Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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Development finance - a matter that concerns both the developed and the developing

At the Fourth International Conference on Financing for Development this week, delegates are calling for urgent action to fix a system that has stopped working.

Prior to the third such gathering a decade ago, in Ethiopia, we had witnessed unprecedented advances toward reducing poverty, increasing school enrollment, and providing clean water worldwide.

Today, however, progress is not only slowing but potentially stagnating – or, worse, reversing.

Global growth this year is expected to slow to its lowest rate (outside of a crisis) since 2008.

The outlook is especially problematic for developing countries that are already growing well below historical averages, and for those 35 countries, mostly in Africa, that are already in or at high risk of debt distress.

One out of every three countries now spends more repaying creditors than on health or education.

As debt payments crowd out money needed for development, these countries' futures are being jeopardized.

Meanwhile, the global gap between the richest and the poorest continues to grow, with Oxfam estimating that the new wealth of the top 1% surged by more than $33.9 trillion since 2015 – enough to end poverty 22 times over.

Finance for development is too important not to involve every stakeholder

The situation won't change unless there are greater flows of finance to developing countries.

Moreover, quality matters as much as the quantity: There has been far too much finance of the kind that leads to financial distress, and far too little of the kind that promotes sustained growth.

Finance for development is too important not to involve every stakeholder

We believe that finance for development is too important not to involve every stakeholder. As the late Pope Francis emphasized, doing so is a moral obligation.

That is the message of the Vatican's new Jubilee Report on debt, reflecting the work of a global commission of experts – which one of us (Stiglitz) chaired.

A matter of self-interest for advanced economies

But fixing development finance is also a matter of self-interest for most advanced economies.

After all, poverty and inequality give rise to social tension, diseases, and conflicts, with spillovers that do not respect national boundaries.

Moreover, a lack of finance in developing countries implies a lack of investment in climate-change mitigation, a global public good that is necessary for everyone's future prosperity.

The Seville conference should be seen as an opportunity to renew multilateralism for the common good

With the world so divided, and so afflicted by the exercise of raw power and by short-term thinking, the Seville conference should be seen as an opportunity to renew multilateralism for the common good.

But it will need to be more than just an exercise in speech-making about the hope of a better future. Such rhetoric must be translated into tangible progress, and there are some signs that this could happen.

The outcome document, the “Compromiso de Sevilla,” forged at the United Nations in New York, gives us confidence that this gathering will lay the foundation for a new debt and financial architecture.

Specifically, Spain has launched the Sevilla Platform for Action, providing a comprehensive framework for coalitions of the willing to advance ambitious, but feasible, initiatives that will drive material progress in addressing challenges related to sustainable development.

A launchpad for further action

For example, we should see the launch of a Global Hub for Debt Swaps to generate more fiscal space for investment in sustainable growth; a Debt Pause Clause Alliance, to ease pressure on vulnerable countries’ budgets when they are squeezed by extraordinary events; a broad push to re-channel International Monetary Fund special drawing rights (SDRs) – the IMF’s global reserve asset, held mostly by wealthy countries – toward more effective uses; steps to strengthen the voices of debtor countries through a borrower-country platform; and the start of an intergovernmental process on debt restructuring at the UN, following principles that were already agreed by an overwhelming majority of member states a decade ago.

These steps represent just the start. In time, the Seville conference could be remembered not as a landing zone, but as a launchpad for further action. But for that to happen, we must continue to push for more ambitious, yet feasible, solutions.

Seville represents an opportunity to look at finance comprehensively and send a strong message of commitment and trust in multilateralism

For example, creating a Jubilee Fund with $100 billion worth of untapped SDRs for debt buybacks would provide the most vulnerable countries with resources that they desperately need to promote sustainable growth.

Equally, one can imagine broader frameworks for debt-for-nature and debt-for-development swaps, as well as new and fairer green trade and investment agreements that enhance domestic resources and facilitate developing countries’ participation in the global effort to address climate change.

Seville represents an opportunity to look at finance comprehensively and send a strong message of commitment and trust in multilateralism.

We remain optimistic, because we believe in the power of pragmatism. By focusing on workable solutions that go beyond the text of whatever agreement emerges, we can finally put development back on track.

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