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Report of the Intergovernmental Group of Experts on Financing for Development on its fifth session

Held at the Palais des Nations, Geneva, from 21 to 23 March 2022

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Introduction

The fifth session of the Intergovernmental Group of Experts on Financing for Development was held, in physical and virtual formats, at the Palais des Nations in Geneva from 21 to 23 March 2022.

I. Action by the Intergovernmental Group of Experts on Financing for Development

A. Financing for development: Mobilizing sustainable development finance beyond COVID-19

Agreed policy recommendations

The Intergovernmental Group of Experts on Financing for Development,

Reaffirming General Assembly resolution 69/313 of 27 July 2015 on the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, which is an integral part of the 2030 Agenda for Sustainable Development, supports and complements it, helps to contextualize its means of implementation targets with concrete policies and actions, including on climate change and related global challenges, and reaffirms the strong political commitment to address the challenge of financing and creating an enabling environment at all levels for sustainable development in the spirit of global partnership and solidarity,

Recalling also paragraph 100 (r) of the Nairobi Maafikiano (TD/519/Add.2), which called for the establishment of an intergovernmental group of experts on financing for development,

Recalling the Bridgetown Covenant (TD/541/Add.2) in which member States instruct UNCTAD to continue to build on the analytical and policy-oriented work of UNCTAD in the field of financing for development, in cooperation with other institutional stakeholders, in the United Nations follow-up and review process on financing for development, and assist developing countries in identifying policy options aimed at strengthening mobilization of domestic and international, public and private, resource mobilization for the timely attainment of the 2030 Agenda and the Sustainable Development Goals,

Recalling further paragraph 122 of the Bridgetown Covenant, which calls for increased efforts to ensure coherence and avoid potential duplication of work with other competent forums, as well as to seek input from all relevant actors, thus providing for an inclusive, balanced and well-informed exchange, and credibility of the outcomes, and emphasizing that the leadership of member State experts should be ensured,

Noting with concern the effects of the coronavirus disease (COVID-19) crisis on the global economy, and in particular in developing countries, which, among other things, resulted in increased levels of external debt,

1. *Stresses* the need to enhance developing countries' access to climate finance, in particular for adaptation, through domestic and international, private and public sources, as well as boosting productive capacities and investment in developing countries conducive to advancing their structural transformation towards a low-emission, competitive, climate-resilient and sustainable economy;

2. *Calls upon* UNCTAD to support developing countries in elaborating targeted national policies to build a diversified, and sustainable economy, driven by a strong, climate-conscious developmental State, willing and able to dialogue with all relevant stakeholders, including the private sector, as well as able to mobilize and manage external and domestic, private and public resources, and recalls in this regard the value of integrated national financing frameworks that can support nationally owned sustainable development

strategies by effectively mobilizing and aligning a wide range of financing sources and instruments with the 2030 Agenda for Sustainable Development;

3. *Stresses* the need to explore the benefits and costs of new and innovative instruments to development finance, including blended finance, public–private partnerships and Sustainable Development Goal bonds, according to national priorities, for contributing to the closing of the Sustainable Development Goal investment gap by lowering investment specific risks and incentivizing additional private sector finance across key development sectors and, in this regard, welcomes the continuous evidence-based assessment of the Inter-Agency Task Force on Financing for Development to further develop these instruments and maximize their contribution towards the Sustainable Development Goals, while addressing the identified challenges;

4. *Underscores* the role that regional and multilateral development banks can play in enabling financial resources for developing countries for their sustainable development and structural transformation, and the need for their actions to contribute to the Sustainable Development Goals and the Paris Agreement and other relevant international agreements, recognizes the urgent need to strengthen their capital base, and calls for consideration of possible enhanced emergency concessional finance mechanisms in times of crisis;

5. *Recognizes* the contribution made to participating countries by the Debt Service Suspension Initiative and the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative, and calls for an effective, transparent and expedited implementation of the Common Framework, with comparable efforts by private creditors and other relevant international creditors;

6. *Recommends* further studying the opportunities and challenges of integrating natural disaster clauses and other similar clauses related to external shocks into bonds and the ultimate contribution to increasing developing countries' liquidity and economic stability during times of crisis;

7. *Recalls* the importance of domestic and international, private and public resources to ensure prompt responses to future crises, thus contributing to countries' financial stability and resilience and, in this regard, welcomes the International Monetary Fund's special drawing rights allocation, and invites countries able to do so to actively consider options to voluntarily channel special drawing rights to benefit the most vulnerable countries, including middle-income countries, in accordance with national laws and regulations;

8. *Underlines* the importance of other initiatives for unlocking financing for developing countries and catalysing investments in the Sustainable Developments Goals, including in middle-income countries.

Closing plenary meeting
23 March 2022

B. Other action taken by the Intergovernmental Group of Experts on Financing for Development

Financing for development: Mobilizing sustainable development finance beyond COVID-19

1. At its closing plenary meeting, on 23 March 2022, the Intergovernmental Group of Experts on Financing for Development adopted a set of agreed policy recommendations (chapter I, section A).

Provisional agenda of the sixth session of the Intergovernmental Group of Experts on Financing for Development

2. Also at its closing plenary meeting, the Intergovernmental Group of Experts decided that, as time constraints had not allowed finalization and selection of the topic and guiding questions for its next session, the final topic would be discussed at a meeting of the

extended Bureau of the Trade and Development Board and be submitted to the Board for approval, together with the provisional agenda of the sixth session that would reflect the topic selected. Regional coordinators and member States were encouraged to conduct consultations on proposals, with a view of reaching an agreement on the topic and guiding questions.

II. Chair’s summary

Financing for development: Mobilizing sustainable development finance beyond COVID-19

(Agenda item 3)

3. Under the agenda item, the Intergovernmental Group of Experts on Financing for Development held an opening plenary discussion and four panel discussions on different aspects of the topic.

Opening plenary statements

4. Opening the meeting, the President of the Trade and Development Board underscored that developing countries were facing a wave of shocks beyond their control. Whether the shocks involved the pandemic, conflict or market upheaval, their vulnerabilities meant they suffered the worst consequences. For Africa, the pandemic’s health and social consequences represented the region’s most severe development setback in recent history that left it experiencing a multifaceted humanitarian crisis. The pandemic had affected countries in Africa in the areas of extreme poverty, nutrition, education, employment, health and health care systems. The region had seen an additional 38 million people pushed into extreme poverty, 48 million people suffering from undernourishment, with one in three children stunted, 127 million children unable to attend school and the equivalent of 29 million full-time jobs lost. In addition to more than 3.1 million cases of coronavirus disease (COVID-19), millions more people had been affected by underfunded and overstretched health-care systems. She recalled that, from the start of the pandemic, the World Health Organization had made it clear that no one was safe until everyone was safe. Vaccinating the entire world was the best chance of overcoming the pandemic. As of February 2022, only 11 per cent of the population in Africa had been fully vaccinated. An estimated 1.2 billion people had yet to receive a single vaccination dose against COVID-19.

5. The capacity of African countries to roll out vaccines had been hampered by health-care sectors that, with limited resources, had made heroic efforts to protect the region’s population. The region had faced difficulties in mobilizing resources for the pandemic and recovery response efforts, as exemplified by the contrast in the public resources allocated to meet external creditor claims and health-care needs. Health-care systems had buckled under the strain created by the pandemic, while African Governments had paid external creditors more than $55 billion in debt service in 2020. It was estimated that sub-Saharan African countries required 20 per cent of that amount to vaccinate 70 per cent of their population against COVID-19. Furthermore, external public debt service was equivalent to, on average, two times the amount of resources that those countries had allocated to public health expenditure in 2020. As UNCTAD had highlighted recently, debt weighed heavily on developing countries in general, but Africa in particular. The capacity of the region’s countries to protect their populations was hampered by high levels of public debt. As debt levels increased, the share of debt service in public budgets rose. In Africa, the share of government revenues used to meet external public debt service had increased nearly fourfold, from 6 to 23.1 per cent between 2011 and 2020. Governments in at least 12 countries were currently allocating more than 20 per cent of government revenues to debt service.

6. Debt had clearly been a pressing problem for a while, yet little had been done to provide developing countries with tools to address the issue. Most non-debt creating financing was allocated elsewhere. The International Monetary Fund’s allocation of special

drawing rights provided the global economy with $650 billion in liquidity support in 2020. African countries had received $33 billion, or 5 per cent, of the total. In 2020, countries of the Organisation for Economic Co-operation and Development provided a total of $161 billion in official development assistance. Around one quarter of that figure, or $39 billion, was allocated in Africa. Together, those figures amounted to roughly half of what the region's countries paid in external public debt service, equivalent to $126 billion, between 2020 and 2021. In contrast, most emergency financing to developing countries had been in the form of loans from international financial institutions. That risked worsening the debt problem in the long term. Of $317 billion in financing from international financial institutions, between 2020 and 2021, only $16 billion were international development assistance support grants to low-income countries at risk of debt distress. The ability of African countries to withstand one shock after another had been hampered by a multilateral response that the UNCTAD secretariat had characterized in the session's background document as too little, too late and, to an extent, also short-sighted. The current global situation called for a different approach. The health and lives of people in the developing world as a basic pre-condition of a successful economic recovery everywhere should be acknowledged. The best way to ensure a sustainable global recovery was to develop multilateral responses focused on the well-being of the most vulnerable globally. She noted the need to move forward in establishing substantial initiatives, including debt cancellation, and a multilateral debt workout mechanism to prioritize the mobilization of global resources towards achieving the multilateral agenda's most important goals. Only then would it be possible to facilitate the achievement of the commitments under the 2030 Agenda for Sustainable Development, the Paris Agreement on climate change and the Beijing Declaration. She looked forward to making progress on those issues through the knowledge of experts convened for the Intergovernmental Group of Experts on Financing for Development.

7. The Secretary-General of UNCTAD noted that developing countries in particular were feeling the brunt of the significant stress on the world economy from the ongoing COVID-19 pandemic, the war in Ukraine and its effect on food, fuel and finance, and the rising costs of climate change. Debt burdens were increasing, more people were falling into poverty, fiscal space was shrinking and attaining the Sustainable Development Goals was increasingly falling out of reach. The UNCTAD secretariat had calculated the widening financing for development gap of the 2030 Agenda for the session. The gap was currently $3.6 trillion per year, up from around $2.5 trillion per year before the pandemic. The figure was likely an underestimate, as the calculation was made prior to the start of the conflict in Ukraine, which was set to affect the global economy deeply, including in a tightening of global liquidity conditions, adverse macroeconomic developments such as rising food fuel and fertilizer prices, and an acceleration of rising inflation rates from higher trade costs and commodity prices. A *Trade and Development Report* update to be released that week would underscore that UNCTAD expected global gross domestic product (GDP) growth to be a full percentage point lower in 2022 as a result of the war, with tail risks also looming. Possible scenarios were ongoing supply chain disruptions and a limited, delayed or unreachable supply of certain key commodities, cascading credit downgrades and debt defaults in developing countries, the potential for civil unrest given the strong correlation between commodity cycles and political turmoil and a financing gap to achieve the Sustainable Development Goals at risk of becoming an abyss.

8. To think together about ways to prevent those scenarios, she put forward ideas on possible policy solutions to close the gap by reducing costs on the one side, while promoting sustainable growth on the other. Servicing of debt obligations absorbed around 16 per cent of developing countries' export earnings, reaching 34 per cent in small island developing States; in 2020, the share of government expenditure on debt service exceeded that going to health and, in many cases, also to education in 62 developing countries. A permanent and comprehensive debt restructuring mechanism was needed, as was a definition of debt sustainability that incorporated the financing requirements for developing countries and went beyond narrow income classifications. The international financing system needed to implement emergency measures to help developing countries. The Debt Service Suspension Initiative should be restarted in a way that did not postpone issues. A weak recovery, ongoing geopolitical tensions, the refugee crisis and the increase in

military spending would place further pressure on aid budgets and thus official development assistance. Special drawing rights should be allocated to countries that needed them; the International Monetary Fund's new resilience and sustainability trust could be a good step forward. More needed to be done, and multilateral development banks should be included. Resilience needed to be built into infrastructure, safety nets, governance systems and health and education systems, given the costs created by COVID-19 for developing countries and by climate change, which was a prolonged and progressive succession of crises. On growth, a sustained and structural push towards building productive capacities in developing countries was needed. For that, long-term strategic investments, involving the private sector and local, regional and multilateral development banks, were required. Development banks needed to be capitalized, while being less conservative in their capital ratios. Governments' capacity to raise resources through taxation was an important issue; fighting illicit financial flows and establishing an effective mechanism for global tax governance would be fundamental. UNCTAD had a new mandate on illicit financial flows, representing an opportunity to advance on the issue collectively. A more stable, transparent and rules-based global economy, where trade remained an engine for prosperity for all, was needed.

Keynote addresses and opening plenary discussion

9. The President of the General Assembly and the Executive Director of the Economic Commission for Africa of the United Nations delivered the keynote addresses. A representative of the UNCTAD secretariat introduced the background document on the agenda item (TD/B/EFD/5/2).

10. The representatives of many regional groups and several delegates, some speakers and one intergovernmental organization recognized the enormous impact of the COVID-19 pandemic on mobilizing development finance and that the world was facing an uneven recovery due to disruptions to supply chains, rising inflation, heightened financial volatility and mounting trade costs. The pandemic had also highlighted the need for achieving equality between developed and developing countries, particularly in terms of financing the acquisition of global public goods such as vaccines, as well as mitigating the social impact and enhancing economic response and recovery.

11. The representatives of some regional groups and some delegates said that, coming on top of the challenges stemming from the COVID-19 pandemic, the war in Ukraine was threatening to further undermine global efforts to finance development. They underlined that the attack by the Russian Federation on the sovereignty and territorial integrity of Ukraine was a violation of the fundamental principles of international law and the Charter of the United Nations. The regional groups called for the immediate withdrawal of the armed forces of the Russian Federation from the whole of Ukraine. Another delegate expressed disagreement with the assessment and presented the views of his country on the justification for the use of armed forces.

12. The representative of the UNCTAD secretariat noted that external financial resources were crucial to help developing countries to deal with challenges and recover from the pandemic. He emphasized that much of external finance was, however, short term in nature and could quickly disappear if confidence was hit. One keynote speaker said that external financial resources for development continued to decrease, which had been especially detrimental to low- and middle-income countries. The keynote speakers stated that, of the $650 billion of the International Monetary Fund's allocation of special drawing rights, only 5 per cent was allocated to Africa and 3.2 per cent was allocated for low-income countries. One keynote speaker said that, as a result, many least developed countries, landlocked developing countries and small island developing States continued to endure severe liquidity constraints, which hindered their efforts to recover better and meet the Sustainable Development Goals. Some delegates, the keynote speakers and the UNCTAD secretariat representative called for a revised mechanism of allocation of special drawing rights that better reflected the role of emerging economies at a global level and channelled the provision of special drawing rights to those countries that needed them the most. Some regional groups and one delegate said that, in addition, the allocation of special drawing rights should fulfil not only the short-term liquidity needs of developing countries

but also longer-term financing needs. Some delegates suggested extending concessional financing to middle-income countries through multilateral development banks.

13. One regional group said that the pandemic had also created an unprecedented erosion of the debt sustainability of developing countries, which could be further aggravated by possible monetary tightening in major developed economies. Some regional groups said that mobilizing sustainable finance required effectively addressing the issue of debt vulnerability and systemic issues related to financing for development. Some delegates, one keynote speaker and the UNCTAD secretariat representative noted that the Debt Service Suspension Initiative of the Group of 20 and the Common Framework were steps in the right direction but remained inadequate in scale. One delegate suggested extending the Debt Service Suspension Initiative until end of 2022 and beyond. Some regional groups and one delegate called for a reform of the international financial architecture, in a manner that provided a lasting solution to the issues of sovereign debt, particularly through an adequate and permanent mechanism to manage debt restructuring in developing countries. Another regional group called for enhancing debt transparency and management, as well as balancing the need to address debt vulnerability with the need to foster economic growth.

14. Some regional groups and one delegate emphasized the importance of official development assistance, and one regional group and the delegate called on developed countries to meet official development assistance commitments as part of the broader international effort on financing for development. Several regional groups called for the scaling up of both private and public financing, as well as private sector investment. One delegate highlighted the reform of the international tax system and the issue of illicit financial flows, such as the return of stolen assets for additional resource mobilization. Some regional groups noted that, in the absence of concrete progress on climate finance, the commitment by developed countries to provide $100 billion per year by 2020 was already overdue and had not been met. They called on developed countries to honour the commitment to assist developing countries in their climate change actions with respect to mitigation and adaptation, considering the circumstances, needs and priorities of developing countries.

Looking back to move forward: Lessons to be learned from the COVID-19 pandemic for development financing

15. During the five-member panel discussion, one panellist said that the financial emergency response at the peak of the crisis had worked relatively well. Some panellists highlighted, rather, that the multilateral responses to the COVID-19 pandemic had been insufficient to bolster the resilience of development finance against future shocks. To increase that resilience, one panellist recommended the inclusion of natural disaster clauses in sovereign bonds. Another panellist noted the importance of innovative financial tools, such as debt-to-nature swaps. One panellist stressed that the Group of 20’s Common Framework had not been sufficient thus far to address the debt challenges of low-income developing countries, and that ensuring efficient debt-restructuring mechanisms was urgent. Many panellists stressed the need to include middle-income countries in the mechanisms and to increase the access of those countries to concessional finance. One panellist suggested considering environmental vulnerability as a criterion.

16. Many panellists highlighted the importance of the record special drawing rights allocation of $650 billion in August 2021, but also the need to reallocate the unused special drawing rights of developed countries to developing countries. They mentioned some reallocation mechanisms, such as the proposed resilience and sustainability trust. Another panellist suggested the reallocation of special drawing rights through multilateral development banks.

17. One panellist mentioned that one lesson from the COVID-19 pandemic for development finance was the need for a comprehensive approach. Filling the financing gap would require a set of actions, such as mobilizing domestic resources and addressing the unsustainable external debt of some developing countries. Another panellist stressed that, in the case of adaptation to climate change, the gap would need to be closed by public-sector funding, as the private sector prioritized financing for mitigation of climate change.

As many developing countries already had high levels of public debt, it was necessary to find mechanisms to increase their fiscal space. One possibility would be to create an off-balance sheet instrument to record new debt related to climate adaptation.

18. Another panellist mentioned three past lessons that were recalled during the COVID-19 crisis. The first was the role of fiscal policy as an instrument to reduce inequality through income transfer. The second was the lower fiscal space of many developing countries due to balance of payment constraints. In that case, he suggested that multilateral institutions could provide hedge against exchange rate risk, which would enable developing countries to raise external developing finance. The third lesson was the importance of government planning.

19. Another panellist also noted that the war in Ukraine would affect the global economy through three main channels: higher commodity prices; disrupted trade, supply chains and remittances; and reduced business confidence and tightened financial conditions. As in the case of the COVID-19 pandemic, developing countries were least able to cope with those impacts and would bear the biggest burden.

20. One delegate raised concerns regarding the impact of the war in Ukraine on the availability of financing for development in the coming years, especially on official development assistance and concessional financing. Another delegate stressed that developing countries needed more fiscal space and better financial conditions to face the challenges ahead. Another delegate noted that concrete actions were required to enable a resilient recovery and the achievement of the commitments undertaken in the Paris Agreement and the Addis Ababa Action Agenda, including reforms in the global financial architecture.

21. One regional group and one delegate highlighted that all sources of finance (external and domestic, private and public) were necessary to finance the investment requirements to achieve the 2030 Agenda for Sustainable Development and that the multilateral responses to the COVID-19 pandemic were substantial and unprecedented.

22. Another delegate echoed the call of panellists to include middle-income countries in debt restructuring mechanisms and agreed with the challenges raised by panellists for the financing of climate adaptation. She also pointed out the need to consider other criteria for eligibility to concessional finance, apart from income per capita.

Building back better: Sustainable finance for green industrialization and inclusive structural transformation

23. During the four-person panel discussion, the panellists highlighted that not only were the current international commitment on financing for development not being met, but the funds available were also not sufficient to achieve the Sustainable Development Goals. Regarding climate change alone, some estimates suggested that 5 to 7 per cent of GDP needed to be directed to decarbonization to achieve net zero emissions by 2050. One panellist argued in favour of State-led development finance as private funds, which were mostly handled by mutual funds, lacked effective incentives to achieve green industrialization and climate change mitigation goals within the time frame set by internationally agreed commitments. Market-led mechanisms, through price signals, such as an increase in the price of carbon, had proved ineffective.

24. One panellist underlined that, though $130 trillion in private mutual funds had been committed to transforming the economy to net zero, those commitments lacked binding obligations. In addition, recent initiatives to spur recovery post-COVID-19, including those from the Group of 20 and the International Monetary Fund, did not extend debt forgiveness or debt restructuring beyond multilateral institutions and public creditors, hence leaving out private creditors. Furthermore, multilateral lending institutions overlooked green industrialization in their financing decisions, relying instead on privatization and deregulation policies in their decision-making process. Another panellist, who had been a negotiator at the twenty-sixth session of the Conference of the Parties, highlighted several issues raised during that conference. One notable issue was the need to conclude negotiations by 2024 on a new collective quantified goal for climate finance under the Paris Agreement for the post-2025 period, increasing the initial $100 billion annual commitment

of developed countries under the United Nations Framework Convention on Climate Change and the Paris Agreement. There was also a need to explore enhancing the provision of climate finance to developing countries in terms of increasing the inflow of financing, investments and other liquidity (for example, new special drawing rights allocations) into developing countries and decreasing the outflow of finance (for example, through debt cancellations and controlling of illicit financial flows) from their economies so as to increase the availability of capital in developing countries that could be used to support sustainable development, poverty eradication and climate change-related actions. In that regard, another panellist argued that international commitments on climate change placed greater stress on mitigation than on adaptation, which was seen as a priority by many developing countries as they were not historically the largest emitters of CO_2. Highlighting national experience, where his Government used sovereign funds to finance adaptation measures, he noted that solutions needed to be highly local and context specific.

25. Several panellists also raised the issues of intellectual property rights and access to technology to fight climate change. Developing countries needed to have easy access through imports of carbon saving technologies but should also be able to develop and adapt technologies to their context. In that context, climate finance could contribute to jump starting development and green industrialization.

26. One regional group and one delegate argued that the Addis Ababa Action Agenda placed development responsibility on individual countries. Thus, policymakers should find ways to crowd in private capital flows stemming from trade and investment as a means to reach long-term development goals. In their view, the private sector was an essential tool to achieve the Sustainable Development Goals by 2030. As an example, they mentioned a regional initiative aimed at scaling up finance and identifying bankable projects in the global South. Panellists expressed different views, with several arguing that World Trade Organization rules on special and differential treatment explicitly recognized the asymmetry among countries. They said that existing exceptions needed to be extended in the area of trade and investment. One panellist mentioned an example of State-owned enterprises in Uganda involved in green mobility. The State-owned enterprises were able to succeed thanks to technological transfers from China and an active State-led policy. Another panellist argued that the rules-based multilateral system needed to be grounded in cooperation among countries, and not market-based competition, in order to fulfil the Paris Agreement. One delegate noted that the current system led to unequal distribution of costs and benefits.

27. Several panellists also briefly discussed the role of central banks in structural transformation. The central banks of developing countries faced greater constraints than those of their developed country counterparts. As a result, their actions were rather limited, and they tended to favour price stability over green investment.

28. Summing up the overall discussion, the moderator considered the sheer size of the financing gap, ways to fill the financing gap in environmental and development issues and the role of institutions in both the private and public sector, and the multilateral institutions.

Scaling up development finance beyond COVID-19: Is a paradigm change needed?

29. During the four-member panel discussion, one panellist focused on the need to close huge financing gaps in order to meet the goals of the 2030 Agenda for Sustainable Development and on the approach and priorities to be adopted for that purpose. Existing gaps in development finance had been exacerbated by the COVID-19 crisis. The recovery had been uneven and fragile, and significant hurdles remained to place the global economy on a sustainable and resilient growth path. The problems related to high volatility in international financial markets and damaged global and regional value chains had been compounded by the challenges posed by the invasion of Ukraine, particularly for countries trading with the Russian Federation and Ukraine, and in relation to oil- and cereal-importing developing countries. The situation made the global scenario even less development friendly.

30. She noted that current approaches to financing for development prioritized the use of public funds to de-risk private investment through innovative financing instruments. Such

an approach generally delivered disappointing results both in terms of the overall investment volume generated and of the channelling of funds towards priority sectors and projects. Despite the de-risking of private investment and structural reforms sponsored by leading international financial institutions, the mobilization of private capital had, in fact, substantially stagnated. She suggested it was time to revise the dominant paradigm and the balance between private and public sectors in development financing that that entailed.

31. Some panellists said it was important for public funds to help catalyse and crowd in "patient" private finance, which was valuable for helping meet the Sustainable Development Goals, but to do so in ways that were not focused on de-risking private investment, but rather on maximizing the development impact of such private flows. A key role should be played by public development banks at the multilateral, regional, national and subnational levels. Public development banks could help fund the large investment needed to support a green and inclusive transition in all economies, as well as support innovation and other activities to increase productivity and economic growth. They could also play a critical countercyclical role, as they had done during the COVID-19 emergency. In tight fiscal times, they provided leverage to relatively scarce public resources, as the impact of any public increase of their capital could be magnified by additional private or other sources of financing.

32. Several panellists also stressed that sharing access to global reserves could be an important component of the response to any global crisis, such as in the case of the pandemic. One panellist pointed out that the only truly global financial response to the current crisis had been the issuance of special drawing rights of over $650 billion issued by the International Monetary Fund. However, over 60 per cent of those resources had been allocated to advanced countries. Middle-income countries, which had been particularly vulnerable to the pandemic and where most of the global poor lived, had received minimal attention. To make the issuance of special drawing rights more effective, several panellists suggested that special drawing rights should be transferred from advanced economies to multilateral development banks, such as the World Bank and regional development banks, and directed more explicitly to low- and middle-income countries. Special drawing rights could therefore provide an addition to the capital base of multilateral development banks and allow them to expand lending and guarantees.

33. One panellist said that significant market building and shaping interventions were needed. Several panellists suggested the introduction of new asset categories, such as municipal bonds or agricultural funds, and the tapping of pools of capital currently available for sustainable investing for which environmental, social and governance factors were taken into account. Those global markets had grown very rapidly in recent years, and there was high demand for new and high-quality assets. Broadening the offer of environmental, social and governance assets would therefore help increase the total flow of impact investment while at the same time diversifying it from microfinance and infrastructure into assets that could serve to accelerate pro-poor development and biodiversity. The panellists agreed on the urgent need to rediscover the role of a proactive State and to unleash private capital only in the context of a publicly forged vision of development and industrialization.

34. One panellist acknowledged the critical role played by UNCTAD as a source of innovative ideas to overcome current difficulties and improve the global financial architecture. All panellists called for a renewed role for UNCTAD in the international arena, strengthening its cooperation with international financial institutions. Some delegates raised the additional issues of the roles of international debt in limiting policy space and the potential trade-off between long- and short-term objectives in the design of financial instruments as they were important. Some panellists explained how the enormous imbalance in the debt system penalized developing economies and stressed the pernicious role played by private credit rating agencies in downgrading countries when they most needed access to cheap foreign resources. There was, consequently, a need to revise the role of those agencies.

Moving forward: Multilateral policy priorities for paving the way towards strong and reliable development financing

35. During the five-member panel discussion, some panellists highlighted the unequal access of developing countries to the global financial safety net, which encompassed short-term liquidity arrangements from, among others, the International Monetary Fund, regional financial funds and currency swap agreements. They noted that, although the global financial safety net had expanded and become multi-layered, lower-income countries were less insured against liquidity shocks and had less access to diversified sources. To reduce the global financial safety net inequality, one panellist recommended a bolder redistribution of special drawing rights; the creation of new regional financial funds and the increase of resources of existing regional funds; and the inclusion of currency swap agreements as part of coordination of the global financial safety net.

36. Another panellist noted that many developing countries had solvency problems and were on the verge of default. She raised concerns that debt vulnerabilities could increase as developed countries had already started tightening monetary policies, further jeopardizing countries' ability to pursue countercyclical fiscal policies. To avoid the debt crisis looming on the horizon, she argued that bolder initiatives were needed, including the resumption of the Debt Service Suspension Initiative, the rapid rechannelling of special drawing rights, the setting up of a permanent debt workout mechanism to enable orderly, timely and fair debt cancellation and restructuring for all developing countries in need and involvement of all creditors (public and private). She also noted the importance of the UNCTAD principles of responsible borrowing and lending, as well as of using a multi-vulnerability index to guide the allocation of International Monetary Fund concessional finance.

37. Another panellist highlighted the importance of "recycling" of the special drawing rights of advanced economies to developing countries. He pointed out the unique characteristics of special drawing rights, including that they were not cash, but rather a contingent claim on another currency and a reserve asset. He noted that the existing recycling mechanism for special drawing rights (the poverty reduction and growth trust of the International Monetary Fund) was insufficient, as it offered only short-term maturity loans and excluded middle-income countries in need. In response to those shortcomings, the International Monetary Fund was designing a new fund that would be accessible to vulnerable middle-income countries and had longer maturity. Apart from International Monetary Fund mechanisms, it was possible to use multilateral development banks that were prescribed holders of special drawing rights to recycle them. He pointed to technical and political issues involved in the recycling of special drawing rights and that policymakers would need to weigh the costs and advantages of holding special drawing rights as a reserve asset against employing them as a fiscal tool during crises. The latter proposal faced opposition from central banks that preferred to keep special drawing rights on their balance sheets.

38. One delegate recognized the importance of recycling of special drawing rights and asked panellists how countries could assess when it was an adequate moment to use that reserve asset. In response, the panellists underscored the role of multilateral development banks in using special drawing rights to make sound investments, highlighting the importance of understanding risks more broadly and of not necessarily applying standard conditionalities of the International Monetary Fund that would discourage countries from accessing the resources.

39. Another delegate asked how to integrate private creditors in the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative, highlighting the lack of encouragement mechanisms. One panellist pointed out that the low participation of the private sector was not a new concern and recommended establishing national and international incentives to stimulate private sector participation, together with constraints or consequences for those unwilling to join.

40. One regional group stressed the role of public–private partnerships and innovative financing instruments to scale up sustainable development in developing countries, as well as the importance of improving domestic resources mobilization.

41. One delegate noted that few developing countries joined debt relief and restructuring programmes during the COVID-19 crisis given the threat of being downgraded by credit rating agencies. He highlighted the importance of establishing an independent credit agency and global debt authority, as recommended in UNCTAD reports.

42. The representative of one civil society organization asked about reforming the quota systems of issuance of special drawing rights and pointed out the need for creating newly prescribed holders of those rights. One panellist agreed with the recommendation, but emphasized that using multilateral development banks that already had that function would be more efficient, as any change to the quota system would require 85 per cent of the International Monetary Fund’s board to vote in its favour.

Closing plenary meeting

43. The representative of one regional group expressed satisfaction in having achieved agreed policy recommendations as an outcome of the session. Nevertheless, the recommendations fell short of reflecting the range of proposed ideas and discussions. The topic of the session had been timely and necessary, as the effects of the COVID-19 pandemic had created a deterioration in the global economy and intensified the threat of unsustainable debts in a growing number of developing countries, particularly considering that the temporary suspension of debt servicing initiated during the pandemic by Group of 20 countries had ended. The COVID-19 pandemic had exposed the fragilities of the international financial system and the existing international debt architecture for sovereign debt restructuring, which could pose serious constraints on opportunities to achieve inclusive and sustainable growth. The international community needed to resolve those fragilities and implement new initiatives to contribute to debt sustainability. The possibilities of special drawing rights had been amply discussed, with several proposals for the short term and to alleviate balance of payment pressures. Special drawing rights should be used expansively. The issuance of special drawing rights in August 2022 was a step towards enhancing liquidity that should be followed by ambitious reallocation of unused special drawing rights to developing countries in need of liquidity, including middle-income countries. Other initiatives to enhance liquidity should be explored to unlock financing for developing countries and catalyse investments in the Sustainable Development Goals. The role that multilateral development banks should play in that area had been widely discussed during the session.

44. The regional group welcomed the Debt Services Suspension Initiative of the Group of 20 but recognized its shortcomings and called for its continuation. Debt suspensions should be extended on a needs basis, independently of income level, including private and multilateral creditors, and debt cancellations would also need consideration. The discussion on revisiting the challenges of debt sustainability faced by many developing countries in efforts to achieve the Sustainable Development Goals was welcome. The regional group called for effective, transparent and expedited implementation of the Common Framework that prioritized development goals, with comparable efforts by private and other relevant international creditors. A more thorough analysis of existing International Monetary Fund surcharges and their impact on the development of developing countries would also be welcome. The lack of coverage and access of financing for middle-income countries stressed throughout the different meetings of the session needed to be discussed further and addressed. The specific vulnerabilities affecting those economies needed to be addressed to allow them to access the financial means to achieve the Sustainable Development Goals. Official development assistance commitments also needed to be fulfilled. The regional group called on developed countries to meet their financial commitments in accordance with the Paris Agreement and the Addis Ababa Action Agenda.

45. The representative of another regional group, while recognizing the efforts of organizers, quality of panellists and engagement of participants, regretted that information on the panellists and draft policy recommendations had not been made available adequately in advance as agreed. The organization of some meetings and much of the draft policy recommendations prepared by the secretariat went beyond, or in a different direction from, what was agreed by the membership in the guiding questions. The situation had prevented ensuring an outcome that would be constructive and complementary as a contribution to the

financing for development process in New York, in the follow-up to the Addis Ababa Action Agenda. He also noted limited engagement by the membership in some meetings, which had also been observed in the previous session.

46. One delegate noted the delay in organizing the fifth session, due to COVID-19 and then the quadrennial conference. The discussions had been useful, with balanced groups of panellists who had raised points that required the serious attention of both developed and developing countries. He also underscored that the numbers of delegates attending all meetings were consistently elevated. He commended the efforts of the secretariat in organizing the session and in the preparation of the background document. He stressed that the resulting agreed policy recommendations required practical steps for their implementation.

47. Another delegate highlighted that unilateral coercive measures had hindered financing for development for decades in targeted developing countries, such as Cuba, the Bolivarian Republic of Venezuela, Zimbabwe and others. The measures had caused serious obstacles to mobilizing financial resources for domestic and external public and private sources and hindered trade international cooperation as a tool for development. Unilateral sanctions had been used as political leverage and had direct negative impacts on the development of populations, creating significant obstacles to financing for development. They violated human rights, such as the right to development. Unilateral sanctions were affecting millions of people in developing countries, leaving them behind. It was therefore crucial to identify and reflect all obstacles that could undermine achievements related to financing for development in the global South in the documents of the Intergovernmental Group of Experts and in future agreed policy recommendations.

III. Organizational matters

A. Election of officers

(Agenda item 1)

48. The election of officers of the fifth session of the Intergovernmental Group of Experts on Financing for Development was conducted through a silence procedure. At its opening plenary meeting, on 21 March 2022, the Intergovernmental Group of Experts on Financing for Development were thus reminded that Mr. Ahmed Ihab Abdelahad Gamaleldin (Egypt) had been elected as its Chair and Mr. Michael Gaffey (Ireland) as its Vice-Chair-cum-Rapporteur.

B. Adoption of the agenda and organization of work

(Agenda item 2)

49. At its opening plenary meeting, on 21 March 2022, the Intergovernmental Group of Experts adopted the provisional agenda, as contained in document TD/B/EFD/5/1. The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Financing for development: Mobilizing sustainable development finance beyond COVID-19
4. Provisional agenda of the sixth session of the Intergovernmental Group of Experts on Financing for Development
5. Adoption of the report of the Intergovernmental Group of Experts on Financing for Development on its fifth session.

C. Adoption of the report of the Intergovernmental Group of Experts on Financing for Development on its fifth session

(Agenda item 5)

50. At its closing plenary meeting, on 23 March 2022, the Intergovernmental Group of Experts on Financing for Development authorized the Vice-Chair-cum-Rapporteur, under the authority of the Chair, to finalize the report on its fifth session after the conclusion of the session.

Annex

Attendance*

1. Representatives of the following members of the Trade and Development Board attended the session:

Algeria
Angola
Argentina
Armenia
Barbados
Brazil
Burkina Faso
Cambodia
Canada
Chile
Colombia
Congo
Costa Rica
Cuba
Democratic Republic of the Congo
Djibouti
Ecuador
Egypt
Gabon
Gambia
Germany
Guatemala
Haiti
India
Indonesia
Iran (Islamic Republic of)
Iraq
Jamaica
Japan
Kenya
Kuwait
Lebanon
Madagascar
Malaysia
Mauritius
Mexico
Mongolia
Morocco
Mozambique
Nepal
Nicaragua
Nigeria
Pakistan
Panama
Peru
Philippines
Republic of Korea
Russian Federation
Serbia
South Africa
Spain
Sri Lanka
Switzerland
Thailand
Togo
Tunisia
Turkey
Ukraine
United Kingdom of Great Britain and Northern Ireland
Uruguay
Venezuela (Bolivarian Republic of)
Viet Nam
Yemen
Zambia
Zimbabwe

2. The following intergovernmental organizations were represented at the session:

African Development Bank
Afro-Asian Rural Development Organization
Common Fund for Commodities
European Union
Inter-American Development Bank
Latin American Economic System
Organisation internationale de la francophonie
Organization of African, Caribbean and Pacific States
Organization of Islamic Cooperation
South Centre

* This attendance list contains registered participants. For the list of participants, see TD/B/EFD/5/INF.1.

3. The following United Nations organs, bodies and programmes were represented at the session:

Economic Commission for Africa
Executive Office of the Secretary-General
International Monetary Fund
United Nations Development Programme
United Nations Educational, Scientific and Cultural Organization
United Nations Industrial Development Organization
World Bank Group

4. The following non-governmental organizations were represented at the session:

General category

Association Africa 21
Conference of Non-Governmental Organizations in Consultative Relationship with the United Nations
European Network on Debt and Development
International Network for Standardization of Higher Education Degrees
Society for International Development
Third World Network