

A Special Issue to Celebrate 50 Years of LDC Category

Bringing the voice of the **L**east **D**eveloped **C**ountries **s** into the G20 policy agenda



UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

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ABBREVIATIONS AND ACRONYMS

AAAA	Addis Ababa Action Agenda
AfDB	African Development Bank
ASG	Think 20 African Standing Group
CCRT	Catastrophe Containment and Relief Trust
DAC	OECD Development Assistance Committee
DSSI	Debt Service Suspension Initiative
DWG	G20 Development Working Group
FDI	Foreign direct investment
GBP	Green Bond Principles
GDP	Gross domestic product
GHG	Global greenhouse gas
GIH	Global Infrastructure Hub
GSSS	Green, social, sustainability and sustainability-linked
HIC	High-income country
IAI	Instituto Affari Internazionali
ICTs	Information and communication technologies
IFI	International fiscal institutions
IMF	International Monetary Fund
IPoA	Istanbul Programme of Action
IRENA	International Renewable Energy Agency
LDC	Least developed country
LIC	Low-income country
LMIC	Low- and middle- income country
LSF	Liquidity and Sustainability Facility
MDB	Multilateral and Development Banks
MW	Megawatt
ODA	Overseas development assistance
OECD	Organisation for Economic Cooperation and Development
PIDA	Program for Infrastructure Development in Africa
PIMCO	Pacific Investment Management Company
PPP	Public-private partnership
PRGT	Poverty Reduction and Growth Trust
PQL	PIDA Project Quality Label
PV	Photovoltaics
QII	Quality Infrastructure Investment
SDG	Sustainable Development Goal
SDR	Special Drawing Rights
T20	Think20
UMIC	Upper- and middle- income country
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNEP	United Nations Environment Programme

INTRODUCTION

The COVID-19 pandemic has significantly set back progress in the implementation of the 2030 Agenda for Sustainable Development right at the beginning of the United Nations Decade of Action, hitting the least developed countries (LDCs) particularly hard. Its impact on both people and economies has shed light on how unsustainable our economic and social systems are, underscoring multifaceted patterns of interdependence across countries and development dimensions. The World Bank has estimated that the pandemic has pushed between 119 and 124 million more people into extreme poverty in 2020, further compounding challenges to poverty eradication, such as conflict, climate change and natural disasters. The crisis is also exacerbating global inequalities: in 2020, the equivalent of 255 million full-time jobs were lost, while according to the State of Food Security and Nutrition in the World Report, an additional 161 million people suffered from hunger, most of whom are in developing and least developed countries (LDCs).

The spread of COVID-19 has also affected multiple Sustainable Development Goals (SDGs), such as access to quality education (SDG4) – with an additional 101 million children and young people falling below the minimum reading proficiency level, wiping out the education gains achieved over the previous two decades – as well as gender equality (SDG5), as it is estimated that up to 10 million additional girls will be at risk of child marriage in the next decade as a direct result of the pandemic.

Addressing these challenges through broad range, concerted interventions across various domains is crucial to support an effective fair and legitimate rules-based multilateral system. There is a need for global coordinated action to cope with the health crisis in the short-term, while ensuring these are part of long-term sustainable plans enforcing structural changes. As part of a broader multilateral architecture, the G20 can play a crucial role to bring coherence, transparency and support to these transformative processes reinforcing their alignment with the SDGs.

The G20 has become a key multilateral forum for discussion of pressing international economic issues for LDCs. The launch of the G20 Development Working Group (DWG) in 2010 marked the formal incorporation of the development agenda, and also the African Union participating with observer status for the first time. Since then, the increasing activism of the G20 in the development sphere has been accompanied by growing calls for enhanced representation of African and LDC perspectives. The G20 DWG, co-chaired by South Africa, holds a privileged position in pursuit of the “building back better” strategy after the pandemic. A number of sensitive topics for LDCs, such as debt relief and finance for development, have already topped the Working Group’s agenda at past meetings, although in a still complex cohabitation with other G20 working groups, such as the Finance Track. Recent examples of G20 decisions that

directly affect the LDCs include the adoption of the Debt Service Suspension Initiative (DSSI), as well as the debate over the reallocation of Special Drawing Rights (SDRs).

Against this backdrop, despite the G20 having the merit to involve more and more actors in the negotiations on key global issues, it still suffers from a restricted membership that does not allow it to fully address the needs of LDCs and African countries, consequently reducing its legitimacy in some regions of the world. African countries have the most to lose by a progressive erosion of global multilateral institutions and should be therefore given the opportunity to influence decisions taken in multilateral fora, such as the G20. Yet, due to weak institutional and coordination capacities, as well as a limited representation, African countries find it difficult to contribute to the related agenda setting, with attendant risks for the effectiveness and legitimacy of the measures adopted.

Such asymmetric structure and simplified decision-making have thus raised concerns about its capacity to achieve a truly inclusive approach to the global agenda. These structural limitations, coupled with the confinement of Africa-related matters to the development policy silo has also been criticised as a sign of the reification of the donor-recipient relationship. Only with African buy-in can the G20 authentically contribute to effective global policy coordination in the region. Therefore, G20 Presidencies should identify innovative ways to bring the voice of the most vulnerable countries in their policy agendas, with the aim to “build back together” particularly in the fields of development finance and infrastructural development.

It is with these thoughts in mind that this research project – coordinated by the Istituto Affari Internazionali (IAI) as scientific advisor for the Italian Presidency of the G20 and Co-Chair of the Think20 (T20) Italy 2021, with the support of the United Nations Conference on Trade and Development (UNCTAD) – has been launched. The aim has been to investigate the role that current and future G20 Presidencies can play to address these institutional, infrastructural and financial challenges that are at the core of the LDCs’ present and future development agendas.

In order to foster the debate on these critical issues, the report is divided into four sections. Chapter 1 addresses the role of African countries within the G20 decision making processes. Starting with a reflection on the impact of COVID-19 for Africa, the section then focuses on the role and agency of LDCs and African countries in the G20 policy mechanisms. It outlines key themes (e.g. trade, green transition, fair financial architecture) and new actors (e.g. the African Standing Group within the T20) that could be brought to the table to ensure a more decisive and impactful role for LDCs and African countries in the G20 decision making processes.

Chapter 2 analyses the role of quality and climate-resilient infrastructure to boost sustainable and long-term recovery and development for LDCs. The section first addresses why these investments are crucial for sustainable development, showing the impact and costs that inaction

could cause. In addition, it discusses the current gaps and obstacles (e.g. financial, technical, institutional) that still hamper the development of new infrastructural models that aim to shift from a “do not harm” to a “net benefits” principle. Finally, it draws some policy recommendations from the T20.

Chapter 3 focuses on development finance with the aim to reflect on how the G20 can support and identify innovative mechanisms to mobilize financial resources for the LDCs. The section begins with assessing the financial needs of LDCs, showing how COVID-19 has exacerbated existing vulnerabilities; and then focuses on three main areas where the G20 could play a key role in bringing forward a more effective architecture for development finance: blended finance, special drawing rights (SDRs) reallocation, and sustainable bonds. The section concludes with a series of proposals and conclusions for G20 decision makers.

Finally, the report presents some conclusions, summarizes the main proposals addressed by the different sections, and identifies key priorities of immediate interest to African and LDC countries, on which current and future G20 Presidencies should continue working on in the next years.



CHAPTER 01

BOOSTING AFRICA'S AND LDC'S AGENCY IN THE G20

1. Introduction and background

The agenda of the G20 has grown since it was first elevated to a Leaders Summit in 2008. While it is an exclusive club that does not include any low-income countries and only one African country – it was established to bring together those countries from the developed and developing world that were systemically important – the G20 has nevertheless built up an agenda that reflects most of the pressing global economic challenges of our time. Although an informal body, the G20's discussions and decisions affect global rules and processes that affect non-member countries as well, as agreements there carry clout in other multilateral fora where the rules are formally agreed.

In 2010, barely two years after the outbreak of the financial crisis, both the Toronto and Seoul G20 summits (G20, 2010a; 2010b) recognised the importance of narrowing the development gap and reducing poverty if strong, sustainable and balanced growth, and a more robust and resilient economy for all are to be achieved. More specifically, the impact of policy actions on Africa and the least developed countries (LDCs) were singled out as requiring particular attention.

At the same time, the G20 Development Working Group (DWG) was established with the intention of narrowing the development gap. Its mandate has broadened over the last decade, focusing on key themes such as: infrastructure, domestic resource mobilisation, financial inclusion and remittances, food security and nutrition, and human resource development. At the 2015 Antalya G20 summit, the Inclusive Business Framework was established to explicitly recognise the private sector's role in development. In Hangzhou the following year, the Sustainable Development Goals (SDGs) were integrated into the DWG's mandate, and the G20's Initiative on Supporting Industrialisation in Africa and Least Developed Countries was launched (, 2016). The initiative set out a number of voluntary policy options for G20 members to 'consider taking actions on' including: collaborate in promoting inclusive and sustainable structural transformation and industrialisation in Africa and LDCs through knowledge sharing and peer learning; support sustainable agriculture, agri-business and agro-industry development; facilitate technology transfer to Africa and LDCs in, among others, irrigation systems, water harvesting and sustainable agriculture technologies; explore ways to develop North-South and South-South and triangular cooperation in vocational training and industrial production; promote investment in sustainable and secure energy, renewables and energy efficiency, and sustainable and resilient infrastructure and industries; support industrialisation through trade and identify related infrastructure gaps; leverage domestic and external finance and support equitable access to finance; and promote science, technology and innovation as essential means for industrialisation (G20, 2016).

In 2017, the German G20 Presidency implemented the G20 Africa Partnership, which was adopted at the

summit and included the G20 Initiative for Rural Youth Employment in developing countries, with a focus on Africa and an aim to help create 1.1 million new jobs by 2022. The #eSkills4Girls Initiative was also implemented to promote opportunities and equal access for women and girls in the digital economy, in particular for low-income and developing countries. Other initiatives included the launch of the Women Entrepreneurs Finance Initiative and the Compact with Africa (van Staden and Sidiropoulos, 2019). The Compact with Africa, in particular, was seen as an important means of mobilising private sector investments by encouraging governments, together with their international partners, to undertake economic reforms which would help in this regard (Floyd, Kapoor & Sennet, 2019).

The results of the above initiatives have been mixed, while the 2020 pandemic outbreak dealt all developmental outcomes a severe blow. The pandemic highlighted the pattern of interdependence across countries and sustainable development dimensions. Furthermore, it starkly revealed the uneven pattern of vulnerabilities to exogenous shocks across the world, with developing countries generally having far fewer means to respond to the crisis than countries in the Global North. Simultaneously, the pandemic underscored that vulnerability in the face of a systemic shock is not only the domain of poorer countries. Middle-income countries (including those that recently emerged from low-income status), proved to be particularly vulnerable as shown by the ongoing two-speed recovery.

Although many of these challenges are faced by most developing countries alike, the present study largely focuses on LDCs and Africa in its analysis, cognizant of the fact that these regions are amongst the most vulnerable and have very limited voice within the G20. At present, the overwhelming majority of LDCs (33 out of 46) is located on the African continent, and that this tendency will accentuate over the medium-term as many LDCs in Asia and the Pacific are in the process of graduation from the LDC category. Moreover, according to the World Bank classification for the 2022 fiscal year, of the 46 LDCs: 25 are LIC, 20 are lower-middle-income countries (LMICs) and 1 is an upper-middle-income country (UMICs). Similarly, of Africa's 54 economies: 23 are LICs, 23 are LMICs, 7 are UMICs and only 1 is a high-income country (HICs). These distinctions are important because the G20 Initiatives on debt issues, for example, have partly addressed LICs' problems, but have not addressed the challenges of other developing countries facing similar problems.

2. Impact of COVID-19 on Africa and LDCs

In 2020, the African continent as a whole experienced the first GDP contraction in 25 years. From a health perspective, Africa was not as badly hit in 2020 as many expected. However, this changed in 2021; moreover, the health emergency will likely linger for a longer span of time, due to the extremely unequal access to vaccines

worldwide. Data in 2021 indicate that there was a big shift in the mortality distribution to the developing world, and that the number of COVID-19 cases and deaths were largely underestimated (Gill and Schellekens, 2021). Though the socio-economic impact of the pandemic has been severe across most of the world, it was in this sphere that Africa and LDCs were disproportionately affected. LDCs suffered a 2.6 per cent reduction in per capita income in 2020, with 43 of the then 47 LDCs experiencing a fall in average income levels. It was the worst economic outcome in 30 years (UNCTAD, 2020).¹ Progress on the SDGs and the Istanbul Programme of Action (IPoA) in LDCs were severely affected by the pandemic. The gender gap was accentuated, as was the vulnerability of these economies, which have high informality. In 2020, some 32 million people in LDCs descended into extreme poverty, with the deepest impact in Africa and island LDCs (UNCTAD, 2020). Their constrained fiscal space was exacerbated by rising debt. Not all countries eligible to join the G20 Debt Service Suspension Initiative did so, and its impact has been limited. For 2021, the trajectory of the virus, along with its constant mutations and the slow rollout of vaccines, may deal a further substantial blow to both LDCs and other developing countries.

The reasoning for the G20 to consider specific interventions at this precise juncture is broadly the same as in 2010, namely that unless it gives attention to the development gap, an inclusive and sustained economic recovery will not be possible. The G20's overall score card in the efficacy of its response has been mixed, but perhaps it could be galvanised to do better this time?

In seeking to address the challenges faced by Africa and LDCs, it is important to recognise that there are two dimensions – the first is the need to respond to the more urgent and immediate issues, dealing with the economic and health hardships caused by the pandemic to ordinary people, and the constrained ability of governments to respond due to growing debt and very limited fiscal space. The second relates to the longer-term considerations of building back better, including green transformation. While the two may not necessarily be conflicting, there may be instances where the most urgent, in terms of lives and livelihoods, must take precedence.

3. The need for a greater agency

The outbreak of the COVID-19 pandemic in 2020 and the concern across Africa about its possible impact on economies and societies saw a strong coordinated African response, both at a regional level and in the way in which the continent engaged with the international community on debt and access to vaccines. The continent adopted a collective approach to lobby on debt and develop proposals for dealing with the pandemic and its fallout (Wheatley, Pilling and Schipani, 2020) and created an electronic platform for medical supplies procurement

and later for vaccines (APO Group, 2021). This was an impressive display of agency – African countries being proactive in taking measures to curb the pandemic early, but also mobilising to advocate for specific issues internationally.

In general, for smaller, less economically and politically powerful countries, a collective approach is premised on strength in numbers. Moreover, the regional arena provides a critical platform for South-South cooperation, with promising benefits particularly in relation to knowledge and experience sharing, as well as institutional capacity development and sharing of best-practices. These aspects need to be an important consideration for any G20 initiative intended to help developing countries.

Increasing African and LDC agency in international affairs has grown in importance in the narrative of greater inclusivity in global (and national) decision-making. Greater agency is understood to mean an ability of weaker, more vulnerable countries to influence outcomes at the international level in a way that encompasses those countries' main concerns and interests. Of course, the ability to exercise agency is value neutral; it can be used for positive or negative outcomes. For example, incumbent governments can take actions to protect their own power base or exclude other groups (Alden, Van Staden & Wu, 2018: 6). While this is clearly a form of agency, it is not the kind that this chapter considers. This analysis assesses ways in which LDCs and African agency can be better articulated and exercised in global forums. It also argues that coordination among such states at a regional level is a critical element of agency, insofar as it enables greater heft in numbers.

Agency is about effective and impactful involvement. Measurement of such effectiveness for medium to small sized countries in multi-member institutions is not an easy task. Effectiveness can relate to setting the agenda, determining processes and having outcomes in these institutions that reflect a country's objectives and interests. Part of it relates to an individual country's prestige and soft power, in terms of whether it is invited into positions/chairs that are not based on rotation. Effectiveness may also include the extent to which a country can mobilise coalitions within bigger groupings to advance certain objectives and interests.

Agency may also be executed in other ways. For example, an assessment of the participation of developing countries in global tax negotiations found that the expansion of the Inclusive Framework on base erosion and profit shifting (BEPS) to include more "lower-income countries" did not result in greater participation by these countries in the technical policy work (Christensen, Hearson and Randriamanaliala, 2020).² The authors identified four change mechanisms that could redress this outcome (ibid. 6-7):

¹ Notice that Vanuatu graduated from the official list of LDCs in December 2020, leaving the total number of countries in the category to the current 46. Since the establishment of the LDC category in 1971, Vanuatu was only the sixth country to graduate.

² Authors define "Lower income countries" as those in the World Bank's 'low' and 'lower middle' income classification, which are not OECD or G20 members.

- “Lower income countries” could take advantage of reforms pursued by more powerful states, leading to change by association;
- Influential individuals, including secretariats and delegates from more powerful countries could anticipate and promote the interests of “lower income countries”;
- Collaboration among “lower income countries”, and with countries with common interests, could increase their influence; and
- Individual authority in negotiations came with having ‘people with expertise, personal experience and networks’ representing “lower income countries”. (Christensen, Hearson and Randriamanalia, 2020: 7)

Agency is ultimately about empowerment, which entails emphasis being placed on the development of institutional capacity. This is particularly important in the context of LDCs, many of which are faced with multifaceted, long-standing institutional constraints (including in some instances the legacies of protracted conflicts), while simultaneously being relatively more dependent on international development assistance (UNCTAD, 2019).

In her book on ‘poverty narratives’ as powerful tools for weaker states, Amrita Narlikar identifies three types of actors that help shape narratives that often are crucial to effecting agency: coalitions of states, transnational social movements, and multi-stakeholder networks of states, NGOs, business and so on (Narlikar, 2020: 190). This recognises implicitly the armoury of actors required to influence outcomes (or the narratives that enable outcomes that favour weaker states).

Having a seat at the table does not in and of itself mean greater influence in the outcomes of negotiating processes; this should not be interpreted to mean that a seat at the table is not required. Rather, it is to consider this among a series of interventions that can help to build up African (and LDC) agency, transforming seeming ‘powerlessness’ into power among the most marginalised states in the international community. Collective approaches on the part of LDCs/Africa are critical in this regard, as are the responses and initiatives of bodies, such as the G20. The interplay of these two dimensions deserves careful consideration because some of the G20 measures risk diluting the collective action strength by adopting a case-by-case approach. For example, the fact that some recent debt-related initiatives rely so heavily on case-by-case approaches may entail challenges in terms of transparency and institutional capacities. In this respect, if the need for case-by-case assessments and negotiations is fully understandable, it would be essential to agree on some broad, but uniform guidelines, to prevent a situation where each debtor would have to enter into complex and lengthy discussions with a range of creditors under limited transparency.

It is clear therefore that there isn’t only one way to make the G20 more inclusive and responsive to the needs

of Africa and LDCs. It is also the case that various initiatives of the G20 that have sought to elevate actions advancing Africa and LDCs developmental imperatives have not been consistently carried through. This may be because the G20 is an ‘imperfect forum to achieve targeted developmental initiatives, because it lacks an implementation architecture, and because its commitment to the developing world is filtered through member countries’ own self-protective views’ (Van Staden and Sidiropoulos, 2019: 16). However, are there ways of improving the engagement and the accountability?

4. Role of G20 in highlighting African and LDC developmental imperatives

Historically, the G20 has been present in discussions about the specific challenges and needs of LDCs and African states. As previously mentioned, under various presidencies, the G20 has undertaken a number of initiatives intended to address the developmental needs of the most marginalised states. However, the nature of the G20, the change in priorities from year to year all act to create variations in prioritisation under new presidencies.

A more concerted and systematic effort by the G20 to highlight African and LDC developmental imperatives is needed. Such an effort requires the G20 to engage ‘with’ the LDCs rather than ‘for’ the LDCs.

Furthermore, given that the G20 is the premier global economic governance forum, it should focus specifically on initiatives that relate to removing constraints and obstacles from Africa and LDCs at the global policy making level. For example, in pledging to support Africa’s enhancing market access for agricultural exports, the G20 in 2016 made no mention of the constraints resulting from the G20-member countries’ domestic agricultural subsidies (Van Staden and Sidiropoulos, 2019: 15).

Therefore, coherence in the actions adopted by G20 States, both as a collective and as individual actors in terms of how these policies may help address the challenges faced by African countries and LDCs, must be a critical consideration, which is too often ignored. In addition, better donor coordination by both the donor countries and international institutions is necessary. An effective international response to the pandemic, especially for LDCs, requires better harmonisation. The G20 could give consideration to a mechanism that more adequately reflects LDCs’ interests in the process of discussions in the grouping. Importantly, this should not only be in the Development Working Group; rather, the focus should be on mainstreaming the LDCs’ inputs into work streams that include climate change, global financial regulation, remittances, taxation, digital economy and trade. This mainstreaming should be in both the Sherpa and the finance track.

The G20 could consider the creation of an outreach mechanism to LDCs (and other developing regions). A more inclusive outreach structure could have rotating

membership. For the past decade, Africa has had two observer seats at the G20. These are held on rotation by the chair of the African Union and the chair of the AUDA-NEPAD Heads of State and Government Committee. The proposal envisages that these representatives would participate in the structure, but the challenge has been building up capacity when the countries that chair these bodies change annually. The proposal for country representatives to have longer terms would address this challenge.

Continuity from year to year in LDC/developing country representation is important, notwithstanding that the presidency of the G20 rotates annually. Whereas the countries taking up the rotating G20 presidency are full-time participants in the G20 process, and thus invest resources in building up capacity, the same would not be the case for LDCs engaging in such an outreach. A longer period allows a country to build up some expertise in the process from year to year, with a process for involving successors in advance of their taking over the seats in this outreach formation.

This outreach mechanism could be deployed in two ways - in the formal Sherpa and finance tracks, and in more informal emerging economies caucus. This caucus is not as effective as the G7 caucus within the G20. A pilot test could be tried in the Development Working Group of the Sherpa track, with the objective to mainstream the outreach across G20 workstreams. Thus, the same arrangement could be considered for the G20 finance track, since many of the decisions that affect LDCs also have a clear financial component.

As a first stage of engagement, however, the emerging economies caucus could be used to better effect in terms of channelling LDC inputs. South Africa could propose that the outreach mechanism set out above be adopted in the caucus initially at an informal level. Emerging economies differ among themselves in their economic systems and priorities, making joint positions within the broader G20 much more difficult. However, the issue of LDC concerns could be one way of creating deeper cooperation on the G20 agenda.

Furthermore, such an arrangement can also serve another intermediate objective – easing engagement of LDCs into the G20 processes. In already well-established groups, the ability of new members/participants to exercise agency fully is often difficult because of structural obstacles, such as the pace and intensity of discussions, policy making culture in specific bodies, and the extent of technical knowledge required (Christensen, Hearson and Randriamanalia, 2020: 6-7). Having some of these discussions initially with other developing countries may make a more open and frank discussion easier and create a bridge to the broader G20 negotiations.

It is important to recognise and allow the voices of Africans and LDCs to identify and articulate their priorities. For example, the current discussion is about the post-pandemic recovery. The G7 countries have made a strong bid for green recovery as the priority. However, for many

developing countries, that approach may make getting out of the pandemic crisis much more costly and difficult. Such decisions cannot be made without a substantive focus on the requisite financing, with the provision of adequate climate finance being a key element. This requires the Global North, led by the G7, to act on their commitments enshrined in the Paris Agreement and scale them up further. Notwithstanding this element however, and in the absence to date of significant bold moves by the Global North, there is a need to balance the green dimensions of the recovery with the urgency of dealing with absent social safety nets, high informalisation, growing extreme poverty and vaccine access.

The G20 expresses the importance of championing an inclusive agenda, but whether this intent is reflected in the perceptions of those outside the group membership remains debatable. Creating a policy dialogue space for LDCs in the G20, given that many of the global governance bodies also participate in the G20 meetings, is one step towards unpacking the inclusion agenda more meaningfully for these states.

5. T20 Africa Standing Group support and South-South Cooperation

The Think 20 Africa Standing Group (ASG) was established in 2017 during the German G20 presidency. It brought together a number of African think tanks and think tanks from G20 countries. The main driver for its creation was that several issues on the G20 agenda needed to be more widely debated in Africa because of their impact on the continent; these included both global governance and development-related issues. The German Development Institute and the South African Institute of International Affairs constitute the ASG secretariat, and its board includes the United Nations Economic Commission for Africa (UNECA).

During the first three G20 presidencies since the ASG was established, there were specific task forces focusing on Africa. Since the 2019 Saudi presidency, the focus of the G20 has been more thematic, allowing African think tank voices to be heard across all relevant task forces that have a direct impact on African concerns. T20 Africa members have contributed policy briefings to various task forces, working together with think tanks from other regions.

A more thematic approach to engagement in the T20 requires a more institutionalised troika approach. A dialogue with the Italian and future presidencies of Indonesia and India is proposed to elaborate the possibilities further. The ASG could also act as a spur to create similar groupings with the think tanks of other developing regions. As the T20 becomes more inclusive every year, involving think tanks from across the world, establishing a structure for non G20 think tanks could make regional inputs on priority topics more effective. Lastly, the T20 ASG will explore ways of engaging with the incoming G7 2020 German presidency, as the group is an important caucus for broader G20 engagement.

6. Crucial themes for Africa and LDCs

Since its establishment in 2017, the ASG has produced a number of policy briefs for the T20 process, under the various G20 presidencies. These have ranged from issues of debt, private investment and taxation, to trade, education and migration. The recommendations made still remain relevant today, even as new briefs are being produced. These policy briefs should be considered in the deliberations of the Italian presidency, but also with the Indonesian and Indian presidencies that will follow. The T20 ASG would propose the engagement of the three consecutive G20 presidency of Italy, Indonesia and India – the so-called 3I's engagement – during the course of 2021 that is structured around some of the most critical and relevant recommendations made in those briefs. From an African perspective, this engagement could contribute to the thinking of the Indonesian and Indian G20 presidencies in shaping their outreach to Africa and LDCs. In addition, this engagement would consider additional priority themes raised by the T20 ASG that may not have been part of previous policy briefs, especially related to the ongoing pandemic and the current challenges faced by African states and LDCs.

In May 2021, members of the T20 ASG met to discuss what issues were current priorities for Africa and LDCs. The meeting included both G20 and African think tank representatives. The issues raised coalesced around the following themes:

Determining vulnerability: The pandemic has highlighted that vulnerability cannot be assessed purely on whether a country has reached a particular per capita GDP.³ The pandemic hit many middle-income countries hard, especially some that only recently reached middle-income levels. However, the crisis has shown that countries recently crossing the middle-income threshold have not necessarily developed sustained sources of growth that could buffer their respective fiscal spaces and provide the requisite market preparedness. While the international financial architecture provides for assistance to low-income countries, there is no structure for assisting other vulnerable states that fall outside of that definition, but which a pandemic can make precarious. An opportunity has been created by the pandemic to take a bold step in rethinking the notion of vulnerability and the related assistance framework. Per capita income metrics can no longer be the sole indicator of whether a country is vulnerable in a crisis. The G20 carries considerable clout in the major multilateral development institutions. Rethinking the norms regarding concessionality, grants or commercial terms and classification criteria are all critical to address vulnerability in crises.

Growth and trade: While economic growth on its own is not the panacea, it is nevertheless an important part of overcoming some of the critical developmental challenges that Africa and LDCs face. Building up productive

capacities and boosting trade are important ingredients to ensure inclusive growth. The African Continental Free Trade Area provides an opportunity for African states to deepen their economic integration, but requires support to develop adequate infrastructures and regional value chains. A concerted focus on this development would play an essential role in building up productive capacities and industrialisation, recognised as playing a significant role in determining the resilience of economies (UNCTAD, 2020). Such productive capacities are important in building up better health infrastructure and related medical and other pharmaceuticals supplies.

Green transitions versus just transitions: Responding to the COVID-19 crisis while taking bold action on green transition has been a central feature of the global debate, especially among developed countries and the G7. However, this debate and related initiatives should not come at the expense of the urgent challenges facing many people in LDCs and Africa, such as jobs, food and the ongoing health emergency. For many in the developing world, these are the existential and immediate concerns they have to grapple with. Thus, support from the G20 and other actors for a post-COVID recovery should factor these concerns into the type of packages and support that are designed. There is real danger that the juxtaposition will not be between green transitions and the status quo, but rather between a green uneven transition and a green inclusive transition. This reasserts the imperatives set out in the Paris Agreement for technical and financial assistance to developing countries.

Fairer financial aid architecture: Rising debt for many African states and LDCs is an immediate problem that requires a longer-term lens relating to the overall financing environment for developing states. The biggest need of countries in the immediate term is more fiscal space, but most developing economies have limited options in that regard. In what ways could capital markets, for example, be fairer for developing economies, so that they can borrow liquidity now rather than later? Additionally, leveraging Special Drawing Rights (SDRs) to create more fiscal space for African countries also required innovative ideas, in terms of optimising them to support African and LDC economies. While the decision to issue new SDRs has been resolved, the elephant in the room is the extent to which this will translate into additional financial resources for developing countries and the modalities of their potential reallocation. It is unlikely that this will be resolved during 2021, which means that it will continue into the Indonesian and possibly the Indian presidency of the G20, although the need for fiscal space requires much more urgent attention. From the Africa and LDC side, it will be important to identify a champion for this cause, to engage with critical players on this matter.

Donor coordination and South-South Cooperation: For LDCs, Official Development Assistance (ODA) will remain a significant source of development finance. Donor coordination and the aid effectiveness agenda among the Organization for Economic Cooperation and Development's (OECD) members have eroded in recent

³ See for example, ECLAC & OECD-DC, Latin American Economic Outlook 2019: DEVELOPMENT IN TRANSITION.

years, but the Covid-19 pandemic requires that this be rekindled. In the process, a reflection of what has been learnt from previous coordination efforts to ensure aid effectiveness, could improve current donor interventions and strategies. The rush to embrace the private sector as an important provider of development finance to achieve the SDGs risks creating a number of unintended consequences, especially in contexts characterized by limited institutional capacities. It could also contribute to the dilution of ODA, which could be partly diverted to subsidise foreign investors via blended finance, with limited additionality⁴. Moreover, this ‘repurposing’ of ODA has been undertaken with very little consultation of the recipient countries, and with accountability mechanisms for the private sector remaining unclear and ill-defined (UNCTAD, 2019: 10).

South-South cooperation is an increasing source of development assistance to LDCs and can play an important role in the provision of additional resources to help economies recover and rebuild, especially in light of the reduction in traditional development aid. However, its diversity of modalities of engagement is an advantage, but can also add to the complexity of management and coordination of development cooperation that LDCs face (UNCTAD, 2019). Thus, it too can benefit from mutual learning, from its own wealth of experiences and that of traditional North-South cooperation.

7. Conclusion

The COVID-19 pandemic has inadvertently created a mirror in which the underlying structural vulnerabilities experienced by many African and LDCs have been clearly reflected. While the developmental challenges have been deepened by the global health crisis and its fallout, the pandemic has also presented a unique opportunity to construct a more inclusive, economic, social and environmental paradigm that incorporates both in process and in substance the voices of LDCs and Africa. Africa and other developing countries are showing more agency in the way in which they are engaging with the advanced economies and in multilateral bodies on developmental challenges. However, effective agency requires both collective action and coordination and the capacity and strategy to execute it fully. Africa and LDCs do not always have all of the wherewithal. Some of the necessary interventions require the building of institutional capacity; others require structures which facilitate coordination among themselves and provide the space to develop collective action.

The G20, which is considered the premier global economic governance forum, has an important role to play in both empowering LDCs and Africa in projecting

⁴ An Overseas Development Report (ODI) from 2019 shows that for every dollar that comes from a multilateral development bank or Development Finance Institution (DFI), only US\$0.75 are contributed via private sector investment in low and middle-income countries, and only US\$0.37 in low-income countries. See Samantha Attridge, ‘Blended Finance: What Donors Can Learn From the Latest Evidence’, ODI, April 26, 2019, Learn From the Latest Evidence’, <https://www.odi.org/blogs/10753-blended-finance-what-donors-can-learn-latest-evidence>

their perspectives into the decision-making platforms, where the G20 is often playing a leading role, and in reflecting their concerns in the initiatives and decisions it undertakes.

In the wake of the pandemic, the G20’s approach to the economic, social and environmental landscape will require it to incorporate more directly into its deliberations and outcomes, the key developmental concerns of LDCs and Africa. The response measures adopted should take into account the structural vulnerabilities that these states have faced historically, and provide for the means through which a real inclusive green trajectory can be embarked on, in a just and equitable manner. In order to achieve this, these remedies will have to be grounded in the principle of policy coherence and recognize that in an increasingly interconnected world, an authentic global partnership for Africa and LDCs goes well beyond the moral commitment to “leave no one behind”; it is ultimately an investment in systemic resilience.

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CHAPTER 02

BOOSTING QUALITY AND CLIMATE-RESILIENT INFRASTRUCTURES IN DEVELOPING COUNTRIES: POLICY PROPOSALS FROM THE THINK20

1. Background

Boosting investments in quality and resilient infrastructures in both developed and developing countries is crucial to ensure a sustainable recovery in a post-COVID era. Although it is estimated that governments have allocated more than 10 per cent of the global GDP in stimuli aimed to stabilize economies and protect jobs (Ayadi et al. 2021), these measures have led to an impressive rise in public debts, while it is still too early to predict and measure their impact on the economic recovery in the medium and long-term. Recent studies have shown that investing in infrastructures can unlock fiscal multipliers of around 0.8 in 1 year and 1.5 within 2-5 years, with even larger effects during contractionary periods (around 1.6). In this context, although many G20 members seem to have put green growth and infrastructures at the core of their recovery packages, many developing countries have very little room for maneuver and this may hamper any attempt to revise medium and long-term prioritization plans for infrastructure after COVID-19 (UNCTAD, 2020).

Before the burst of the pandemic, infrastructural development already played a crucial role in developing countries – even in LDCs, it represented a key facet of capital accumulation. In 2019, a UN ECOSOC progress report on SDG 9 highlighted that total official flows for economic infrastructure increased in real terms by 32.5 per cent between 2010 and 2017, with transport (US\$21.6 billion) and banking and financial services (US\$13.4 billion) having the biggest share of the pie (Kovarick et al, 2020). However, very few countries were on track to achieve SDG 7 and SDG 9 (affordable and clean energy; and industry, innovation and infrastructures, respectively). Moreover, this situation has been exacerbated by the COVID-19 pandemic, becoming particularly worrisome for African countries. Recent studies have shown that Africa's infrastructure gap is estimated between US\$130 and US\$170 billion per year and have highlighted that around 80 per cent of infrastructure projects fail to pass the feasibility and business-plan stage (McKinsey and Company, 2020).

Against this backdrop, the Program for Infrastructure Development in Africa (PIDA),⁵ endorsed in 2012 by the continent's heads of state and government, laid out an ambitious long-term plan for closing Africa's infrastructure gap (World Bank Group, 2015). PIDA should be the building bloc to foster stronger institutional and financial commitments between countries and institutions, and to accelerate already existing cross-border projects, such as those developed in some regions like East Africa (Horn Economic & Social Policy Institute, 2020; Johnson, 2020; and Xiao, 2021) or Southern Africa (Khumalo, 2021; Global Infrastructure Hub, 2021; and EU-Africa Infrastructure Trust Fund, 2019). In addition, despite a very

⁵ The PIDA Quality Label is a recognition by the African Union Development Agency (AUDA-NEPAD) awarded to projects that excel in the preparation of PIDA projects at an early stage. Its overall goal is to unlock critical bottlenecks in project development. Please cf. Programme for Infrastructure Development in Africa: Interconnecting, integrating and transforming a continent. https://www.icafrica.org/fileadmin/documents/PIDA/PIDA%20Executive%20Summary%20-%20English_re.pdf

rich ecosystem that involves several countries (e.g. single European Union members, China and Saudi Arabia), multilateral institutions and groupings (e.g. the European Union, G7 and G20), international organizations (e.g. OECD) and Multilateral Development Banks (MDBs) to support scaling up infrastructure in Africa, these financial and institutional gaps remain (Dash et al, 2021). Therefore, the challenge for the future will be not only to fill these gaps, but also to ensure that new infrastructural projects fully take into account the adverse effects that climate change may have on their durability and sustainability.

2. Climate-resilient infrastructures: The costs of inaction

Investing in quality climate-resilient infrastructures in developing countries means allocating resources to medium and long-term projects that would boost social overhead capital, while reducing the impact of natural hazards and climate change. Many developing countries are truly climate hotspots and are endangered by several kinds of hazards, such as floods, hurricanes, typhoons or sea level rises that lead to very high maintenance costs and time-consuming rebuilding processes. For instance, a study from the OECD revealed that investing on flood defences for coastal cities would reduce expected losses in 2050 from US\$1 trillion to US\$60-63 billion (OECD, 2018). These trends are particularly worrisome if we consider current and future demographic trends, both in terms of population growth and pace of urbanization, in intermediary or secondary cities (i.e. cities with a population between 50.000 and one million people, which currently host 20 per cent of the world's population). Typically, infrastructures are designed based on historic climate data; however, during their life cycle, they could be subjected to varying climatic conditions, putting them at risk or reducing their performances. Nonetheless, current projects are often not designed to be resilient to the impacts of climate change, significantly increasing related risks (Mason, 2020).

The impact of climate change can be important for infrastructures, not only because of hazards, but also for the entire projects' economic viability. Energy represents a very interesting example in this respect: many LDCs rely heavily on hydropower, but with recurrent droughts (or flooding damages), these investments have become increasingly risky. In 2016-2018, Southern Africa suffered a severe drought and countries like Zambia found themselves lacking electricity because dams and hydropower generators did not have enough water (UNCTAD, 2017). Against this backdrop, the push towards diversification in the power generation mix (including through a scaleup of solar, but also of fossil fuels-based generation) was partly a response to declining hydro-generation. In this context, while the 2014 Adaptation Gap Report by the United Nations Environment Programme (UNEP) estimated the costs of adaptation in developing countries in around US\$70-100 billion per year from 2010-2050, more recent studies increased these estimates to US\$140-300 billion by 2030, and between US\$280-500 billion by 2050 (Olhoff

et al, 2016). Public budgets alone will be unable to fill this gap, especially in a post-COVID context of reduced fiscal space. Therefore, mobilization of private sector financing for climate adaptation investments is increasingly urgent. Although there has been an increase in climate-related infrastructure projects, and investments in renewables nowadays far exceed those in fossil fuel power (IEA, 2020), the pandemic may put growing pressures on national budgets that could lead to divert funding to other sectors in an effort to make a quick recovery (Ayadi et al, 2021).

Against this backdrop, studies have revealed that projects design seldom take into consideration climate hazards as foreseeable circumstances and within a project's lifespan. This prevents the public and private sectors from fulfilling obligations that should be well defined within the structure of the contracts (Weekes and Diaz-Fanas, 2021). Hence, UNEP's warning that in the next 10 years, the cost for adaptation alone in developing countries could be as high as US\$140-300 billion per year does not come as a surprise (UNEP, 2018). Therefore, it is important to raise awareness among public and private investors about the costs of inaction and supporting climate-resilient infrastructures as a key step, able to bring both economic and environmental benefits.

According to recent studies based on over 3,000 scenarios, delays in designing resilient infrastructure by 2030 may lead to a median value of US\$1 trillion in potential losses (Hallegatte et al 2019). Moreover, adding climate change into these scenarios could almost double the median cost of delaying action for 10 years (Kovarick et al, 2020). Accordingly, there is no doubt that higher short-term costs linked to designing and impact assessment incorporating climate change adaptation and resilience (up to 25 per cent for some studies like Iqbal and Suding, 2011), are dwarfed by long-term benefits, for both developed and developing countries. Despite this, the capacity of many developing countries to front-load such costs depends also on their financing conditions; hence the importance of international cooperation to boost their access to long-term development finance (UNCTAD, 2018; 2019). For example, it is estimated that adaptation costs for Latin America and the Caribbean could be worth 0.5 per cent of the region's current GDP, whereas the damages to critical infrastructure in Europe may triple from the current Euro 3.4 billion per year in the next years (Forzieri et al, 2016).

Thus, investing in resilient infrastructures is essential to ensure both economic and environmental benefits. Accelerating investment in sustainable infrastructure could yield a direct economic gain of US\$26 trillion by 2030, generating over 65 million new low carbon jobs, and contributing, through subsidy reform and carbon pricing alone, to an estimated US\$2.8 trillion in government revenue (Taras, 2020). Furthermore, a study from the World Bank highlights that investing in the resilience of infrastructures in developing countries could generate a net benefit of up to US\$4 for each dollar invested (Voegelé, 2020), with overall net benefit of investments

in infrastructure resilience that could reach US\$4.2 trillion over the life of infrastructure assets. Additionally, the OECD estimated that each additional US dollar spent on road maintenance saves up to US\$1.5 in new investments, making better maintenance a very cost-effective option (Kornejew et al, 2019).

At the environmental level, climate resilient infrastructures would also contribute to reducing the carbon footprint of current projects and plans. It is worth noticing, that around 70 per cent of global greenhouse gas (GHG) emissions are caused by the construction and operation of infrastructure. An OECD study pointed out that multi-year investments are important to change this paradigm and ensure more resilient and cost-efficient infrastructure as disruptions (OECD, 2018). In some sectors like energy, developed countries are boosting investments in renewables, energy-efficient and cleaner technologies, but resources allocated to energy transition have declined in other developing countries. The high capital expenditures and long-term commitments characterizing energy projects are particularly challenging for developing countries with volatile government revenues and tight financing conditions (Ayadi et al, 2021). Developing countries thus need to be supported to launch more long-term and predictable policies that boost investments in energy transition. As for Africa, the International Renewable Energy Agency (IRENA) forecasts that with the right policies, regulation, governance and access to financial markets, sub-Saharan Africa could meet up to 67 per cent of its energy needs by 2030. Over the past few years, Africa's renewable energy solutions have proven to be economically viable, underpinned by significant innovations across technologies. In particular, the costs for electricity from utility-scale solar photovoltaics (PV) fell 82 per cent between 2010-2019, while a similar trend in wind projects reflected a 50-60 per cent decline between 2010-2019 (Obonyo, 2021).

If Africa is to ramp up its renewable generation capacity to the level of its true potential, it will have to dig deep to finance related investments. Increasing sustainable generation capacity by 2030 will require between €39-62 billion (US\$44-69 billion) of annual financing, mostly for renewable generation, as noted by the African Development Bank (AfDB). According to IRENA's 2019 Scaling Up Renewable Energy Development in Africa Report, transforming Africa's energy to meet nearly a quarter of its energy needs from indigenous and clean renewable energy by 2030 will require an average annual investment of US\$70 billion, resulting in carbon dioxide emissions reductions of up to 310 megatons per annum. While declining technology costs have resulted in a 20 per cent year-on-year reduction in the cost of solar module prices over the past five years, rendering renewable energy a more cost-effective prospect for most, the continent's governments and private sector developers still face a seismic challenge in capturing the needed funding. . One of the biggest hurdles is that investors, multilateral institutions, and sovereigns are still largely focused on backing large-scale mega projects, when it is often the

smaller-scale schemes, such as on-grid renewables and distributed power, that can make the most difference in advancing the energy transition agenda (African Business, 2020). Another significant obstacle is the inter-temporal profile of related investments: as capex costs take place upfront, but the investment life cycle is long, financing conditions play a critical role for the economic viability of projects. Yet it is precisely in Africa and LDCs where risk perceptions tend to place a higher premium on long-term finance, dampening the attractiveness of potential renewable investments.

The levelised cost of electricity from solar PV decreased by 82 per cent between 2010 and 2019, while the cost of onshore wind fell by 40 per cent. That means that in 2020, renewable energy was, in most cases, the least-cost option for new electricity generation capacity globally. In 2019, 72 per cent of the new electricity generation capacity added globally was renewable. However, only 2,000 out of almost 180,000 megawatts (MW) of this new renewable power were added on the African continent. The rest of the world is increasingly transitioning towards renewable energy-based electricity systems – and Africa has the opportunity to do the same. Seizing this opportunity will require strong political will, attractive investment frameworks and a holistic policy approach to fully reap the benefits of renewable energy. It also means that current average annual investments in the African energy system must double by 2030 – to approximately US\$40-65 billion (IRENA, 2021).

3. The main obstacles to develop climate-resilient infrastructures

Despite the urgency and desirability to invest in quality and climate resilient infrastructures, there are a wide range of bottlenecks, from both the demand and supply side, that are slowing down the pace to develop these projects. First, there is a lack of technical capacity and know-how to design, invest, build and maintain resilient infrastructures to mitigate and prepare for infrastructure disruptions and minimize costs (Hallegatte et al, 2019). Second, there is a huge financial gap, exacerbated by the tight financing conditions prevailing in LDC contexts. Current infrastructures are still underfunded, with the investment deficit estimated to reach US\$3.7 trillion annually for developing countries only (Runde, 2019). This needs to be taken in consideration when analysing developing countries, where public finance accounts for 60-65 per cent of funding for infrastructure, and where tax revenue mobilization is limited. In addition to these limits, government bonds markets cannot yet be considered an alternative tool to finance infrastructural projects, as they are still underdeveloped (Evans et al, 2021) and may be further hampered by higher levels of public debt caused by the pandemic. Hence, ensuring stronger private resources mobilization through public-private partnerships could, under appropriate circumstances, be an option to build and maintain resilient infrastructure

systems, address capacity constraint and improve risk-return profile of the infrastructure investment (Ayadi et al, 2021; Passacantando and Bilotta, 2020).

Finally, it is still very hard to mainstream climate change concerns into infrastructure development. Developing countries need to fully integrate these concerns into the project cycle. Starting from the upstream stages of planning at the national, river basin, regional and power-pool levels, and in pre-feasibility studies of individual investments, climate risks can be significantly mitigated in a cost-effective manner. Proper integration of climate change in infrastructure investment needs to adequately address the challenge posed by the large and persistent uncertainty surrounding climate projections (World Bank, 2015). In addition, it is essential to strengthen the linkages between infrastructural development plans and structural transformation strategies. Boosting economic development is a *conditio sine qua non* to ensure that improved provision of infrastructural services is accompanied by commensurate increases in demand, thereby guaranteeing the financial viability of infrastructural services (UNCTAD 2018; 2020). Therefore, prioritizing investment decisions for resilient infrastructure entails a need for a comprehensive policy framework that integrates climate resilience, infrastructural development and structural transformation. Finally, design and implementation of infrastructural investment projects require improved risk assessment and adequate financing mechanisms, both traditional and innovative, given the daunting scale of LDCs' sustainable development needs (Rahiman, 2019).

4. Financing new infrastructural models for the post-COVID world: shifting from do not harm to net benefits

The COVID-19 pandemic has accelerated a number of social changes and exposed the urgency of shifting towards a more inclusive and environmentally conscious society. In the same vein, it has brought renewed emphasis to calls for a global green new deal, capable of reviving global demand and spurring the transition towards a low-carbon economy. In this respect, new investments will need to take a more adequate account of environmental and biodiversity protection. Although spending on infrastructure will be a key response to the economic shock caused by the COVID-19 pandemic, so far only a small share of the recovery spending is supporting environmentally friendly industries or sustainable infrastructure (Vivid Economics, 2020). This is despite growing evidence that spending on "green measures" can produce not only environmental co-benefits, but also higher returns than business as usual investments (Batini et al, 2021). Climate-resilient infrastructures should also ensure that they do not lead to particularly large fragmentation effects on natural habitats that can have significant indirect impacts for biodiversity beyond the direct footprint of projects (Hilty et al, 2020). Ninety-five percent of Amazon deforestation, for example, is within 5 km of a road (Barber et al, 2014), and dams and other

infrastructure have fragmented most of the world's rivers, affecting aquatic species migrations kilometres up- and downstream. Degraded ecosystems also undermine the benefits that natural capital contributes to infrastructure, such as mitigating increasingly frequent landslides through soil stabilization, provided by intact vegetation. In this context, many emerging infrastructure sustainability standards are trying to include environmental criteria related to CO2 emissions, pollution, biodiversity, resource use and land-use change (Bennon and Sharma, 2018), but these standards have had very limited or only regional uptake to date. More explicit and well-articulated policy frameworks are needed to integrate environmental criteria related to ecosystems, biodiversity and climate in the upstream planning phase of infrastructural investments, in order to support a greener recovery (Nofal, 2021). Simultaneously, it will be important for LDC governments, affected communities, as well as broader stakeholders, to strike an appropriate balance between environmental concerns and sustainable development needs. This is all the more important in the initial transition phase, as LDCs typically lack adequate capacities and know-how related to climate-resilient infrastructure, hence compliance costs may be higher.

Environmental criteria for sustainable infrastructure typically comprise GHG emissions, climate risk and resilience, disaster risk reduction, biodiversity, pollution, resource efficiency, and water use/efficiency (IDB, 2020). Even in the case of public development finance institutions that have adopted environmental performance standards, data to attest to their successful implementation is lacking. In addition, a recent Credit Suisse report (Credit Suisse, 2021) finds that 91 per cent of investors do not have measurable biodiversity-linked targets and 72 per cent have not assessed their investments' impact on biodiversity. However, as much as 55 per cent of investors believe biodiversity loss needs to be addressed in the next 24 months (Boswell et al, 2021).

Drawing on the G7 Ise-Shima Principles for Promoting Quality Infrastructure, drafted under Japan's 2019 Presidency, the G20 rolled out the Principles for Quality Infrastructure Investment (QII), which rests on six pillars: i) maximising the positive impact of infrastructure to achieve sustainable growth and development; ii) raising economic efficiency in view of life-cycle costs; iii) integrating environmental considerations in infrastructure investments; iv) building resilience against natural disasters and other risks; v) integrating social considerations in infrastructure investments; and vi) strengthening infrastructure governance (Taras, 2020). Based on this, the G20 was identified as a key multilateral actor able to raise global consensus to endorse: (a) the principle of net gain of ecosystem extent and condition; (b) avoidance of destruction of high-value ecosystem service and biodiversity areas in its QII guidance. Therefore, the G20 has turned into a crucial actor able to encourage countries to mandate policies and apply incentives that will ensure net gain for nature from infrastructure development over the long-term. While these principles are very promising on

paper, it must not be forgotten that their implementation in LDCs will require very strong support in the form of capacity building, and possibly transfer of technology and know-how. This is crucial to avoid the implementation of environmental standards simply translating into disproportionately high costs of compliance, that at least in a first phase would be carried out by external subjects who do not necessarily have an in-depth knowledge of the territories' needs and specifics.

In this context, within the G20 Infrastructure Working Group, G20 members have endorsed the Global Infrastructure Hub (GIH) survey, that resulted in a GIH report outlining the benefits of QII by showcasing best practices across different sectors. The ultimate aim of the GIH is to provide tools to assist policymakers in making better informed decisions about including infrastructure investments in stimulus packages. In this sense, the InfraTracker initiative illustrates trends and insights into how countries are investing in infrastructure as a stimulus to post-COVID recovery. It has also shown that more than US\$2 trillion in infrastructure-related stimulus measures has been announced by G20 economies, with the greatest proportion given to information and communication technologies (ICTs), transport and social infrastructure sectors. Moreover, around 80 per cent of this amount can be linked to transformative infrastructure, with most announcements falling under the sustainable infrastructure or digital/InfraTech categories. This suggests that the GIH initiatives could contribute to the implementation of the Africa Union's Digital Transformation Strategy for Africa 2020-2030, potentially strengthening the link between infrastructural investment and related structural transformation objectives. Indeed, one of the main deliverables of GIH will be the drafting of two accompanying Compendia that outline how governments have funded and financed infrastructure during other crises, and how investment in infrastructure can be deployed to achieve transformative outcomes (Italian G20 Presidency).

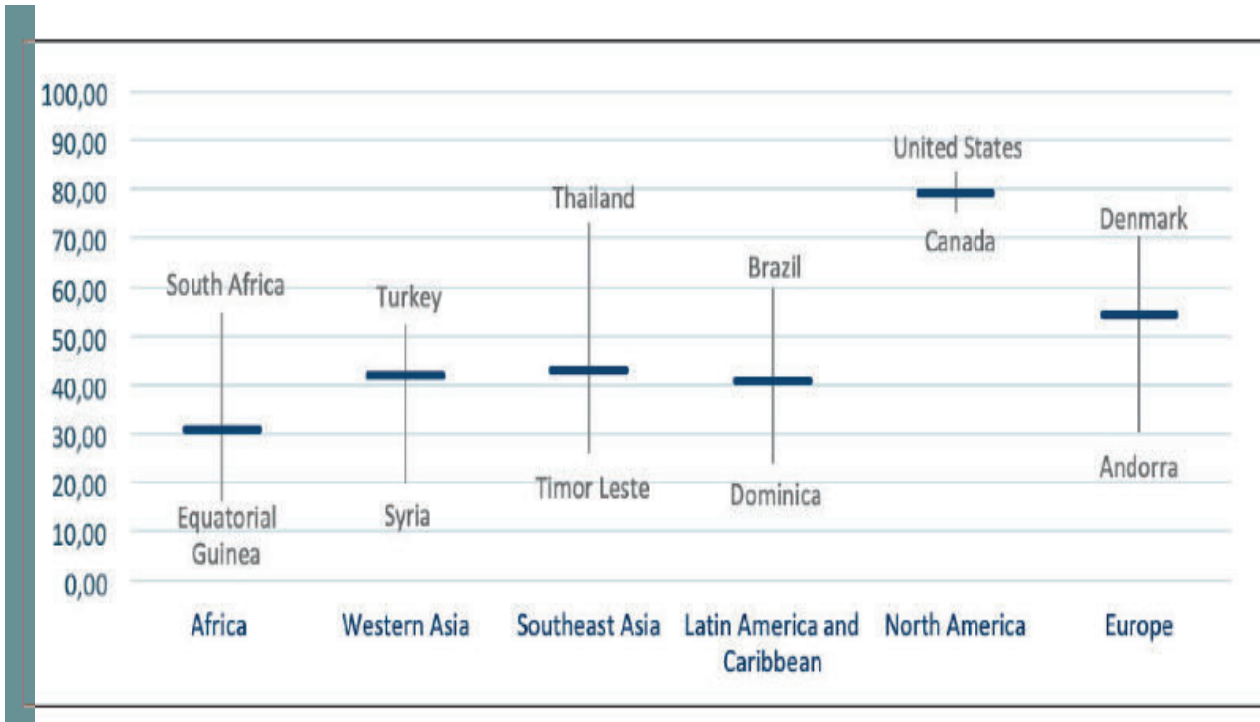
In many ways, the pandemic has proved the interrelatedness of the productive, social and environmental spheres, emphasizing the crucial role played by essential infrastructure for water and sanitation, transportation, and electricity, as well as digital connectivity. As highlighted by the wide-ranging fallout from the pandemic, some adjustments are also needed in relation to investments in social infrastructure, especially for education, healthcare and public housing. This has been particularly evident in LDCs and African countries that are dominated by informal employment, accounting for more than 83 per cent on average in African economies (OECD, 2021). This has made it particularly hard for governments to carry out massive social protection schemes across most of the African countries. Even where social infrastructure is more developed, the lack of funding or poor technical capacities hinders the possibilities to ensure a high quality of services provided. Despite some important progresses made in the past decades, it is not a surprise that African government health expenditures are extremely low, with

South Africa leading the continent at US\$576/capita, compared with a global average of US\$941/capita (Onibokun, 2020). A recent report by the United Nations Department of Economic and Social Affairs (UNDESA) stressed that social protection coverage in sub-Saharan Africa stands at only 13 per cent (Rafalimani, Meron and UNDESA, 2021). It is thus crucial to rethink Africa's social policy infrastructure, with the aim to eradicate the growing social inequalities within the continent (Arbouch and Bourhriba, 2020), and ensure that the poor and vulnerable can benefit from social protection schemes, especially considering that COVID-19 could lead to an additional 88-115 million people falling into extreme poverty worldwide (World Bank, 2020).

The pandemic has shown that the existing healthcare infrastructure is lagging and unprepared to deal with a health emergency. Healthcare and telecommunications infrastructure have been crucial in the recent past and will become increasingly indispensable, whereas activities such as agriculture and – although still at an embryonic

stage – e-commerce are now considered increasingly important for livelihoods (Ayadi et al, 2021). Figure 2 compares global regions on the basis of the latest Global Health Security Index. The error bars correspond to the maximum and minimum scores for each region, whereas the horizontal bars correspond to the average scores. The index shows that African countries (e.g. Equatorial Guinea, Eritrea, Somalia, Guinea Bissau, Burkina Faso, South Sudan and Congo) present the lowest average scores and rank at the bottom across several sub-categories of the composite Index, particularly with regards to the “prevention of the emergence or release of pathogens”, the “rapid response to and mitigation of the spread of an epidemic”, and the presence of “sufficient & robust health system to treat the sick & protect health workers”. These performances are particularly relevant in the aftermath of COVID-19 and highlight the importance of including health infrastructures in the current debate on how to ensure resilient infrastructural backbone to African countries, especially the LDCs.

Figure 1: Global Health Security Index – Regional Averages¹



Source: Ayadi et al, 2021 based on data retrieved from the Global Health Security Index.

¹ The Global Health Security (GHS) Index is a project of the Nuclear Threat Initiative and the Johns Hopkins Center for Health Security; it was developed with the Economist Intelligence Unit. The GHS Index is a comprehensive framework of 140 questions, organized across 6 categories, 34 indicators and 85 sub-indicators to assess a country's capability to prevent and mitigate epidemics and pandemics. The six categories analyzed are: i) Prevention of the emergence or release of pathogens; ii) Early detection and reporting for epidemics of potential international concern; iii) Rapid response to and mitigation of the spread of an epidemic; iv) Sufficient and robust health system to treat the sick and protect health workers; v) Commitments to improving national capacity, financing plans to address gaps, and adhering to global norms; and vi) Overall risk environment and country vulnerability to biological threats. The average overall GHS Index score is 40.2 out of a possible 100. While high-income countries report an average score of 51.9, the index shows that collectively, international preparedness for epidemics and pandemics remains very weak. For a more detailed analysis of the methodology used, please cf. <https://www.ghsindex.org/wp-content/uploads/2019/10/2019-Global-Health-Security-Index.pdf>

5. Conclusion

The above discussion shows the important role the G20 could play in encouraging the implementation of effective systems of infrastructure maintenance, at national and sub-national levels, supporting the establishment of strong institutions with clearly established missions and responsibilities, transparent funding and distribution mechanisms. As pointed out by Evans and co-authors (Evans et al, 2021), these institutions could be in charge of developing and implementing appropriate maintenance standards, establishing functional recovery standards, and post incident response strategies. In order to ensure equitable access to resilient infrastructures, G20 members should support national governments to identify critical infrastructures at local, national and regional levels, define the most pressing needs and risk levels, set minimum maintenance standards, as well as basic key maintenance indicators, develop incentives based on these levels, and promote nature-based solutions that alleviate ordinary maintenance. Internationally recognized bodies should establish standards to evaluate the quality of the infrastructure within the maintenance contracts (Evans et al, 2021). Building on this concept, some studies propose to undertake a policy-level harmonization of international standards for the use of environmental criteria in investment decisions. For instance, in a recent joint G20, OECD survey, many investors highlighted that it would be useful for governments to develop guidance on which elements are most important and whether there are common or shared elements of the Environmental, social and corporate governance (ESG) criteria in infrastructure. Investors also noted that, if the appetite for sustainable development investments is confirmed by the existence of many private sector initiatives on ESG across asset classes and financial instruments, this multiplicity may ultimately require some degree of harmonization to enhance transparency (OECD, 2020; Boswell et al, 2021).

All the aforementioned studies show that promoting adaptation to climate change in the planning and design of infrastructure for African countries is likely to require a change in mindset, away from consolidated behaviours and practices, with the goal of building new skills and capacities to better integrate the expertise of the relevant professions, such as climate scientists and design engineers. UNCTAD can play a decisive role in this process, bringing expertise and evidence-based recommendations and best practices, particularly on topics such as energy access and productive uses, and development corridors (UNCTAD 2017; 2018). As for Africa, coordinated multilateral action can play a decisive role. While this transformation will require time to fully take place, a report by the World Bank (World Bank, 2015) rightly stresses that international actors the G20, UNIDO, UNEP, UNCTAD and IRENA should partner up and work together in five main areas of intervention:

- Develop technical guidelines on the integration of climate change in the planning and design of infrastructure in climate-sensitive sectors; for instance, by establishing a multi-stakeholder technical working group.
- Promote an open-data knowledge repository for climate-resilient infrastructure development to lower costs, establish common metrics and share publicly available data sources.
- Establish an Africa climate resilience project preparation facility, able to address the needs of the different sectors or for different stages of the infrastructure development cycle.

- Launch training and capacity building programs for climate-resilient infrastructure professionals.
- Set up an observatory on climate-resilient infrastructure development in Africa to assist the technical preparatory work, while keeping strong linkages at the national and local decision-making levels.

Therefore, it is possible to draw two main recommendations for the G20. First, G20 countries and institutions and the G20 Compact with Africa should lend support to a community of practice of African infrastructure practitioners and the planned African Infrastructure Learning Platform. This will include supporting efforts to leverage existing initiatives in Africa and worldwide to meet the immediate needs for capacity building among African infrastructure professionals, and identify specific knowledge gaps within the ecosystem (e.g. finance, procurement, contractor competence, institutional processes and country systems for socio-environmental protection; see Dash et al, 2021).

Second, the G20 members should systematically support and promote the wider use of the PIDA Project Quality Label (PQL) as an African brand for excellence in infrastructure development processes that can serve to increase quality, accelerate project pipelines across the continent (French Government, 2021) and boost more public-private partnerships (PPPs). PPPs still take up a too small share of total infrastructure projects in many developing countries, and they are estimated to be only 7-11 per cent of the total number of PIDA projects. Hence, the quality label could also be applied to the majority of infrastructure projects that are carried out through public procurement, and could be applied to programs for corridors and regional connectivity with multi-sectoral sub-projects (World Bank, 2020).

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CHAPTER 03

HOW CAN THE G20 SUPPORT INNOVATIVE MECHANISMS TO MOBILISE FINANCIAL RESOURCES FOR LDCs IN A POST-PANDEMIC WORLD?

1. Financial needs in LDCs in the wake of the COVID-19 crisis

In LDCs, the COVID-19 pandemic has generated severe health, economic and debt crises. On the one hand, LDCs cannot mobilise sufficient financial resources on their own to cope with the effects of the pandemic because their public revenues are too low and increased external finance is not always available. For these reasons, innovative financing mechanisms can mobilise further financial resources for LDCs, in addition to domestic resources and traditional external financial resources.

While scaling up domestic resources in LICs is one main game changer in accelerating financial resources for LDCs, tax revenues remained relatively low in 2018, at about 14.2 per cent of GDP, compared to about 34 per cent of GDP in OECD countries (OECD/UNCDF, 2020; OECD 2020a). For enhancing domestic revenues, both national and international measures have to be taken. G20 countries should support developing countries in improving their tax policies and administration, revenue collection and statistics by enhancing capacity building and supporting efforts to reduce illicit financial flows (Berensmann, et al. 2021; von Haldenwang and Laudage, 2019; OECD/UNCDF, 2020).

In view of increasing current account deficits in LDCs, external financing is very important. The current account deficit of LDCs as a group significantly increased from 3.9 per cent of GDP in 2019 to 5.6 per cent in 2020, during the course of the pandemic. These higher current account deficits have to be financed with increased capital inflows (UNCTAD 2020: 12). However, mobilising more traditional external financial resources has become difficult for LDCs in the course of the COVID-19 pandemic.

While ODA has been the largest capital inflow to LDCs – in 2018, bilateral and multilateral public financial resources made up 3.9 per cent and 2.0 per cent of GDP, respectively (OECD/UNCDF, 2020) – ODA is not expected to be significantly increased (UNCTAD, 2020). Among private sources of external financing, remittances also form a crucial part of financial flows to LDCs, accounting for 4.7 per cent of GDP in 2018 (OECD/UNCDF 2020), albeit their prominence is rather peculiar to some large recipients and to small (often insular) LDCs. According to estimates of the World Bank, remittances to LICs and middle-income countries (MICs) could decline in 2020 by about 20 per cent (World Bank 2020). Similarly, foreign direct investment (FDI) and portfolio investments to LDCs accounted for 1.8 per cent of GDP and 0.8 per cent of GDP, respectively in 2018 (OECD/UNFCDF, 2020). While these different flows represent viable sources of external finance, their distinct nature has a bearing on their intrinsic characteristics, motivations and development footprint (UNCTAD, 2019).

On the other hand, many LDCs have been highly indebted, even prior to the crisis; of the 45 LDCs covered by the Debt Sustainability Framework of the World Bank

and International Monetary Fund, 5 were in debt distress and 13 more were classified at high risk of debt distress (UNCTAD, 2019). Along with those with debt vulnerabilities, other LDCs had to carry high debt service burdens, and simultaneously had to increase their social expenditures to cushion the social effect of the pandemic (UNCTAD, 2020; IMF, 2021b; UN Assembly, 2020).

Against this background, the G20 has implemented two important initiatives to improve the debt situation in 73 eligible low- and lower middle-income countries (including the majority of LDCs) in the wake of the COVID-19 crisis. First, the G20 Debt Service Suspension Initiative (DSSI) has been established to address short-term liquidity constraints. However, this does not cancel debt, but only shifts its payment into the future. In addition, the G20 put in place the Common Framework for Debt Treatments beyond the DSSI to restructure and, if necessary, cancel debt (G20/Paris Club, 2020). Since even concessional financing would further worsen the debt situation in these countries, timely implementation of the Common Framework is necessary. Debt restructuring and debt relief should be linked to the implementation of the SDGs in order to promote sustainable development further. To effectively implement these two instruments, it needs to be ensured that all loan agreements are disclosed and that private creditors also participate in the two initiatives on an equal basis. These are two important preconditions to prevent collective action problems among creditors (Berensmann et al., 2021; UNCTAD, 2020). Moreover, LDCs have to cope with pre-existing challenges, including the climate risks.

This chapter focusses on the specific role of the G20 in supporting development finance by using innovative financing mechanisms in LDCs. The main question of this chapter is: how can the G20 support innovative mechanisms to mobilise financial resources for LDCs in a post-pandemic world? Although tax revenues and remittances are part of financial resources of LDCs, and reforms in these areas could also play a role in mobilising financial funds for achieving the SDGs, we focus here on innovative financing mechanisms. The chapter is structured as follows: the second section elaborates on the role of the G20 to promote innovative financing mechanisms for mobilising financial funds for LDCs; and the third section concludes with a summary of policy recommendations specifically geared to the G20.

2. The role of the G20 in promoting innovative finance in LDCs

In the role of a crucial global policy coordination forum, the G20 has a key function in carrying out the 2030 Agenda in terms of achieving the 17 Sustainable Development Goals (SDGs) and meeting the requirements of the Addis Ababa Action Agenda (AAAA) (Berensmann, 2016).

With regard to development finance, the role of the G20 is to promote international policy co-operation and co-ordination; to design and implement an appropriate

development finance architecture that mobilises sufficient financial resources for attaining the 2030 Agenda; and ensures financial stability. . An agenda-setting role for an appropriate development finance architecture is associated with this task. For incentivising non-G20 countries to support developing countries, the G20 assumes a frontrunner role, i.e. leading by example. A corollary of this is the need to acknowledge (and possibly contribute to a shared solution of) the deep-seated asymmetries between developed and developing countries – notably LDCs – in terms of access to international liquidity and long-term development finance.

To promote and implement an adequate global governance policy framework, the G20 should use their economic and financial weight to financially and technically support developing countries. The recent G20 Communiqué of the G20 Finance Ministers and Central Bank Governors meeting underscored to increase their financial support to developing countries (G20 2021a; 2021b). The G20 countries provide a substantial amount of official and private financial resources to developing countries, including official development assistance (ODA), private investments and remittances to developing countries. Moreover, the G20 takes on a crucial role in supporting developing countries with carrying out measures and reforms of the development finance architecture, as well as providing capacity support to developing countries, and promoting knowledge sharing with non-G20 members. Development finance was one priority area under the Saudi and Italian presidencies (G20, 2020; 2021a; 2021b). Innovative financing for development could contribute to closing the financial gap by generating new funds for sustainable development and leveraging existing scarce public concessional resources (ODA) (UN, 2021). Innovative financing mechanisms represent crucial resources beyond ODA. The purpose of innovative financing is to raise additional financing for sustainable development when traditional sources and financing mechanisms are insufficient.

Currently, there is no internationally agreed definition of innovative financing for development. According to the Leading Group on Innovative Financing for Development, innovative financing includes those sources and mechanisms inadequately dealt with by traditional aid flows. Two sub-categories of innovative financing have been named: (i) innovative financing sources generating new funds for sustainable development, and (ii) innovative financing mechanisms contributing to enhance the efficiency, impact and leverage of existing resources (public, private or under the form of a public-private partnerships) (Leading Group on Innovative Financing for Development, 2021; Innovative Financing Initiative, 2014).⁷

In this chapter, we discuss the role of the G20 in promoting innovative financing instruments, namely, blended finance, sustainable bonds and the redistributive

allocation of Special Drawing Rights (SDRs), as these instruments are specifically important for LDCs. Blended finance can leverage private funds with concessional financing. The redistributive allocation of SDRs could unlock a comparatively large amount of financial resources from the International Monetary Fund (IMF) in the short-run. Sustainable bonds can mobilise money directly geared to support SDGs and to finance specific purposes; all of which could have a significant impact in countries whose financial sector is small-sized and relatively underdeveloped. For these reasons, these three innovative instruments are currently under discussion at the G20 to mobilise financing for achieving the SDGs. Further innovative financing instruments include taxes (carbon or financial transaction taxes) special purpose climate funds, an air-ticket levy, emission trading systems, national lotteries or crowdfunding, etc.

2.1 Blended finance

Given LDCs' daunting sustainable investment needs, mobilising private financial flows is an inevitably key step to scale up sustainable development financing. Yet, LDCs face a number of challenges in this respect, ranging from perceived higher risk to weak institutional frameworks, which so far have dampened their capacity to adequately scale up private investments for sustainable development (UNCTAD, 2019). Blended finance is one option to use ODA in combination with private finance, and thereby leveraging scarce concessional public funds. One applicable definition of blended finance is provided by the OECD: "Blended finance is the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries." (OECD, 2018: 3) "Blended finance is an innovative approach to financing sustainable development that aims to attract commercial capital towards projects that benefit society while also providing financial returns to investors." (OECD, 2021: 2).

In principle, the benefits of blended finance are: first, scale up concessional with private financing resources, thus supporting the mobilization of additional funding; second, reduce risks for private investors to attract private finance for investments in SDGs; third, blended finance in LDCs can take on a frontrunner role for further private financing; and fourth, contribute to enhance developmental impacts by linking financing to the SDGs. Whether or not these benefits materialize (and whether this is the most effective use of public finance) will thus depend on numerous context-specific factors, ranging from the development rationale pursued (and the alternative opportunity costs) to the achieved additionality and effectiveness of the partnerships built.

However, due to a number of socio-economic and political constraints, private investors often classify investments in developing countries as riskier than investments in industrialised and emerging ones. First, macroeconomic fundamentals in LDCs have often been perceived as riskier than in emerging markets or industrialised

⁷ For other definitions of innovative financing, see Sandor (2011) or World Bank (2010).

countries, due to high inflation rates, erratic growth rates, volatile exchange rates and capital flows. Second, weak institutions and regulatory risks have represented barriers for private investments in LDCs. Third, political instability has often been perceived as an additional risk factor in LDCs. In addition, there have been several risks at the project level, comprised of operational and contract risks, costly project preparation, relatively high transaction costs due to low volumes, untested business models, as well as a lack of relevant data (OECD/UNCDF, 2018; UNCTAD, 2019; and UN, 2021). Moreover, blended finance may exacerbate the debt situation of LDCs, in so far as blended finance deals create contingent liabilities or increase the overall debt level of these countries.

These difficulties mainly explain the relatively low volume of blended finance used in LDC. Between 2012-2018, only 6 per cent of the total private finance mobilised by ODA went to LDCs (OECD/UNCDF, 2020: 72). Multilateral Development Banks (MDBs), such as the World Bank Group and the African Development Bank, mobilised on average in 2017-2018 the largest volume of private finance (OECD/UNCDF, 2020: 75). According to the OECD/UNCDF reports (2018; 2019; 2020), development finance institutions and MDBs assume an important role in promoting blended finance, as well as in developing and/or expanding innovative financial mechanisms to support

blended finance. This chapter briefly outlines the OECD/Development Assistance Committee (DAC) Blended Finance Principles Guidance. Since development banks and development finance institutions assume a crucial role in providing blended finance (OECD/UNCDF, 2020), two selected blending facilities established or proposed by international fiscal institutions (IFIs) are briefly outlined: (i) IDA blending facility (Box 2), and (ii) the Liquidity and Sustainability Facility (LSF) proposed by UNECA and the Pacific Investment Management Company (PIMCO) – Box 3. Further innovative blending instruments supported by IFIs include the UNCDF proposal for development of pipeline, investable SMEs or a blended social bond to support microfinance institutions. In addition to these instruments, there is a wide array of blended finance tools adopted by Development Finance Institutions (KfW, 2020).

The OECD DAC Blended Finance Principles (Box 1) represent a good instrument to outline and carry out effective and transparent blended finance programmes that mobilise financial resources with additional commercial capital. These Principles address actors offering development finance, including bilateral and multilateral donors, private philanthropies and other providers of development finance stakeholders

One main challenge of blended finance initiatives is that the

Box 3.1: OECD DAC Blended Finance Principles

The OECD DAC Blended Finance Principles comprise five principles:

Principle 1: Anchor blended finance use to a development rationale

Principle 2: Design blended finance to increase the mobilisation of commercial finance

Principle 3: Tailor blended finance to local context

Principle 4: Focus on effective partnering for blended finance

Principle 5: Monitor blended finance for transparency and results

(OECD, 2018: 5)

approaches and instruments deployed differ significantly, including concessional loans or guarantees with different risks levels. In the same vein, some governments have conducted blended finance initiatives for a long time and are relatively unexperienced in using blended finance approaches. For providing similar understanding and agreement among actors on a good practice and an effective way of using blended finance to support sustainable development in 2017, the OECD developed, in cooperation with the private sector, civils society and governments, the OECD DAC Blended Finance Principles (OECD, 2018). In 2020, the OECD established the OECD DAC Blended Finance Principles Guidance to facilitate implementation of these principles (OECD, 2021).

These principles have become one element of the international development architecture, and have been accepted and implemented by countries, donors,

organisations and other actors deploying blended finance instruments. Similarly, the G20 and G7 have committed to implement or at least recognise the importance of these Principles under the past two G20 and G7 presidencies (OECD, 2018; 2020b; 2021). In addition to implementing these Principles, many LDCs lack sufficient institutional capacity to carry out blended finance. For this reason, the G20 should support LDCs in developing institutional capacity in order to effectively implement blended finance approaches and minimize associated risks.

Box 3.2: IDA blending facility

To supplement its other sources of finance, including donor grants and internal reflows from loans, the IDA introduced in 2017 a hybrid financing model by issuing debt in commercial bond markets against its equity (i.e. outstanding loans). Accordingly, IDA could mobilise additional concessional loans through blending instruments. IDA could further enhance their market bonds. In spring 2021, IDA's debt outstanding in the capital market (US\$16 billion) accounted for only less than 10 per cent of its equity base – US\$175 billion in concessional loans. This ratio is quite low compared to the International Bank for Reconstruction and Development (IBRD), whose market debt outstanding amounts to US\$250 billion or six times of its equity base. The main reasons have been that the IBRD has access to callable capital from its shareholders and that this institution has at its disposal a higher credit quality loan portfolio than IDA (Landers, 2021).

Box 3.3: The Liquidity and Sustainability Facility

In order to improve access to global financial markets for developing countries, the United Nations Economic Commission for Africa (UNECA) – in cooperation with the asset management firm PIMCO – has proposed to establish the so-called Liquidity and Sustainability Facility (LSF). This facility would subsidise private sector investments in government bonds from countries that have had some access to international financial markets, and that had a solid macroeconomic performance prior to the COVID-19 crisis. As such, this facility would be a blending facility that combines public and private money to leverage private investments in developing countries. The MDBs and/or the central banks of OECD members, as well as ODA, should finance the LSF (UNECA, 2020).

Under this facility, private investors could pledge assets as collateral against the facility in order to receive financing that can be used to purchase bonds from eligible countries. Investors would sell their bonds to the LSF and promise to repurchase (repo) it in the future. On the one side, investors would be the economic owners of the bonds taking on price risks and incurring returns. On the other side, the LSF would be the legal owner of the bonds and could sell bonds in case investors default and do not repurchase them. Insofar, the LSF would take on the collateral liquidity risk (Gabor, 2020). In addition, the risks of further indebtedness and unsustainable debt increases in debtor countries. The main advantage for developing countries is that interest rates will be lower, enabling them to issue bonds on more favourable conditions, and thereby enhancing their opportunities to issue a larger volume of sovereign bonds. The use of the proceeds could be linked to the SDGs. In this framework, new SDG bonds could also be issued, for example, based on the Social or Sustainability Bonds Principles established by the International Capital Markets Association. In addition, more favourable lending conditions could be included to provide more incentives for such bonds (UN, 2020: 72).

2.2 Redistributive new allocation of Special Drawing Rights

A further option to increase external financial resources to LDCs is to use a part of the new SDR allocation, approved in August 2021, to LDCs beyond their quota. In their Communiqués, the G20 already called for a general allocation of SDRs amounting to US\$650 billion (G20 2021a; 2021b); this measure became effective on August 23, 2021 (IMF 2021c; 2021d). SDR allocation being proportional to the countries' existing quotas in the Fund implied that LDCs received only SDR 9.8 billion, or 2.1 per cent of the total allocation. In light of this foreseeable constraint, the G20 proposed that the IMF investigates options to voluntarily allocate a part of these 'new' SDRs to vulnerable countries (G20, 2021a; 2021b). A further option would be to redistribute existing unused SDRs (UN, 2020: 56-57).

The G20 assumes a crucial role in designing a proposal for allocating the newly issued SDRs and for assigning SDRs to LICs exceeding their quota, i.e. an additional allocation of SDRs to LICs. This suggestion should include a proposal on the volume of these additional SDRs apportioned to LICs and how to allocate these among developing countries. This section elaborates on possible allocation mechanisms for additional SDR allocation to

support LDCs either directly to lend, donate or through a trust fund.

Even though LICs only account for 3.2 per cent of newly allocated SDRs, the volume – US\$21 billion – is comparatively large, considering that it is about twice as high as the IMF lending to LICs in 2020 (Andrews, 2021; Andrews and Plant, 2021a). Accordingly, even a small reallocation to LICs would be relatively effective.

One proposal is to provide the additional SDRs through the Poverty Reduction and Growth Trust (PRGT) by donating or lending the SDRs. The funds would be allocated according to the rules of the PRGT managed by the IMF or by allocating the funds through the Catastrophe Containment and Relief Trust (CCRT) (Andrews and Plant, 2021a; 2021b; Andrews, 2020; Berensmann et al., 2021a; Ellmers, 2020; Gallagher et al., 2020; UNCTAD, 2020; UNECA, 2020; and UN, 2020). A further option is to set up a new fund that would "either leverage or on-lend a pool of SDRs". The IMF's Executive Board has allowed the donation or lending of SDRs among IMF members. By contrast, establishing a separate fund to pool SDRs would break new ground (Andrews, 2021: 5). In the past, some countries lent a part of their SDRs to the PRGT that used separate subsidized resources to lend it to LICs. (Andrews 2021: 7).

A further option is that members donate SDRs to other members. The volume of donations should be decided by each member country. In both cases, the question of how to distribute these SDRs among developing countries arises. One way is to distribute the SDRs in relation to their quota, based on the existing system – the PRGT. On the one hand, assets of the lending/donating country would be protected by the IMF's safeguards of the PRGT (Andrews and Plant, 2021). On the other hand, recipient countries need to comply with the conditions of the PRGT. A further option for using these additional SDRs would be to finance the IMF's Catastrophe Containment and Relief Trust (CCRT) that offers debt relief on debt services for LICs (Ellmers, 2020; UN, 2020). Since most of the LDCs are highly indebted, donations of at least a part of the SDRs would be more appropriate than only lending these SDRs to LDCs.

Another proposal is to establish a special purpose fund that would at least to some extent be financed by SDR allocation such as a Green Fund or a global health fund for LDCs. In case the fund is located at the IMF it would be necessary to approve this fund as a prescribed holder that is entitled to get SDRs. In general, the Articles of the IMF would allow using the money for a fund, as long as these are in line with the functioning of the Articles and working of the SDR department. However, a legal assessment would be needed (Andrews, 2021; Andrews and Plant, 2021; UN, 2020). The IMF Managing Director, Kristalina Georgieva, mentioned in her recent Financial Times article that the IMF is discussing with its member countries a new Resilience and Sustainability Trust for poor and vulnerable countries (Georgieva, 2021).

2.3 Sustainable bonds

Sustainable bonds and other bonds related to promote sustainable development, including the newly issued COVID-19 bonds⁷, have a large potential to mobilise a substantial volume of financial resources for achieving the SDGs. In 2020, the green, social, sustainability and sustainability-linked (GSSS) bond market has significantly increased. The issuances of GSSS nearly doubled from US\$326 billion in 2019 to about US\$600 billion in 2020 (Environmental Finance, 2021).

In principle, sustainable bonds have a number of benefits. First, they facilitate long-term investments linked to sustainability objectives, as underpinned in the criteria for project eligibility. Second, sustainable bonds contribute to develop more efficient financial markets, as they provide transparency on the use of proceeds. Third, sustainable bonds contribute to enhance issuers' reputation because of the commitment to invest in "sustainable" financial products. Fourth, sustainability bond can contribute to creating a deeper and more sophisticated financial market, since a large range of private and public actors can be involved as issuers and investors (development finance institutions, governmental authorities at the national and

sub-national levels, private finance financial actors, etc.) (Berensmann et al., 2018; and OECD, 2017).

On the other hand, the value proposition of sustainable bonds ultimately hinges on the effectiveness, transparency, comparability and credibility of the related institutional framework. While the sustainable bond market has significantly increased, one main challenge of its further development is a fragmented architecture for sustainable bond standards because different definitions and standards exist (Berensmann, 2017; and OECD 2017). Different standards have been established for sustainable bonds at different levels –international, regional, national and even the subnational level.

The green bond standards represent an illustrative example for a proliferation of standards on various levels (Berensmann, 2017; Ehlers and Packer, 2017; and EIB, 2017). One international standard, the Green Bond Principles (GBP) have mainly been used as a guideline for other standards (ICMA, 2020) and the climate bond standards put in place by the Climate Bonds Initiative that has often been adopted for climate bonds (CBI, 2019). However, the GBP are not detailed enough. This is one main reason that various green bond standards at the regional and national levels have been established, including the European Union Green Bond Standard (EU, 2019) and the ASEAN Green Bond Standards (ACMF, 2018). At the national level, several countries have established their national green bond standards, such as China, that put in place the Green Bond Catalogue in 2017. Even at the national level, various national green bonds standards have been set up as in the case of China, where different standards have been established for sovereign green bonds and corporate bonds (Berensmann, 2017). It might be possible that one widely used green bond standard, such as the European Union Green Bond Standard, could become a model for other national and regional green bond standards, and could prevail also in other countries and regions.

A further challenge is to elaborate and establish appropriate standards for different types of countries – industrialised countries, emerging markets and developing countries – because the country specific circumstances often need to be considered.

Aligned standards are needed to improve the effectiveness and efficiency of sustainable bonds and to prevent 'SDG-washing'. However, some flexibility is needed to consider different types of sustainable bonds and their purposes, as well as country specific circumstances. In case of diverse standards, these differences need to be transparent to financial market participants. Since developing countries often do not have the expertise to adopt these standards, capacity building is crucial, including through peer-learning and experience-sharing platforms, such as the Sustainable Stock Exchange Initiative and the United Nations Global Sustainable Finance Observatory that will be launched at UNCTAD's World Investment Forum in October 2021.

⁷ According to Hirtenstein (2020), COVID-19 bonds for about US\$150 billion were issued in 2020.

3. Conclusion and policy recommendations for the G2

Innovative financing for development can contribute to closing the financial gap by mobilising new funds for sustainable development and leveraging existing scarce public concessional resources (ODA). In addition to domestic resources and traditional external financial resources, innovative financing mechanisms can mobilise further financial resources for LDCs. In this chapter, we have discussed the role of the G20 in promoting innovative financing instruments. We have chosen three instruments from a large number of innovative financing mechanisms that can, in principle, unlock a large volume of financial resources for LDCs.

In view of the LDCs' enormous sustainable investment needs, mobilising private financial resources is both crucial and inescapable. Blended finance represents an important instrument to combine ODA with private finance, thereby leveraging scarce concessional public financial resources. The G20 should consider promoting the adoption and implementation of the OECD Blended Finance Principles in LICs to enhance blended finance in these countries. As many LDCs do not have sufficient institutional capacity. To adopt blended finance instruments the G20 should support LDC in developing institutional capacity to effectively implement blended finance tools and to lower risks associated with blended finance.

An additional instrument to enhance external financial resources to LDCs is to allocate the recently approved new SDR allocation for LDCs exceeding LDCs quota. The G20 should take on a leading by example / frontrunner role and donate as well as lend a percentage of their allocations, discuss establishing a special purpose fund, i.e. a green or health fund, support allocating a large amount of SDRs to LDCs exceeding their quota and discuss proposals how to allocate them among LICs and discuss how these financial instruments can be used to ensure a sustainable and inclusive recovery from the COVID-19 crisis.

As the fragmented architecture of sustainable bond standards represent one main challenge in mobilising financial resources for attaining the SDGs by issuing sustainable bonds the G20 should discuss and promote harmonisation of sustainable bond standards. Moreover, the G20 countries should provide capacity building for LDCs for developing the sustainable bond market in these countries.

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CONCLUSION

With its uneven impacts and the ensuing divergent recovery, the COVID-19 pandemic has unmasked not only a series of long-standing challenges experienced by African countries and LDCs, but also complex patterns of interdependence across countries, societies and sustainable development dimensions. This report has shed light on how the G20 can help address this complex reality by focusing on three main topics, namely the effective inclusion of LDCs in the decision making, the lack of investments in quality and climate resilient infrastructures, and the limited access to development finance. The full costs of this unprecedented crisis are still unknown, but what is already clear is that coordinated and swift action at the international level is crucial to prevent a divergent recovery from further exacerbating the socio-economic impacts of the pandemic, and thereby jeopardizing the achievements of Agenda 2030 for Sustainable Development.

While intensifying previous weaknesses and vulnerabilities, the COVID-19 pandemic also presents unique opportunities for change. In terms of increased African and LDCs' agency in the G20 policy processes, the current Italian and future G20 Presidencies should consider identifying the best strategies to facilitate the effective participation of African actors, seeking to build consensus around an inclusive recovery agenda, and advancing structural cooperation in crucial sectors, such as financial, infrastructural and health.

As pointed out in Chapter 1, the current crisis has both exacerbated structural development challenges and revived the debate on how to construct a more inclusive, economic, social and environmental paradigm that duly reflects, both in process and in substance, the voices of LDCs and Africa. Taking the example of the G20, Africa remains underrepresented in key policy processes, and this affects the effectiveness and legitimacy of related decisions concerning the continent. Moreover, the confinement of Africa-related matters to the development policy silo has also been criticised as a sign of the reification of the donor recipient relationship. Against this backdrop, effective agency requires both collective action and coordination, and the capacity and strategy to execute it fully. Africa and LDCs do not always have all the wherewithal. Some of the necessary interventions require the strengthening of institutional capacity; others require structures that facilitate coordination among themselves and provide the space to develop collective action. While the G20's outreach strategy has increasingly targeted non-members as the African Union, the Think20 engagement group has advanced various proposals over the years, ranging from enhanced roles for Panafrican institutions (such as the African Union Commission, the African Development Bank and the United Nations Commission for Africa) to informal coordination mechanisms including through multistakeholder dialogue within the T20 Africa Standing Group (ASG). It is not a coincidence that the G20 Development Working Group, co-chaired by South Africa, has been more and more involved in a number of sensitive topics for Africa and the LDCs, such as debt relief (e.g. DSSI or SDRs reallocation) or sustainable development financing.

While increasing African agency in the decision-making processes is a crucial step, the G20 members are called to play a stronger role in supporting African countries and LDCs in their infrastructural development efforts, by boosting investments in quality and climate-resilient infrastructures. The G20 should encourage the implementation, at national levels, of effective systems of infrastructure

maintenance, strong institutions with clearly established missions and responsibilities, with transparent funding and distribution mechanisms. This means developing adequate capacities at the national and local level to fully integrate climate change and natural hazards into projects planning and design, including through internationally recognized standards and metrics. This will not be an easy task, as it will require a profound change in mindset, as well as investments in human capital across a broad spectrum of disciplines. It will also require enhancing policy coherence and fully harnessing the synergies between infrastructural development and structural transformation ambitions. Moreover, as the number and intensity of natural hazards is likely to increase in future decades due to climate change, investing in resilient infrastructures is a condition sine qua non to ensure an effective and resilient long-term recovery. The G20 (e.g. through its Compact with Africa) should thus work in synergy with other key essential partners, like the World Bank, the OECD, UNEP, UNCTAD and IRENA, to develop common standards, ensure their harmonization and common usage, and invest in local capacity building. An important step, in this respect, will be to promote the wider use of the PIDA Project Quality Label (PQL) and to support its promotion as an African brand for excellence in infrastructure development, and to invest in capacity building among African infrastructure professionals.

Finally, ensuring adequate access to sustainable development finance was already a fundamental challenge prior to the pandemic and will be an even more pressing imperative in the future, as the most vulnerable economies scramble to recover from the COVID-19 shock and cope with the escalating impacts of climate change. Therefore, exploring the potential of innovative financing mechanisms will be important to help LDCs build back better from the pandemic. Mobilizing additional financial resources and ensuring that these are aligned with sustainability goals is essential to alleviate the burden over crunching and scarce public finance (either domestic or concessional, like ODA). In this context, the G20 bears a strong responsibility to promote alternative and effective sources of development finance. The grouping has rightly put a lot of emphasis on key initiatives, such as the DSSI, the Common Framework and the re-allocation of SDRs, which represent important steps in the right direction, but still remain insufficient to redress the emerging divergent recovery and decisively improve debt sustainability outlooks. In addition to those measures, Chapter 3 has identified three promising instruments that could unlock sizeable financial flows for LDCs. First, in order to meet the huge financial needs for private resources, the G20 could promote the deeper use of blended finance by fostering the adoption of the OECD Blended Finance Principles, while supporting LDCs in enhancing their institutional capacity to adequately utilize these instruments and engage in effective de-risking. Second, the G20 members should reach consensus on how to redistribute SDRs to LDCs, beyond their current quotas, so as to boost their international liquidity. The G20 countries could lead by example, by donating or lending a share of their recent allocations, to create a special purpose fund, while developing a proper metric to ensure that these resources are used for a sustainable and inclusive recovery from the COVID-19 crisis. Finally, the G20 members should launch initiatives to reduce the current fragmentation of sustainable bond standards by promoting the harmonization of projects and standards, while also supporting LDCs in building the needed capacity to fully develop sustainable bond markets domestically.

