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

Held at the Palais des Nations, Geneva, from 25 to 27 November 2024

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Introduction

The eighth session of the Intergovernmental Group of Experts on Financing for Development was held at the Palais des Nations in Geneva from 25 to 27 November 2024.

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

A. Financing for development: Addressing the cost of development finance to achieve the Sustainable Development Goals

Agreed policy recommendations

The Intergovernmental Group of Experts on Financing for Development,

Reaffirming General Assembly resolution 69/313 of 27 July 2015 on the Addis Ababa Action Agenda of the Third International Conference on Financing for Development,

Recalling General Assembly resolution 70/1, Transforming our world: the 2030 Agenda for Sustainable Development, of 25 September 2015, and relevant General Assembly follow-up resolutions,

Recalling paragraph 100 (r) of the Nairobi Maafikiano (TD/519/Add.2), which calls for the establishment of an intergovernmental group of experts on financing for development, as well as paragraph 122 of the Bridgetown Covenant (TD/541/Add.2), which states that the work of the Intergovernmental Groups of Experts at UNCTAD are important elements under the intergovernmental machinery,

Noting the internal and external challenges for developing countries to increase domestic resource mobilization,

Acknowledging the written and oral contributions from participants that enriched the debate during its eighth session,

1. *Notes with concern* the high cost of finance for development for developing countries, and emphasizes the need to address interconnected national, international and systemic challenges contributing to these costs;

2. *Encourages* more urgent and ambitious action to ensure that the international financial architecture becomes more efficient, more equitable, fit for the world of today and responsive to the challenges faced by developing countries in achieving the Sustainable Development Goals;

3. *Welcomes* policies at the national, regional and international levels that could contribute to addressing the high cost of development finance, including local currency lending, local currency sustainable finance instruments and vehicles, guarantees, risk-sharing initiatives and local capital market development;

4. *Reiterates* that public development banks play a vital role in providing affordable capital and accelerating investments in the Sustainable Development Goals, as they can provide grants, long-term concessional financing and non-concessional financing below market rates, as well as in boosting domestic resource and private capital mobilization;

5. *Welcomes* the growing number of multilateral development banks reporting on the implementation of the Group of 20 Capital Adequacy Framework, notes the potential of the Framework to unlock additional lending headroom over the next decade, calls on efforts to strengthen the work of multilateral development banks to deliver better, bigger and more effectively the grants, concessional loans and affordable long term loans, and calls on countries able to do so to work on the voluntary rechannelling of special drawing

rights through these banks, while respecting relevant legal frameworks and preserving the reserve asset character of special drawing rights;

6. *Recognizes* the role of special drawing rights in strengthening the global financial safety net in a world prone to systemic shocks, and their potential contribution to greater global financial stability;

7. *Welcomes* the adoption of General Assembly resolution 78/322 of 13 August 2024 on the multidimensional vulnerability index, and calls for the full and effective implementation of its mandate;

8. *Underscores* the role of financial instruments and other innovative tools, such as sustainable debt instruments, debt-for-development and debt-for-climate swaps, where appropriate and on a mutually agreed, transparent and case-by-case basis, and climate resilient debt clauses, guarantees and subsidies, in addressing the high cost of finance in developing countries to achieve the Sustainable Development Goals, including for food security and green and digital transition;

9. *Commends* innovative instruments, including blended financing mechanisms and incentives, the use of guarantees to cover part of the risks that the private sector is not ready to take and green finance initiatives (for example, green bonds);

10. *Reaffirms* that public policies and the mobilization and the effective use of domestic resources, underscored by the principle of national ownership, are essential to the common pursuit of sustainable development;

11. *Urges* developed countries to scale up and fulfil their respective official development assistance commitments, including the commitment by many developed countries to achieve the targets of 0.7 per cent of gross national income for official development assistance to developing countries and 0.15 to 0.20 per cent, to the least developed countries;

12. *Acknowledges* the importance for credit rating agencies to ensure that their ratings are objective, independent and based on accurate information and sound analytical methods, including by considering development, social and environmental indicators and impacts of external shocks in their ratings, and encourages multilateral development banks and credit rating agencies to continue their dialogue;

13. *Stresses* the importance of transparent data and debt management systems, and notes the value of technical assistance for developing countries to this end;

14. *Invites* the UNCTAD secretariat to explore with the Department of Economic and Social Affairs, the United Nations Development Programme and the co-chairs of the intergovernmental Preparatory Committee the possibility of jointly organizing a briefing in Geneva about the Fourth International Conference on Financing for Development process for member States and Geneva-based international organizations;

15. *Recalls* the request by the General Assembly for the Intergovernmental Group of Experts on Financing for Development to present the outcome of its work as a regular input to the Economic and Social Council forum on financing for development follow-up (General Assembly resolution 72/204, paragraph 27), in accordance with the terms of reference of the Intergovernmental Group of Experts.

Closing plenary meeting
27 November 2024

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

Financing for development: Addressing the cost of development finance to achieve the Sustainable Development Goals

1. At its closing plenary meeting, on 27 November 2024, the Intergovernmental Group of Experts on Financing for Development adopted a set of agreed policy recommendations (see chapter I, section A, above).

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

2. Also at its closing plenary meeting, on 27 November 2024, the Intergovernmental Group of Experts decided that, as time constraints had not allowed for consideration of a topic and guiding questions for its next session, the UNCTAD secretariat would circulate a proposed topic and proposed guiding questions. Regional coordinators and member States were encouraged to conduct consultations on them, with a view to reaching an informal agreement. The topic and guiding questions would then be submitted to the Trade and Development Board for approval, together with the provisional agenda of the ninth session, which would reflect the agreed topic.

II. Chair’s summary

3. Under the agenda item, the Intergovernmental Group of Experts on Financing for Development held an opening plenary meeting followed by discussions structured around the four guiding questions on critical areas concerning the topic.

A. Opening plenary meeting

Opening remarks

4. In her opening remarks, the Chair of the session said that the cascading and overlapping crises faced since the coronavirus disease (COVID-19) pandemic, namely a deepening climate crisis, a cost-of-living crisis and escalating geopolitical tensions and conflicts, had undermined global growth trends. The UNCTAD *Trade and Development Report 2024* and the October 2024 *World Economic Outlook* of the International Monetary Fund stressed that global output would likely stabilize at rates below those recorded prior to the pandemic, despite two years of aggressive monetary tightening to tame inflation.

5. The current situation was far more severe than prior to the pandemic. External and public debt servicing was draining resources away the 2030 Agenda for Sustainable Development and the ambitions of the Paris Agreement. According to the latest report to the General Assembly on external debt sustainability and development, in sub-Saharan Africa, around 21 per cent of export earnings were spent on external debt service, and 16 per cent of government revenues were earmarked for public and publicly guaranteed external debt service in 2023. On average, the least developed countries were spending 25 per cent of export earnings on external debt service, and small island developing States were spending 20 per cent, while the average level for developing countries (excluding China) was 15 per cent. Thus, the problem was less about the level of debt to gross domestic product, and more about the costs of servicing that debt.

6. Furthermore, the financing gap to achieve the Sustainable Development Goals had widened. UNCTAD estimated that, as of 2023, the gap reached $4 trillion annually, about 60 per cent more than the $2.5 trillion estimated when the 2030 Agenda was adopted.

7. Thus, the topic of the current session of the Intergovernmental Group of Experts on Financing for Development was particularly timely. The current challenge was not only to fill the development financing gap, but to fill it with concessional, countercyclical and low-cost sources of finance. Though the Addis Ababa Action Agenda called for affordable

development finance, the financing for development follow-up process had focused more on the required amount of resources to achieve the Goals than on the terms (cost and maturity) for providing those resources.

8. Participants at the session would delve into the drivers of the high cost of development finance for achieving the Sustainable Development Goals and on the policies, initiatives and tools to address the situation.

9. Finally, preparations for the Fourth International Conference on Financing for Development were gearing up. The second session of the Preparatory Committee was scheduled for 3–6 December 2024 in New York. While every session of the Intergovernmental Group of Experts on Financing for Development was an input to the Economic and Social Council forum on financing for development follow-up, the eighth session of the Intergovernmental Group of Experts would also provide inputs to the Fourth International Conference to be held from 30 June to 3 July 2025 in Seville, Spain.

10. The Secretary-General of UNCTAD underscored the challenging international environment, marked by low growth, high debt, fragmented trade and weak investment. The discussion at the session was therefore an urgent issue in urgent times.

11. A further backdrop was the Addis Ababa Action Agenda, a framework that called for innovative solutions across several priority areas, from domestic resource mobilization to systemic reforms in the global financial system, while work of the Preparatory Committee was leading up to the Fourth International Conference on Financing for Development in Seville in 2025. The current session followed the twenty-ninth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change in Baku, where a new collective quantified goal on climate finance of $300 billion annually was agreed, as were standards to operationalize a new United Nations crediting mechanism established by Article 6, paragraph 4, of the Paris Agreement.

12. The cost of finance touched all parts of the international environment. The high cost of finance was a structural issue of financing for development and, rather than only a symptom, also a significant contributor to the challenges faced.

13. As a symptom, some claimed that capital costs were high in developing countries, because some countries were riskier than others. Some risk could be due to political instability, commodity dependence and weak institutions but, currently, a greater part of the risk could come from outside.

14. Not all countries were equally insured against shocks such as pandemics, climate change and war. Countries without access to foreign currencies, limited by conditionalities of International Monetary Fund financing and burdened by debt from past shocks, would respond differently to the same shock. With climate change factored in, for example, the same hurricane could hit Miami (United States of America) and Haiti, but the devastation would differ significantly. Beyond different risk perceptions, high capital costs in developing countries also reflected an international financial architecture that did not treat all countries equally, with no universal safety net.

15. As a contributor, high finance costs acted as a drag on economic growth, limiting the fiscal space of developing countries and hindering their ability to invest in critical infrastructure, social programmes and climate action.

16. A developing country facing high borrowing costs could be forced to divert resources away from essential services to service debt. That created a vicious cycle, where limited investment led to slower growth, further exacerbating fiscal constraints and increasing reliance on external borrowing. Particularly worrying was that 3.3 billion people lived in countries that spent more on debt servicing than on either health or education. In its 2024 document “A world of debt 2024”, UNCTAD showed how the growth of debt was related to the pandemic as countries that did not have reserve currencies could not use quantitative easing and had to borrow to protect their populations. Since the pandemic, debt had grown exponentially because of the borrowing needed during the pandemic and the hike in interest rates in reserve banks, which made debt burden heavier on countries due to the cost of debt servicing. Furthermore, capital was leaving developing countries in a flight to safety. The situation hit countries because most debt, particularly external debt but also

part of internal debt, was denominated in external currencies. Differentiating between internal and external debt was even difficult at times, as internal debt was also in external currencies.

17. The high cost of finance exacerbated existing inequalities. The least developed countries, landlocked developing countries and small island developing States often faced the highest borrowing costs of all. According to "A world of debt 2024", Africa faced financing costs 2 to 4 times the average for the United States, and 6 to 12 times the average for Germany.

18. The paradox in development was that those furthest behind were least able to catch up. It was a matter of justice and equity, but also about economics. Instruments that addressed the global asymmetries, rather than maintaining them, should be designed.

19. The eighth session was structured around four guiding questions that touched upon critical areas for achieving affordable finance.

20. First, the role of foreign exchange markets and of foreign reserves currencies in driving up capital costs would be addressed. As most developing economies did not issue international currencies, maintaining large foreign currency reserves was a costly strategy that diverted funds from critical domestic investments. That created negative flows, with flows going from the South to the North rather than to the countries that most needed them.

21. Second, specific, innovative tools that could lower finance costs, particularly in the food security, energy transition and digital infrastructure sectors, would be considered. Examples included debt-for-development swaps and blended finance. Working together could support lower capital costs.

22. The third focus would be the role of international financial institutions, multilateral development banks and development finance institutions, including public–private partnerships, concessional and long-term financing and rechannelling of special drawing rights.

23. Finally, the impact of sovereign credit ratings on the cost of borrowing would be addressed. For developing countries, those ratings were often the difference between access to capital and exclusion from financial markets. Understanding the dynamics and determinants of ratings would allow identification of strategies to improve access to lower-cost financing. How to advocate for rating systems that fairly reflected the economic conditions of developing countries and their efforts towards sustainable development should also be considered.

24. In closing, she stressed that, behind macroeconomic terms and policy debates, were the lives of men, women and children that were profoundly affected by the high cost of finance. That cost translated into lost opportunities, diminished livelihoods and unrealized potential. The internal efforts that developing countries had to make to mobilize domestic resources and have institutions and transparency had to be matched by an international architecture that would allow them to lower the cost of capital and improve the conditions for borrowing.

B. Financing for development: Addressing the cost of development finance to achieve the Sustainable Development Goals

(Agenda item 3)

25. Under the agenda item, the following keynote speakers presented their views on the topic: the Minister of Finance of Egypt; the Minister of Economy, Trade and Business of Spain; and the Under-Secretary-General of the Department of Economic and Social Affairs of the United Nations. A representative of the UNCTAD secretariat presented the background paper for the session (TD/B/EFD/8/2).

26. The following speakers made statements: the representative of Cambodia, on behalf of the Group of 77 and China; the representative of the European Union, on behalf of the European Union and its member States; the representative of Bangladesh, on behalf of the Asia and the Pacific Group; the representative of the Niger, on behalf of the African Group; the representative of Japan, on behalf of the JUSSCANNZ group; the representative of

Nepal, speaking on behalf of the least developed countries; the representative of the Dominican Republic, on behalf of small island developing States; the representative of the Bolivarian Republic of Venezuela, on behalf of the Group of Friends in Defence of the Charter of the United Nations; the representative of the State of Palestine; the representative of Indonesia; the representative of Brazil; the representative of Lebanon; the representative of the Russian Federation; the representative of Zimbabwe; the representative of the Islamic Republic of Iran: the representative of Kenya; the representative of Trinidad and Tobago; the representative of the Bahamas; the representative of the Syrian Arab Republic; the representative of Namibia; and the representative of the Bolivarian Republic of Venezuela.

27. The four keynote speakers underlined that meeting the 2030 Agenda for Sustainable Development was in jeopardy as the fiscal burden in developing countries resulting from the cascading crisis of the previous five years had left several developing countries with no fiscal space to pursue social programmes. The high cost of debt servicing was further exacerbated by monetary tightening in developed countries and had left 25 countries with a debt service of more than 20 per cent of their respective government revenues. The lack of sufficient funds for development projects was compounded by the requirement to raise additional funds for climate adaptation and mitigation as the frequency and severity of climate shocks increased over time. The keynote speakers and some regional groups and delegates stated that a vicious cycle was being created, whereby increasing climate-related investment needs led to acquiring costly debt, worsening debt sustainability and limited further investments.

28. Several regional groups agreed with the keynote speakers that the international community needed to agree on a set of actionable policies at the Fourth Financing for Development Conference, to be held in 2025 in Spain, and that the following seven months should be used to generate a comprehensive debate on various policy instruments and options that would enhance the financial opportunities of developing countries to meet the Sustainable Development Goals.

29. The keynote speakers, one regional group and one delegate agreed that access to concessional financing should be improved and that donor countries needed to meet their official development assistance commitments. The keynote speakers and another delegate recognized that developing countries needed to increase efforts to raise domestic resource mobilization and reduce tax evasion and illicit financial flows. The keynote speakers further stated that efforts at improving debt management should likewise continue. The speakers, another regional group and another delegate emphasized that multilateral development banks should scale up their financing to developing countries and use guarantees for lowering debtors' borrowing costs and rechannelling unused special drawing rights, as well as increase lending in domestic currency to lower debt portfolio risks.

30. The keynote speakers considered that the use of innovative financing should be expanded to create additional fiscal space in developing countries. Some regional groups and delegates noted that instruments that would be suitable to achieve that goal included private–public partnerships, blended finance and debt swaps in all modalities. One keynote speaker provided an example of a particularly successful debt for equity swap implemented in Egypt. Another regional group, another delegate and the keynote speakers stressed that developing countries needed increased technical assistance from the international community to help them navigate the increasingly complex international financial landscape.

31. Some regional groups and one delegate stressed that the current system of underlying currencies for using special drawing rights contributed to increased currency risk for borrowers and that, more broadly, special drawing rights needed to be better used. One regional group and several delegates said that the redesign of use of special drawing rights was linked to a need for a comprehensive review and reform of the international financial architecture, which should be more conducive to supporting social development in developing countries. Several regional groups and many delegates said that more transparency was needed in the work of credit rating agencies, in particular in the area of methodologies used to designate country ratings.

32. One regional group considered that there had been progress in increasing green financing through instruments such as the European Fund for Sustainable Development and the Global Green Bond Initiative, while another regional group and one delegate said that additional efforts were required to meet the needs of developing countries for adaptation and mitigation expenditures and that those funds needed to be additional to pre-existing commitments for development through official development assistance. Some delegates welcomed the development of the multidimensional vulnerability index and called for its wider use. One regional group, some delegates and one group of countries stated that further discussions were needed on the effect of unilateral coercive measure and economic sanctions and their effect on economic development.

Policies at the national, regional, and international levels that could contribute to addressing the high cost of development finance

33. The discussion was led by a five-member panel consisting of the following: the Permanent Representative of the Permanent Mission of France to the United Nations Office at Geneva and other international organizations in Switzerland; Executive Director and Latin America Country Representative of the World Bank; Professor of Global Economics of the Leeds University Business School, United Kingdom of Great Britain and Northern Ireland; Executive Director of Development Finance International; and Senior Economist for Africa and Managing Director of Citigroup.

34. The panellists proposed interventions that could assist in addressing the high cost of development finance through policies at the national, regional and international levels. They stressed the urgency of expanding access to, and increasing the scale of, climate finance in line with the target of $1.3 trillion annually. Expanding and deepening the carbon market needed to be done in a financially and industrially credible manner, and more of the most significant carbon emitters needed to be brought into the process.

35. Several panellists agreed on the importance of reforming the multilateral development banks to ensure they could scale up lending. They and some delegates said it was also important to expand lending to middle-income countries, particularly in relation to climate funding. The panellists further noted that the ongoing issuance and rechannelling of special drawing rights had an important role to play in providing multilateral development banks with the capital necessary to expand their lending operations. Implementing the Group of 20 Capital Adequacy Framework recommendations, which had liberated an additional $170 billion in lendable capital up to June 2024 and were being supplemented by the adoption of further measures, including World Bank–International Bank for Reconstruction and Development reforms, the use of hybrid capital and multilateral development bank balance sheet optimization measures. One panellist noted that, in total, those measures could expand multilateral development bank lending by up to half a trillion dollars without any additional shareholder capital. There were, however, costs and trade-offs associated with the measures that needed to be taken into account. Another panellist cautioned that total multilateral development bank lending currently made up less than 2 per cent of borrowing by countries of the Group of 77; thus, even a significant scaling up would not, on its own, be sufficient to close the financing gap. Much of the lending was also at a relatively high cost, despite the use of guarantees.

36. Another panellist noted that exchange rate dependence was a key source of financial fragility, and that local currency lending carried lower credit risk and numerous benefits. To reduce that dependency, multilateral development banks needed to bring local currency lending within their mandate, available means of hedging against exchange rate movements needed to be scaled up and enhanced and onshore local currency operations needed to be promoted. It was also important to address the high cost of hedging directly, possibly through guarantee mechanisms utilizing a special drawing rights-capitalized fund. One regional group asked who could bear the costs of hedging instruments, particularly for frontier market economies where these risks could be pronounced. The panellist responded that there were good examples or initiatives, such as the Currency Exchange Fund, which managed to do so profitably and sustainably. Currency risk was manageable and should be treated similar to credit risk. One delegate expressed support for the Group of 20 Road Map

towards Better, Bigger and More Effective Multilateral Development Banks, to increase local currency financing.

37. Another panellist said that the deterioration in the debt position of African countries had its origins in the wave of new money that entered African markets following the eurobond issues by Ghana and Gabon. Subsequent African country defaults had been accompanied by significant currency devaluations, which tended to impose significant hardships on local populations, particularly in urban areas, and raised questions of whether floating exchange rates were an appropriate option for poorer African countries. He considered it doubtful that African Governments could afford to impose decade-long fiscal austerity, particularly since central banks were being forced to absorb significant government debt and maintain domestic policy rates at high levels. That situation could lead to a further wave of debt defaults. Financial sector reforms to deepen domestic financial markets, such as the pension fund reforms of Nigeria, were important and needed to be adopted by more African countries. On the positive side, the significant exchange rate adjustments that accompanied any defaults could serve to boost growth going forward.

38. Another panellist argued against the subsidization of green bonds and that climate funding should ideally be channelled to smaller scale solar and wind projects, rather than large-scale oil and gas projects.

Specific tools that can address the high cost of development finance, including in the areas of food security, energy transition and digital transition

39. A three-member panel led the discussion. The panel consisted of the Senior Adviser to the Minister, Ministry of Cooperatives and Small and Medium-sized Enterprises of Indonesia; Director of Development Finance of Systemiq; and Director of Climate Resilience, Finance, and Loss and Damage of the International Institute for Environment and Development. The panellists highlighted tools that could contribute to lowering the cost of development finance, including in the areas of food security, energy transition and digital transition. They also discussed other more generic financing instruments, such as debt swaps and green, social, sustainable and sustainability-linked bonds, which could be used interchangeably across priority areas.

40. The panellists agreed there was a significant gap between available affordable climate finance and what was needed to cover climate-related loss and damage in developing countries, particularly as the climate crisis had intensified in recent years, and the transition towards a low carbon and climate-resilient economy was becoming urgent.

41. One panellist estimated that developing countries needed $3 trillion to close the finance gap for achieving the Sustainable Development Goals, of which $1.8 trillion was needed for climate finance. The private sector and domestic resource mobilization played critical roles in filling the gap and in supporting the energy transition, as financial resources from the public sector and international financial markets were insufficient. Access to affordable developing finance was therefore critical for developing countries to achieve the transition to a low-carbon economy. However, developing countries faced significant barriers to access affordable finance, particularly in terms of low credit ratings, high-interest rates and high currency fluctuation risks.

42. The panellists highlighted innovative financing instruments, such as blended finance, guarantees, insurance, local currency instruments, debt swaps and sustainability-linked bonds. One panellist recommended that, in addition to innovative financing tools, there was also a need to reform international financial institutions and make better use of special drawing rights, both through new issuance to provide additional liquidity and rechannelling through regional multilateral development banks, such as the African Development Bank. Local and regional financing mechanisms and better use of carbon finance could help address some of those challenges.

43. Another panellist said that many small island developing States and least developed countries either did not have credit ratings or had poor credit ratings, which made them either unable to access international capital markets or face higher borrowing costs when they did. Greater transparency and an improvement in the methodology of credit rating agencies, including greater emphasis on returns to investment, rather than credit risks,

would assist in bringing down borrowing costs and enhance the ability of financial systems to mobilize capital for both climate and development goals.

44. One panellist noted that the lack of economies of scale and collateral requirements limited the access to finance of microenterprises and small and medium-sized enterprises, particularly those managed by women. Special financial programmes and support for women in such enterprises were crucial. For example, they represented a significant part of the sector in Indonesia, particularly in areas such as recycling and green products, and provided substantial economic opportunities and income for families. One regional group and many delegates expressed support for that view.

45. Another panellist highlighted that developing countries spent significantly less on social protection than advanced economies. That spending was often insufficient in low- and middle-income countries. Rising debt service costs and increased climate catastrophes often exacerbate the situation, resulting in cuts to social programmes and a reduction in the ability of those countries to address climate resilience and food security. Disaster risk financing mechanisms, such as insurance-linked instruments and sustainability-linked investments, were some of the instruments being explored to assist developing countries in coping with shocks.

The role of international financial institutions, multilateral development banks and development financial institutions in ensuring affordable development finance for developing countries

46. A four-member panel addressed critical issues surrounding financing for development, focusing on the role of multilateral development banks. The panel consisted of the Co-President, Initiative for Policy Dialogue, Graduate School of Business, Columbia University (United States); Vice-President for Finance and Chief Financial Officer, African Development Bank Group; Associate Director of the Multilateral Reform Program, Center on International Cooperation, New York University; and Senior Scientist, Centre for Development Cooperation, Swiss Federal Institute of Technology.

47. The panellists discussed the systemic challenges related to financing for development and the importance of scaling up the capacity of multilateral development banks to support developing countries in meeting the Sustainable Development Goals. They also explored innovative financial instruments and the progress on multilateral development banks' Capital Adequacy Framework review, commissioned by the Group of 20.

48. One panellist highlighted asymmetries in the global financial system, which failed to provide stable, low-cost, long-term financing for development. One asymmetry was that private capital flows were procyclical, benefiting developing economies during liquidity booms but reversing during advanced economies' contractionary monetary policies, causing exchange rate depreciations and debt restructuring that were too little and too late. He highlighted that official capital flows did not outweigh that asymmetry and that certain policies, such as the International Monetary Fund's surcharges, could exacerbate it. The negative net transfer of long-term external debt to low- and middle-income countries in 2022 evidenced that. Although international financial institutions and bilateral creditors' net transfers were positive, they did not compensate for private creditors' negative net transfers. He recommended that the development of local currency debt markets in developing economies be accompanied by regulations on capital flows and called for different principles in restructuring domestic and foreign currency debt.

49. Another panellist stressed the critical financing challenges developing countries faces, particularly in Africa, where approximately $1.3 trillion was needed annually to achieve the Sustainable Development Goals. She underscored the pivotal role of multilateral development banks in providing affordable financing for sectors overlooked by private financial institutions and stressed the importance of scaling multilateral development bank efforts to meet emerging challenges through three main channels: mobilizing affordable financing at scale; supporting capacity-building, knowledge-sharing and policy dialogue; and crowding in private sector investments by providing de-risking instruments. She called attention to financial innovations that multilateral development banks recently embraced to increase their lending capacity. The African Development Bank

Group had pioneered many innovations, including signing an exposure exchange agreement on its sovereign portfolio with other multilateral development banks and developing an innovative mechanism for rechannelling unused special drawing rights through multilateral development banks.

50. Another panellist stressed that multilateral development banks needed to provide both concessional and non-concessional financing tailored to the unique challenges of developing countries and their vital countercyclical financing, as demonstrated during the COVID-19 pandemic. She pointed out that, though the debt landscape for developing countries had become more complex regarding creditor composition, the share of multilateral development banks was still significant. She underlined that those banks could lend to developing countries at lower rates than private creditors; thus, increasing their lending capacity contributed to reducing the cost of financing for those countries. However, that should be achieved without compromising their triple A credit rating. To enhance the capacity of multilateral development banks to provide affordable development finance, she called for optimizing capital efficiency, expanding concessional financing, scaling private sector involvement by improving risk management and transaction efficiency, and promoting local currency lending to reduce currency mismatch risks. She advocated for greater multilateral development bank collaboration to reduce transaction costs and emphasized the importance of shareholder capital injections to scale the impact of multilateral development banks.

51. The final panellist provided an overview of progress in implementing the recommendations of the multilateral development banks’ Capital Adequacy Framework review, which resulted in around half a trillion dollars in additional lending capacity across the major multilateral development banks. He emphasized the importance of establishing sustainable capital adequacy standards, reconciling divergent rating agency methodologies and ensuring multilateral development banks maintained their triple A credit ratings to keep borrowing costs low. He stressed that progress was achieved in the three broad areas of recommendations. The first area was on core capital adequacy, in which more lending headroom was unlocked. The second was on financial innovations, such as the use of hybrid capital, that helped create more lending headroom. The third was engagement with credit rating agencies. He called for capital increases and emphasized the importance of continued Group of 20 support to the progress achieved so far, which should be sustained to fully align multilateral development bank capabilities with developing economies’ growing financing needs.

52. During the ensuing discussion, one participant asked the panel which types of assets multilateral development banks invested in. One panellist replied that the African Development Bank Group invested in a highly rated multi-currency portfolio of sovereign and private bonds. One delegate asked for more information about the engagement between multilateral development banks and credit rating agencies. One panellist noted that the credit rating methodology for those banks was unique and distinct from those adopted for sovereigns and private entities and that that engagement occurred one or two times annually. Another panellist stressed that the Group of 20 pushed for more frequent and collaborative engagement and that one challenge was the different methodologies adopted by the agencies. Another delegate asked about the importance of the reform of the international financial architecture for middle-income countries. The panellists underlined that the Group of 20 Capital Adequacy Framework reforms focused on non-concessional loans of multilateral development banks to those countries. One regional group asked about the role of reform of multilateral development bank governance in closing the development finance gap. One panellist stressed that reform of multilateral development bank governance was necessary to ensure representation and voting weights aligned with the realities of the global economy and countries’ contributions. One delegate asked what role international financial institutions could play in providing short-term recovery needs, supporting economic stability and accelerating progress towards the Sustainable Development Goals. One panellist noted that large constituencies in multilateral development banks created heavy workloads for executive directors and that competent advisers with institutional knowledge were required to support decision-making. Another panellist highlighted that the frequent turnover of board members and advisers led to knowledge gaps on complex issues and that changes in shareholding and board

representation were slow and contentious. He also stressed that reforms should enhance the multilateral development bank system without undermining its proven benefits as a powerful tool for development.

The elements that impact sovereign credit ratings and their role in development financing

53. The discussion was moderated by the Permanent Representative of Bangladesh to the United Nations Office and other international organizations in Geneva and led by a four-member panel comprised of the Acting Assistant Director for External Debt from the Ministry of Finance and National Planning of Zambia; Senior Fellow at the United Nations University-World Institute for Development Economics Research; Senior Vice-President of Sovereign Risk Group at Moody's Investor Service; and Portfolio Manager, Artisan Partners.

54. One panellist noted that over 150 countries had a credit rating conducted by one of the big three credit rating agencies and that sent powerful signals to global financial markets. As private creditors had become the largest source of developing country finance, their role would be ever more important to developing countries as ratings significantly impacted the amount creditors were willing to lend and at what price.

55. The moderator said that debate about the role of credit rating agencies was particularly important for developing countries, as they faced natural disasters, rapid and large-scale capital outflows, increased demand for climate investment, fiscal challenges, and the potential loss of market access or other shocks that left them dependent on external capital and hence impacted by the judgements made by credit rating agencies, particularly at a time of relatively high interest rates. Some panellists noted that the relationship between rating agencies, investors and Governments of developing country was nonetheless nuanced and complex. Another panellist noted that Governments could influence credit rating agencies and their opinions; also, some investors gave more weight to their own research than to the opinions of credit rating agencies. One panellist acknowledged that credit rating agencies needed to be more transparent and flexible. Another panellist noted that a global, robust and transparent regulatory framework aimed at ensuring that the relationship between sovereigns and rating agencies was effective and fair did not currently exist.

56. Another panellist discussed the experience of Zambia, among other countries, and its credit rating trajectory following the country's official debt default in 2020 and successful application in 2021 for debt restructuring under the Group of 20 Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative. She noted that Zambia put in place significant reforms to strengthen the economy, including formal processes of public investment planning to ensure effective use of debt; a review of legislation for debt management; and efforts to increase revenue mobilization and fiscal adjustments. The reforms had to date not resulted in any rating upgrades. One delegate noted the similar experience of his country, whereby government reforms were not reflected in rating revisions.

57. One panellist said that regulating credit rating agencies effectively was difficult for most countries and only the United Kingdom of Great Britain and Northern Ireland, United States of America and Europe had instituted impactful reforms. Those reforms included rules about transparency, conflict of interest, liability and competition. One regional group and several delegates said that improvements could include more transparent information about how credit rating agencies established their ratings. Another panellist and one participant indicated that credit rating agencies used a mixture of quantitative and qualitative elements, including personal judgement and opinion alongside empirical metrics. The panellist noted the importance of judgements of Moody's committee of experts, as country contexts and accounting definitions and standards could vary greatly. The panellist and participant said Moody's and Standard and Poor's did not want to be a "black box" and were open to recommendations on how to reach that goal. They stressed that the agencies provided credit ratings, not climate or sustainability ratings.

58. One panellist said that the pursuit of better ratings could encourage sovereigns to put in place better policies. Another panellist described cases where credit ratings had improved as debt levels rose because the debt was perceived to be well utilized. Borrowing costs could fall despite a downgrade in credit rating, as spreads in the market improved because investors rewarded what were seen as credible reforms by Government. One delegate said that debt costs should be lower when debt was incurred for beneficial social or economic spending. One panellist noted that, in some cases, a downgrade was predicted by the market, as interest rate spreads widened before ratings were changed. The fact that investors could take an independent view showed why countries with similar credit ratings could face different costs in global capital markets. She argued that macroeconomic fundamentals, growth assumptions, the composition of debt (concessional, maturity, currency and so on), external balances and fiscal resilience influenced the cost of capital, irrespective of the credit rating agencies’ rating. One delegate stated that, at the same time, countries could be impacted by external elements they could not influence or control and that needed to be better addressed by the international financial architecture.

59. One panellist noted that poor quality data, such as the lack of information on public revenues at the national and municipal level, was one reason prompting low ratings; as data provision improved, ratings could rise. One regional group and one delegate said that harmonizing approaches could help bridge the current disconnect by which the unique characteristics of countries were overlooked. Another regional group said that concrete steps included periodic review of data, engaging with investors and senior government officials from ministries of finance and others and enabling a feedback loop or channel between Governments and credit rating agencies, while one delegate added the sharing of information gathered by investors undertaking independent research. Another panellist said that that could include investor relations units, a public investment agency that considered all projects and debt sources and having a public investment plan. One participant noted that most of the information used by credit rating agencies was already publicly available and not bespoke. Another delegate said that requests for further information could continue even after more information was provided. Another delegate said that one important discussion included how disclosure of climate risks impacted on credit ratings. One panellist noted the disconnect between the time horizon of credit rating agencies (typically one to three years) and the more than 15 years needed for climate and resilience policies to take effect.

III. Organizational matters

A. Election of officers

(Agenda item 1)

60. At its opening plenary meeting, on 25 November 2024, the Intergovernmental Group of Experts on Financing for Development elected Ms. Julia Imene-Chanduru (Namibia) as its Chair and Mr. Oike Atsuyuki (Japan) as its Vice-Chair-cum-Rapporteur.

B. Adoption of the agenda and organization of work

(Agenda item 2)

61. Also at its opening plenary meeting, on 25 November 2024, the Intergovernmental Group of Experts adopted the provisional agenda, as contained in document TD/B/EFD/8/1. The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Financing for development: Addressing the cost of development finance to achieve the Sustainable Development Goals

4. Provisional agenda of the ninth session of the Intergovernmental Group of Experts on Financing for Development

5. Adoption of the report of the Intergovernmental Group of Experts on Financing for Development on its eighth session.

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

(Agenda item 5)

62. At its closing plenary meeting, on 27 November 2024, the Intergovernmental Group of Experts on Financing for Development authorized the Vice-Chair-cum-Rapporteur, under the authority of the Chair, to finalize the report on its eighth session after the conclusion of the session.

Annex

Attendance*

1. Representatives of the following States members of the Conference attended the session:

Albania
Angola
Argentina
Bahamas
Bangladesh
Barbados
Belgium
Bhutan
Bolivia (Plurinational State of)
Botswana
Brazil
Cabo Verde
Cambodia
Congo
Côte d’Ivoire
Democratic Republic of the Congo
Djibouti
Egypt
Eswatini
Ethiopia
France
Gabon
Gambia
Greece
Guatemala
Haiti
Holy See
Honduras
Hungary
Indonesia
Iran (Islamic Republic of)
Iraq
Jamaica
Japan
Kenya
Lebanon
Libya
Luxembourg
Malaysia
Maldives
Mexico
Morocco
Mozambique
Namibia
Niger
Pakistan
Panama
Peru
Philippines
Portugal
Russian Federation
Seychelles
Slovakia
Spain
Sri Lanka
State of Palestine
Sudan
Syrian Arab Republic
Thailand
Togo
Trinidad and Tobago
Tunisia
Türkiye
United Arab Emirates
United States of America
Venezuela (Bolivarian Republic of)
Viet Nam
Yemen
Zambia
Zimbabwe

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

African Development Bank
African Union
Common Fund for Commodities
European Union
League of Arab States

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

Department of Economic and Social Affairs
Economic and Social Commission for Asia and the Pacific
Economic and Social Commission for Western Asia

* This attendance list contains registered participants. For the list of participants, see TD/B/EFD/8/INF.1.

Office of the United Nations High Commissioner for Human Rights
United Nations Environment Programme
United Nations University

4. The following specialized agencies and related organizations were represented at the session:

International Bank for Reconstruction and Development
International Telecommunication Union
World Bank Group

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

General category

Global Traders Conference
Society for International Development