver on SDGs and national development goals. Many countries are presently advised, most notably by the IMF, to cut public spending rather than raise more public revenues through tax reforms – and this must end.

4. **Taking coordinated action globally to introduce a range of new taxes** that could raise trillions of US dollars - such as through windfall taxes (estimated to have the potential to raise almost US$1 trillion a year), wealth taxes (estimated potential US$ 1.7 trillion a year), higher rates on the income of the top 1% (potentially raising up to US$ 6.4 trillion a year), financial transaction taxes (up to US$ 650bn a year) a range of carbon and climate damage taxes (including windfall taxes on fossil fuel companies and taxes on aviation and shipping). It is clear that globally coordinated taxes could add hundreds of billions or trillions to the pot that is desperately needed for climate justice and achievement of the SDGs.

In FfD4, States need to reiterate and make progress on tax justice gains made in the Addis Ababa Action Agenda. **Tax policy is at the heart of financing for development** and is crucial in itself, not only for advancing climate justice. Specifically, all States, especially OECD member States, must get fully behind the need to **rapidly accelerate progress on a UN Framework Convention on Tax.**

5. Insufficient and problematic official development assistance (ODA)

The repeated commitments made since 1970 by countries in the Global North to dedicate 0.7% of their GNI in official development assistance (ODA), have rarely been met (as noted in the Addis Ababa Action Agenda). If this commitment had been met by all donors it would have generated US$ 7.2 trillion in additional resources over the years. As well as failing in terms of quantity there are equally severe failures in terms of the quality of aid and how it is utilised, with a growing trend for ODA flows to serve economic and geopolitical interests, rather than being focused on reducing poverty and inequalities in lower income countries. One recent example of this is the 300 billion Euros committed by the European Union's Global Gateway, which is more about 'de-risking' private investments and favouring European economic interests abroad - rather than offering long-term sustainable development for non-European countries.

Durable, sustainable, and inclusive development is not possible if rightsholders are not in the driving seat. The FfD4 Conference must solidify countries' leadership over their development strategies and emphasize the importance of democratic ownership at all levels, as enshrined in globally agreed effectiveness principles. All parties should commit to advancing the effectiveness agenda and South-South Cooperation principles as well, ensuring that these principles are implemented across the board, including by the private sector, and extending beyond traditional ODA boundaries.

It is time to secure the implementation of agreed commitments. The FfD4 Conference should commit to revitalizing the implementation of this agenda by safeguarding the integrity of commitments made at different levels. The role of CSOs and other non-state actors must be more effectively reaffirmed and protected, particularly in the light of concerning trends that limit their space and influence.

Effective monitoring is essential. All stakeholders should implement their commitments and report on the effectiveness of their progress, as outlined, for instance, in the GPEDC monitoring framework, and actively participate in the UN Development Cooperation Forum efforts. In line with the spirit of a UN convention on development cooperation, different platforms should work closely to maximize synergies. The international community must strengthen and adequately fund these frameworks to ensure the consistent application and implementation of these principles.

FfD4 offers an opportunity to establish a new normative framework, putting International Public finance at the heart of a new International Financial Architecture. This needs to be a framework which addresses governance, norms and rule creation; democratises global decision-making spaces; and defines the purpose, impact and effectiveness of development cooperation.

6. Supporting a Decolonial, Feminist, Just Transition

If the present global financing framework is unjust, put simply, we need an alternative international financial architecture that is fair and just for all, centred around care and wellbeing, with a strong foundation of human rights and an acknowledgment of the profound inter-dependency between people and the planet. Alternatives to the dominant system have been devised for a long time by Indigenous communities and those living on the margins, based on renewable energy resources and sustainable agriculture and food systems. Alternatives need to be based on a decolonial world, one where colonial institutions and mind-sets are definitively dismantled, with new inclusive and representative institutions that listen to the voices of all countries and all peoples. **States at FfD4 need to agree an international financial architecture that moves countries beyond a narrow and damaging focus on GDP growth and which can support the urgent move towards feminist wellbeing economies.**

This requires an alternative architecture driven by clear feminist values and principles, and a genuine commitment to sustainability, with a laser-like focus on redistribution of both resources and power, using an intersectional lens. Reparations to make up for historic injustices would have to form a part of such a system - but the burden cannot be passed on to people living in poverty and injustice in rich countries. We need systems that value building resilience and people's power at every level so that people are prepared to adapt and respond to all crises and disasters.

How we transition from the present unjust international system to a just one is fundamental. The International Trade Union Confederation (ITUC) developed the concept of "Just Transition" to ensure that climate action does not threaten the livelihoods of workers and marginalised communities. Bearing in mind that system change should advance joined-up solutions for climate justice, economic justice, women's rights and humanitarian response, ActionAid has laid out four key principles for a just transition to climate change that must consider both processes and outcomes:

- Address and don't exacerbate inequality.
- Focus on holistic solutions that address people and planet.
- Ensure participatory and inclusive processes, led, planned and informed by impacted people.
- Develop frameworks that support the shift – training / reskilling / social protections – to protect people.

It is important to also underline an **intersectional feminist, inter-generational, anti-racist** & **decolonial** approach to a just transition which means also emphasising:

- The need for women, in all their diversity, to be at the centre, addressing patriarchy and disproportionate effects on different women. There is a need to support women's and feminist organisations, movements and human rights-defenders.
- The need to challenge and redistribute power, which has implications for how decisions are made and governance structures.
- The need to avoid exacerbating gender inequalities; and have feminist impact analysis of any policy with a clear perspective on intersecting discrimination and marginalisation.
- The importance of rebuilding the social organisation of care by recognising, reducing, rewarding, redistributing and reclaiming it- and the critical need to invest in gender responsive public services.
- The importance of looking at the impact of policies on future generations and of including all generations, especially young people, as active participants in the process.
- The need to challenge the neoliberal model and move beyond a focus on GDP growth - making care, wellbeing, rights and planetary boundaries visible.
- The need to support, and make visible, alternatives to the current economic system and the need to contextualise conversations about just transitions.
- The colonial nature of the present global architecture and the need to challenge racist mindsets.
- The case for reparations – for climate change, colonialism and slavery.

7. Connecting the Threads: some recommendations for a Global Financing Framework

There is a compelling argument for changing the international financial architecture in ways that connect the threads, and joins the dots, laid out above. A new, fairer architecture would need to address the long-standing calls of CSOs and movements in the Global South, which include but are not limited to, the following actions:

1. **A recognition of the scale of the climate debt of the Global North to the Global South through agreeing a new climate finance goal in the trillions of dollars every year.** Hopefully a new collective quantifiable goal will be agreed at COP29 in Baku – but if an agreement is not reached in Baku, there should, as a minimum, be a recognition by States at the FfD4 in Seville that the goal requires a sum in the trillions of dollars every year, with a call for the Global North to agree to such a goal at COP30.

2. **A call for external debts of the Global South to the Global North to be cancelled unconditionally.** This should include debts owed to private banks located in the Global North – and should be treated as the

first step / part-payment of the climate debt. This collective commitment to debt cancellation would have particular power in 2025 which has been declared a jubilee year.

3. **A commitment to a new UN Framework Convention on Sovereign Debt, moving debt negotiations from the IMF to the UN** - and a debt workout mechanism that is fully representative and fair. This could also be seen as a part payment of the climate debt of the Global North and would mean ending decades of debt negotiations being mostly dominated by former colonial powers with the largest quota and voting power at the IMF.

4. **A definitive commitment to revalue public services and to denounce the enduring the cult of austerity** that has been imposed by the IMF and too many Ministries of Finance. In the face of intersecting crises, countries need to focus on ambitious, progressive, gender-responsive and climate sensitive tax policies and prioritising spending on public services. It is time for the richest companies and individuals to pay a fair share of both their wealth and income in taxes to finance both quality public services and climate responses.

5. **A commitment to work together for a strong UN Framework Convention on Tax** – that can set and enforce fair global rules across the full spectrum. This should include OECD countries committing to stop blocking progress on this crucial convention and an accelerated timeline to ensure that a strong and binding convention is quickly put in place.

6. **A commitment for the wealthy countries of the Global North to implement progressive tax frameworks and support globally coordinated taxes and reforms, to generate trillions of dollars for climate action** – not least to raise climate finance for necessary and urgent climate action in the Global South. The Global North must provide trillions of dollars in grants every year so that the Global South – which has done relatively little to cause the climate crisis - can recover from climate disasters, adapt to future climate impacts, and to transition to greener pathways.

7. **Strong language and commitments to support a just transition that is feminist and decolonial** – based on addressing the gendered division of labour and structural racism, recentring and revaluing care and ensuring state provision of universal, quality, gender responsive public services and social protection. There is an urgent need to move towards feminist well-being economies that recognise the inadequacy of output-based, narrow economic measures such as GDP growth and instead focus on commitments to rights and dignity, decent and dignified work and climate justice.

Endnotes

1. These are terms used in UNFCCC but the term 'developing countries' has a problematic colonial legacy so we put the term in inverted commas and prefer to use the phrase 'climate vulnerable countries' (based on the 64 most climate vulnerable countries according to the authoritative database from Notre Dame).
2. There is also problematic baggage with the word 'developed' so we prefer to use Global North or 'rich high-polluting countries'.