Identifying and leveraging finance that contributes to the 2030 Agenda and Paris Agreement objectives.

Development finance in times of crisis

I Will try to structure the presentation so that it tries to respond to the pertinent questions raised by the UCTAD Secretariat note referred to policies, initiatives and intruments , best practices and the role of international cooperation to favor the structural changes needed to attain the SDGs goals of the 2030 Agenda.

As we are seven years away from 2030, It is apparent that we are living the permacrisis with the succession and cumulation of the pandemic effects, climate change, high interest rates, food and energy prices and the consequences of the invasión of Ukraine and the Gaza conflict

These crises have supposed a backlash in the pursuit of the SDGs of the 2030 agenda. It is estimated that the annual financing needs to meet these goals have more than doubled from USD 2.5 Trillion to USD 3.9 trillion, according to the OECD, while official ODA is stuck in USD 180.000 billion, from which a substantial part has gone to short term liquidity needs in the aftermath of the pandemic.

In my intervention I will briefly refer to the main features and instruments of the Spanish Financial Cooperation both bilateral and multilateral. In this regard, I will also share with you some preliminary findings of the High Level Experts Group on Sustainable Finance in LMIC, mandated by the Commission, as I participate in its deliberations.

Principles and policies of the Spanish International Cooperation for Development:

- We are facing global challenges that need a coordinated global response: not only the ODA ressources of any bilateral or multilateral donor are insufficient: It is critical to leverage private sector investments and know how.
- Policy first: structural reforms are needed to favor the three transitions: environmental, digital and social.
- The three are interdependent, if you want to achieve a just, sustainable and inclusive growth model these reforms must be embraced and developed by the beneficiary countries.; empowerment and appropiation are key elements of this dialogue, often missing in the planning and deployment of international cooperation.
- Any support to a green, digital transition needs to be fair and consider all the social costs of such transition, considering and offsetting the impact of these crises on income disparities and vulnerable populations. No economic growth can be sustainable if it does not encompass this social inclusion aspects,
- The Spanish cooperation is one that listens to stakeholders and partners: an engagement model base don a high level political dialogue with the Governments, private sector and civil society
- Together with the objective of these three just transitions, It is also a feminist policy, fighting against gender discrimination, and commited to human rights, universal Access to health, democratic governance and inclusive social policies.
- Allinstruments are aligned to these principles and policies: financial cooperation, support to projects by civil siciety, bilateral TA funds and contributions to IFIs.
- These principles have been reflected in the new Cooperation Law passed this year that, for the first time, commits to attain the ODA level of 0.7 percent of GDP by 2030, doubling the current ratio.

These policies translate into the following bilateral and multilateral instruments and initiatives:

Main instruments:

Half of the Spanish Financial cooperation goes to unlock financing and investment from the private sector. The main private sector instruments are:

- **Impact investment funds**: more and more often, private sector investors (institutional investors, family offices, pensión funds) look for a combination of financial and social returns for their investments. **A best practice in this regard is the Huruma Fund.**It is the largest social impact investment fund in Spain, with 120 million euros available to finance small and medium-sized producers in Latin America, the Caribbean, Sub-Saharan Africa and Asia.
- The Huruma Fund aims to promote transformative processes in the entities in which it invests by combining its financial investment with Technical Assistance funds, thus maximizing the Fund's social impact.Since it began operating in 2020, Huruma has disbursed 94.1 MM EUR, reaching out to 103.000 small farmers and raising 90 million of the Spanish private sector investors. .
- **We are now working to scale up this global initiative through the Kuali Fund,** oriented to promote best clamet change adaptation and mitigarion practices through more ecological business models for small farmers worldwide. With a contribution of EURO 50 million from the Spanish cooperation as senior debt and 1 million euros from the EU and 25 million from the green Climate fund, it ainms to leverage 213 million euros from private sector investors.
- **Second tier financing for financial inclusion and MSMEs**- Every year, 136.000 persons benefit from microcredits and financial inclusión, thanks to our Agency microfinance projects out of which 63% are women
- **Blending of EU and Spanish TA funds**: in particular, these funds try to improve the regulatory environment and the harmonization of European and local taxonomies, particularly on climate finance , so as to incentivize private sector investments and lower their cost in terms of prudential regulation. These efforts boost both public and private investments.
- **De-risking private sector investments through guarantees and technical assistance**

Public sector loans:

- It is estimated that LMICs have an annual financing gap of USD 2 trillion to secure the sustainable infrastructure needed to meet the objectives of the agenda. Spain grants vey consecessional loans to Governments with sovereign guarantees. It also blends it with TA funds that help strenghten the design of the projects and the technical capacity of the excuting agencies, thus making the projects more bankable and improving their probablity of success.
- The main sectors of intervention are climate change, including rural development, wáter and sanitation, coastal protection and solid waste management.
- Spain also participates very proactively in the joint European efforst to boost development finance.

- **A first example is the Global Gateway Initiative** is a collective effort of the European union and its member states to face the challenges brought about by the accumulation of international crises.
- From a political standpoint, The EU is well aware and acknowledges that, although the combination of European funds and member states contributions make the Union the first donor of international cooperation at the global level, it is still a relatively minor political actor. This stems from the fragmentation and lack of coordination of the efforts of different member states, as well as from the often inappropriate and bureaucratic processes for implementing financial and technical assistance.
- In this context, global gateway appears as an initiative, focused, mainly on infrastructure and regulatory environment. It will be implemented with the team, Europe approach, trying to present joint transformative actions in the beneficiary countries that can respect the values of safeguards of European when it comes to social economic or environmental standards, as well as the respect of human rights democratic governance.
- The ambitious goal is to mobilize €300 billion in the period 2021–2027. In order to accomplish this the new European fund for sustainable development plus (EFSD+) will guarantee up to 135 billion in investments for infrastructure projects, adding up €18 billion in grants and technical assistance. That hopes to leverage €154 billion from European financial development institutions for investment projects.
- **A second example of joint action is** he operational response of the European development finance institutions, that have signed in March ago **a cofinancing platform by the name of JEFIC (European financiers for international cooperation).** Its foor founding members are KFW, AFD, the Italian CDP, and the Spanish cooperation agency, Aecid. The Polish development bank has also joined initially as an observer
- This strategic agreement will help to design and implement transformative programs in beneficiary countries, often under the umbrella of the so called Team Europe Initiatives (TEIs) and other flagship projects.
- The challenge for the EU is how to develop these programs in a flexible and efficient manner, cutting red tape without compromising Europen values while following the “ policy first” principle.
- Last but not least, a third strategic initiative is Green bonds (“GB”) are key tool in mobilising private capital for investments with environmental impact notably in areas of strategic importance for the EU Global Gateway, the EU strategy to boost investments into infrastructure development worldwide. However, the market is still insufficiently developed, and not growing fast enough to meet Paris Agreement and Sustainable Development Goals (“SDG”) objectives, especially in Emerging Markets and Developing Economies (EMDEs). The G20 has called for international donors to work together with Public Development Banks to spur thematic bond issuances, and to mobilise private investors at scale in developing countries to finance a sustainable recovery.
- Under the lead of the European Investment Bank, a consortium of DFIs have joined forces with the European Commission to support the development of the green bond markets in EMDEs through **the Global Green Bond Initiative (GGBI).** Development Finance Institutions and Multilateral Development Banks (DFIs/MDBs) are instrumental in the development of green bond markets and play a crucial role in developing local capital markets by supporting the necessary policy reforms.
- The GGBI will mobilise private investors into a dedicated de-risked public-private fund. The fund will act as anchor investor acquiring a portion of green bonds issued by private, sovereign, and sub-sovereign entities in EMDEs and attract further investors at transaction level.

- The GGBI will also support issuers by building capacity and providing technical assistance at country level to help partner countries develop credible green bond frameworks, identify a pipeline of green projects (including infrastructure projects) and carry out the issuance.

As a way of conclusión,some ideas:

- The main challenge, both for bilateral and multilateral donors, remains to promote a cooperation that listens to its partners and empowers local governments, civil societies and private sector, so that there is a sense of firm appropiation and commitment.
- The 2030 Agenda, with its emphasis on public goods and global crises, demands at the same time actions at national level in any country, regardless of its economic development as we fase global challenges that no country can solve alone.
- At the same time, and precisely for this reason, corresponsability is of paramount importance: in order words, respectful peer to peer dialogue with emerging economies but also a commitment of these to mobilize local resources and financing through, among other things, a progressive fiscal system that can help finance public policies and services.
- A crucial challenge is to leverage local and international private sector investments and know how, if the growing financial needs are to be met. This, in turn, requires a hands on support to help beneficiary countries to build market friendly regulatory systems and the development of new instruments such as guarantees to help de-risk operations and attract private investors.
- In term of instruments, while acknowledging the relevance of garantees, project finance and other instruments to encourage private investment, it is important to note that guarantees are not always the panacea for all countries. On the one hand, they need a stable regulatory framework and a sound development of capital markets. Also, a guarantee covers a part of the expected losses, but no the probability of that loss.
- In other words, together with this and other financial products, let us not underestimate the relevance of blending EU funds for investment grants and technical assistance. As a matter of fact, it should not be an alternative, as combining TA with finance strengthens the executing agencies, and makes projects more bankable and sustainable

  I believe we share a dramatic realization that we need a global and coordinated response be responsive to this overlap of crises to jointly meet the growing development finance needs of the world.

Many thanks.

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