T20 Policy Brief

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Task Force 03
REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE

International Financial Reforms for an Equitable, Nature-Positive Economy and the Sustainable Development Goals

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Abstract

This brief argues for reforming elements of the international financial architecture to foster a global nature-positive economy, advancing the Sustainable Development Goals (SDGs) and diminishing inequality within and across nations (SDG10). Much of global biodiversity is located in developing countries that lack the resources to protect and restore nature and are exposed disproportionately to nature- and climate-related risks. These countries face international barriers including a lack of private or concessional financing and a debt system that leaves them vulnerable to debt distress, limiting their fiscal space to prioritise nature. This brief provides a call to action for international financial reforms to give developing and nature-rich countries the ability to prioritise nature and achieve the SDGs.

A nature-positive economy goes hand-in-hand with tackling poverty, ensuring food security, and other SDGs. Without nature's ecosystem services, the world's most marginalised are at risk of job losses, food insecurity, shrinking access to land, and other impacts. Nature also provides adaptation benefits, building resilience against climate change. A nature-positive economy is not just about investing directly in nature, but also about reforming the systemic conditions that determine investment flows — and thus investments in the SDGs.

This brief focuses on how the G20 could facilitate the reform of the role of multilateral development banks (MDBs) to drive the nature-positive transition and scale innovative finance and debt solutions. MDBs are a critical source of long-term, affordable financing for developing countries, hence the need to strengthen their capacity to invest in a nature-positive economy. Debt solutions, meanwhile, are essential given many developing countries are facing an urgent and escalating debt crisis that severely restricts their fiscal space for investments in nature *and* negatively impacts progress towards the SDGs.

Diagnosis of the Issue

As the impacts of the climate and nature crises are increasingly evident, there is renewed recognition of the need to reform the international financial architecture to tackle these global challenges. The United Nations (UN) has made such reforms a priority ahead of the 2024 Summit of the Future, having published a policy brief on *Reforms to the International Financial Architecture* (UN 2023, 2). This call has been continually voiced by the developing and least-developed countries (LDCs) that face the worst consequences of climate change and biodiversity loss. For instance, the Bridgetown Initiative establishes clearly that climate-vulnerable countries require both immediate financing and systemic changes to the international financial architecture to achieve climate adaptation and mitigation targets (UNCTAD 2023, 38).

Where the Bridgetown Initiative focused on the needs of climate-vulnerable countries, we argue that international financial reforms are similarly needed for (developing) nature-rich countries affected by mounting biodiversity loss. The nature and climate crises are deeply intertwined, with both having direct implications for achieving most, if not all, of the SDGs. International financial reforms are key to building a global nature-positive economy — an economy whose activities are aligned with the reversal of biodiversity loss by 2030 and net gains thereafter.

Nature and the sustainable development goals

A just and equitable transition to a nature-positive economy must simultaneously support the achievement of SDGs, including poverty alleviation, food security, and others. Without nature's ecosystem services, the world's most marginalised are exposed to extreme weather events, food insecurity, shrinking access to land, and other impacts.

Nature also provides adaptation benefits, building resilience against climate change. According to the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), current trends in biodiversity loss and climate change can undermine progress for 80% of the SDG targets related to poverty, hunger, health, water, cities, climate, oceans, and land (IPBES 2019, 439).

Nature underpins almost all economic activity, with more than half of the global Gross Domestic Product (GDP) being moderately or highly dependent on nature (Herweijer et al. 2020, 8). A shift to a nature-positive economy presents an opportunity to overcome existing social inequalities by creating an economy that prioritises human wellbeing and harmony with nature. About 80% of the population below the poverty line live in rural areas that tend to depend heavily on nature's ecosystem services for their livelihoods, making them disproportionately exposed to the risks of nature loss (UNDESA 2021, 75). The poorest economies also bear the greatest risks: the collapse of just a few ecosystem services could result in an annual GDP loss of 10% by 2030 in low-income countries, compared to a global average of 2.3% (Johnson et al. 2021, 47).

How reforms to the international financial architecture contribute to a nature-positive economy

Much of global biodiversity is found in developing countries that lack the resources to protect and restore nature. Many such countries tend to be less able to access private capital or face significant debt distress, limiting their fiscal space. They also often face strong incentives to prioritise short-term economic growth that relies on exploiting natural capital, despite this undermining future economic prospects. A nature-positive economy is, therefore, not just about investing directly in nature, but also about reforming the systemic conditions which determine investments in nature and sustainable management of nature's assets — and thus investments in the SDGs.

An equitable, nature-positive economy is core to the principles championed by the G20 Brasil Presidency, which focus on three main axes: fighting hunger, poverty, and inequality; achieving sustainable development; and reforming global governance (G20 Brasil 2023). Here, we focus on the third axis, reforming global governance, to create the enabling environment to achieve the first two axes — and argue that nature must be at the core of this work. We focus on reforms in two areas where the G20 is influential: (1) the role of MDBs, and (2) sovereign debt solutions. However, a broader economic and financial reform agenda must be advanced beyond these two areas, including in areas such as data and information disclosures, the policy and incentives shaping private flows of capital, the mandate and financing strategies of other development financing and international financial institutions, trade and investment rules, and governance of the global commons (areas addressed by the World Wide Fund for Nature, or WWF, in the forthcoming Global Roadmap for a Nature Positive Economy).

The vision outlined here also builds on the G20 Sustainable Finance Roadmap, which has been developed by the G20 Sustainable Finance Working Group (G20 2021, 3-4). However, the G20 Roadmap focuses largely on climate action and does not address nature and biodiversity; this policy brief thus argues that specific reforms to the global financial architecture could support the achievement of SDGs and climate and nature targets. The G20 Sustainable Finance Working Group could draw on recommendations from the forthcoming WWF Roadmap and those outlined here and integrate them into its G20 Sustainable Finance Roadmap, as well as into their broader scope of work.

Policy Recommendations for the G20

Reforming the role of multilateral development banks

MDBs play a critical role in accelerating the transition to a nature-positive economy, especially in developing economies and LDCs that have been perceived as less attractive investment environments for private finance. MDBs support governments and the private sector by facilitating the enabling conditions for investment and combining affordable long-term finance with technical support and policy advice. Recognising this importance, in 2023 the G20-mandated Independent Expert Group on Strengthening Multilateral Development Banks established their vision for radically transforming the role of MDBs to progress on the SDGs and Paris Agreement targets (G20 IEG 2023, 17-21).

This vision is important, but must also be aligned with the mandate of the Kunming-Montreal Global Biodiversity Framework, in accordance with the COP26 MDB Joint Statement on Nature (UNFCCC 2021, 1-5). Currently, MDBs are providing limited capital towards biodiversity finance relative to climate finance levels, and continue to finance activities harmful to nature, including fossil fuels and high-impact hydropower (WWF 2023, 2).

To place a greater emphasis on nature, the G20 — and G20 Finance Ministers in particular — could promote the following recommendations for MDBs:

- **Adapt the mandates of MDBs to address nature-related risks and impacts more explicitly, alongside climate, as a crucial part of delivering the SDGs** (WWF 2023, 3). This could, in turn, include a review of institutional arrangements and decision-making processes to ensure nature-related issues are given due prominence and reflect the need to empower and support nature-rich countries in delivering the transition.

- **Establish ambitious nature-positive targets aligned with the Global Biodiversity Framework** (G20 2022, 11-14). MDBs can also mobilise financial support and technical assistance to help countries meet their National Biodiversity Strategy & Action Plans (NBSAPs); engage with Ministries of Finance and national financial regulators to mainstream nature into economic policies; and encourage public sector borrowers to integrate sustainability-linked bonds and financing of nature-based solutions into their funding strategies (WWF 2023, 3-4).
- **Improve environmental and social risk management frameworks and their application.** This could include drawing on innovative modelling to better identify how biodiversity loss affects borrowing economies and integrating these assessments into country risk analysis (Johnson et al. 2020, 5). It should also include mandates to reform incentives harmful to biodiversity (G7 2023, 9-10).
- **Enhance financing models.** Particularly for nature-rich, developing countries, financial instruments must address specific financing needs, such as by supporting early-stage project development and providing grants instead of loans to countries most at risk of debt distress. A greater share of climate finance should also be channelled towards Indigenous peoples, who protect 80% of the remaining biodiversity despite making up just 5% of the global population (Fleck 2022).

Scaling up debt solutions

Since the onset of the COVID-19 pandemic, developing countries have been gripped by a worsening sovereign debt crisis (UN 2023). Debt service averages nearly 40% of budget revenues in developing countries and is, on average, equivalent to spending on education, health, social protection, and climate combined (Martin 2023, 1). Debt drives biodiversity loss, as it incentivises overexploitation of primary exports to earn foreign currency for debt servicing and limits the fiscal space for investing in biodiversity protection (Gaster et al. 2023, 2-3). While much has been written on the links between the debt and climate crises, less attention is typically paid to how debt worsens the biodiversity loss crisis.

The G20 has an essential role to play in this context. First, the G20 introduced the Common Framework for Debt Treatments in 2020, which is the main avenue for low-income countries to request debt relief. Second, G20 countries constitute some of the largest creditors to indebted countries. In 2021, G20 countries held $155 billion in bilateral debt from LDCs and Small Island Developing States (SIDs) alone (IIED 2023).

To address the ongoing debt crisis, the G20 could:

- **Scale the use of debt-for-nature swaps**, where debt is partially forgiven in return for ecosystem protection and restoration. To encourage the use of debt-for-nature swaps, the G20 could support development finance institutions to lower transaction costs and build a larger debt swap pipeline, including through credit enhancements (e.g., political risk insurance and loan guarantees) (WWF 2023, 4). It is critical that funding be allocated to local projects that respect community needs and include sufficient local participation — especially given existing concerns that debt-for-nature swaps sometimes lack transparency and too heavily involve costly intermediaries (Fresnillo 2023, 4).
- **Build on the automatic debt service suspension mechanisms announced at the 2023 Paris Summit for a New Global Financing Pact to better consider nature loss.** Currently, the mechanisms are triggered in the event of climate disaster — but could be extended to damage caused by biodiversity loss (WWF 2023, 4).
- **Support developing, nature-rich countries to issue sustainability-linked bonds (SLBs), including nature-linked bonds.** Unlike green bonds, SLBs are not earmarked for specific projects but instead generate pay-outs based on meeting agreed-

upon key performance indicators (KPIs) (Flugge et al. 2021, 7). To facilitate the issuance of SLBs, MDBs and the G20 could help to develop appropriate mandatory standards and KPIs, building on existing work by the International Capital Market Association (ICMA 2021, 2).

- **Integrate debt-for-nature swaps and sovereign nature-linked bonds as part of the G20 Common Framework for Debt Treatments** (WWF 2023, 4). This is critical for reaching the low-income countries targeted under the Common Framework.

Scenario of Outcomes

The cost of inaction

Without sufficient reforms to the international financial architecture, the biodiversity loss crisis will continue to grow. These impacts will be extremely costly for the global economy: research has shown that the destruction of nature endangers resources that currently generate approximately $44 trillion of global GDP (Herwerjer et al. 2020, 8).

It is particularly critical to address the debt crisis, which has multiple implications for worsening biodiversity loss. Debt crises can worsen the living conditions of the population and induce conflicts, civil unrest, and repression by destabilising economic security, in turn driving short-termist economic decision-making to exploit natural resources in a way which undermines ongoing prosperity. Biodiversity loss, in turn, amplifies livelihood insecurity by putting pressure on critical resources, including food, which then drives new cycles of conflict (Rist et al. 2023, 4-5).

Effective reforms to enable a nature-positive economy

If the policy recommendations outlined in this brief were embraced and supported by the G20, developing countries could experience improvements in fiscal space that would contribute to critical investment towards a nature-positive economy. Investments into a nature-positive economy would subsequently contribute to the SDGs and provide long-term savings by building economic and ecological resilience, benefitting creditors given the global economic risks associated with biodiversity loss. Studies have found that just 4% of what developing countries spent on external debt servicing in 2022 could reverse the rise in poverty brought on by the COVID-19 pandemic, bringing 165 million people out of poverty and underscoring the importance of effective debt resolution (Ecker et al. 2023, 6).

Addressing the biodiversity crisis is also a cost-effective avenue for future-proofing development and can generate economic prosperity. Research by The Nature Conservancy refutes the existence of a trade-off between development and conservation. The researchers modelled a path between business-as-usual and a more sustainable path (in line with the idea of a nature-positive economy) and found that the sustainable path predicted lower temperature increases (1.6°C compared to 3.2°C under business-as-usual), zero overfishing, a 90% drop in hazardous air pollution exposure, and significantly less water-stressed populations, rivers, and agricultural fields. This in turn enables progress towards the SDGs and sustains per capita economic projections, compared to a business-as-usual scenario that risks intensifying cycles of scarcity (The Nature Conservancy n.d., 6-9). A World Bank study similarly finds that investments in conservation create positive economic returns, generate income multipliers, and provide options for green recovery in the face of systemic shocks (World Bank 2021, 9-12).

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