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

Held at the Palais des Nations, Geneva, from 1 to 3 November 2023



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Introduction

The seventh session of the Intergovernmental Group of Experts on Financing for Development was held at the Palais des Nations in Geneva from 1 to 3 November 2023.

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

A. Delivering development finance to achieve the 2030 Agenda for Sustainable Development: Making development finance contribute to environmentally sound industrialization

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 called 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 revenue collection,

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

1. *Notes with concern* that, at the midpoint of the 2030 Agenda for Sustainable Development, progress on the Sustainable Development Goals remains behind schedule, that cascading global crises, namely, the pandemic, geopolitical tensions and conflicts, rising debt, a deepening climate crisis and biodiversity loss, food crisis and the cost-of-living crisis, mean that countries are facing difficult policy choices, and that as many as 3.3 billion people live in countries that spend more on debt servicing than on health or education;

2. *Notes with concern* that the world is facing a climate catastrophe and biodiversity loss, and the window to avert them and meet the Paris Agreement goals is rapidly closing; in this context, inclusive and sustainable industrial development is a key element of an effective climate change strategy that leads to a climate-resilient development;

3. *Reiterates* that public policies and the mobilization and effective use of domestic resources, underscored by the principles of national ownership, are central to our common pursuit of sustainable development, including achieving the Sustainable Development Goals, and at the same time reiterates that international public finance plays an important role in complementing the efforts of countries to mobilize public resources domestically;

4. *Encourages* the development, dissemination and diffusion and transfer of environmentally sound technologies to developing countries on favourable terms, including on concessional and preferential terms, as mutually agreed;

5. *Recognizes* that adopting investment standards based on environmental, social and governance-related criteria and sustainable business models can contribute to the process of diversification towards inclusive and sustainable industrial development in developing countries and, in this regard, welcomes the United Nations Global Compact that attests to companies' adherence to sustainability standards and the Finance Initiative of the United Nations Environment Programme that has facilitated the increase in reported environmental, social and governance-related investment;

6. *Welcomes* the recent landmark agreements concluded under the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative, while emphasizing the need to further strengthen the Common Framework to ensure its implementation in a predictable, timely, orderly and coordinated manner, including to increase the fiscal space of countries in debt distress, thus helping them to achieve the 2030 Agenda and support inclusive and sustainable industrial development and, in that regard, calls upon all Paris Club and Group of 20 creditors to adopt guidelines to ensure timely debt restructuring, and encourages greater private-sector participation through more clarity in assessing comparability of treatment;

7. *Reiterates* the need for strengthened international cooperation to explore the full range of policy tools to overcome impediments to private investment for sustainable development and, in this regard, the sharing of experiences relating to innovative financial instruments, such as the issuance of Sustainable Development Goals bonds, is welcome;

8. *Acknowledges* that universal access to affordable, reliable, sustainable and modern energy for all is an integral part of poverty eradication and the achievement of the 2030 Agenda;

9. *Supports* multilateral development banks' inclusive reform efforts, and calls for continued tangible progress in this regard, including by securing increases to grants and concessional finance, and better leveraging their capital bases and considering ways for the respective boards of multilateral development banks to increase their capitalization and to enhance the representation and the voice of developing countries in the decision-making process;

10. *Notes* that there is more potential for concessional finance, blended finance, local currency financing/lending and guarantees to scale up financing for the Sustainable Development Goals;

11. *Notes* the importance of boosting private sector investment for the 2030 Agenda, and of related domestic policies, as well as of a transparent, stable, predictable and enabling investment climate to enhance such investment flows;

12. *Recognizes* the potential, and encourages enhanced support, of microenterprises and small and medium-sized enterprises in the creation of sustainable and inclusive jobs, as well as promoting sustainable development, especially in developing countries;

13. *Recognizes* the importance of special drawing rights as one of the key mechanisms in contributing to the Sustainable Development Goals, welcomes the achievement of the \$100 billion target through the voluntary channelling of special drawing rights or equivalent contributions, recommends the exploration of further voluntary options related to special drawing rights that could serve the needs of developing countries of the International Monetary Fund, and calls on countries able to do so to work on further special drawing rights rechanneling mechanisms, including through multilateral development banks to leverage special drawing rights in a highly productive way to finance sustainable development in developing countries, while respecting relevant legal frameworks and the need to preserve the reserve asset character and status of special drawing rights;

14. *Highlights* that climate financial intermediary funds provide most multilateral grants and other concessional finance for climate while noting that volumes remain low compared with investment needs and, in this regard, recommends that the exploration of innovative ways to expand the grants and concessional finance disbursed to developing countries to meet the challenges of climate adaptation and mitigation continue, and also

reiterates the need to ensure that climate finance does not lead to an unsustainable debt for recipient countries;

15. *Reiterates* that providers of official development assistance need to meet their respective commitments, finance at concessional terms and on long-term maturities is best suited for development and climate finance and official development assistance averages only half the United Nations target of 0.7 per cent of donor country gross national income, and notes that official development assistance reached its highest level in 2022 during the unprecedented multiple crises;

16. *Welcomes* the establishment of loss and damage funding arrangements and a fund to assist particularly vulnerable countries in responding to loss and damage, as agreed at the twenty-seventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change in Egypt;

17. *Reiterates* that climate-contingent clauses already being introduced by some creditors, as well as debt-for-climate, debt-for-nature swaps and other innovative finance instruments, could contribute to developing countries addressing climate and debt-related challenges;

18. *Highlights* that forests are essential to sustainable economic development and the maintenance of all forms of life, efforts should be made to promote a supportive international economic climate conducive to sustainable management of forests in all countries, with the promotion of sustainable production and consumption, and all sources of funding will need to be tapped into in order to accelerate sustainable use, protection, restoration and conservation of forests, which may improve value added and market access;

19. *Acknowledges* the role of just energy transition partnerships that are new platforms aimed at accelerating investment in renewable and clean energies of economies;

20. *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
3 November 2023*

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

Delivering development finance to achieve the 2030 Agenda for Sustainable Development: Making development finance contribute to environmentally sound industrialization

1. At its closing plenary meeting, on 3 November 2023, the Intergovernmental Group of Experts on Financing for Development adopted a set of agreed policy recommendations (chapter I, section A).

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

2. Also at its closing plenary meeting, on 3 November 2023, the Intergovernmental Group of Experts decided that, as time constraints had not allowed for finalization and selection of the topic and guiding questions for its next session, regional coordinators and member States were encouraged to conduct consultations on proposals, with a view to reaching an agreement on the topic and guiding questions. Once informal agreement had been reached, the topic and guiding questions would be submitted to the Trade and Development Board for approval, together with the provisional agenda of the eighth session, which would reflect the agreed topic.

II. Chair's summary

Delivering development finance to achieve the 2030 Agenda for Sustainable Development: Making development finance contribute to environmentally sound industrialization

(Agenda item 3)

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

Opening plenary discussion

Opening statements

4. In his opening statement, the Chair of the session said that progress on the Sustainable Development Goals had slowed down or, in some cases, been reversed in the face of cascading and compounding global crises. The global stocktake to assess progress on achieving the Paris Agreement goals would reveal how critical the moment was for developing countries. In addition, the global economy was stalling, with growth projections for 2023 hovering at around 2.4 to 2.9 per cent, compared to 2022. Global growth had not recovered to pre-pandemic rates and remained uneven across regions. Downside risks for 2024 included rising interest rates, weakening currencies, slowing export growth and unsustainable debt burdens, which were all squeezing the fiscal space that developing countries needed to achieve the Goals.

5. Thus, the topic of the current session of the Intergovernmental Group of Experts on Financing for Development was timely. Environmentally sound industrialization was a precondition to achieving sustainable development as encapsulated in the 2030 Agenda for Sustainable Development and required context analysis, not only the scaling up of traditional forms of development finance. It called for a reconsideration of a wide spectrum of financial instruments, and institutional flexibilities and voluntary commitments, as well as, for example, the rechannelling of unused special drawing rights.

6. He shared elements of his country's plan for a green transition. Renewable sources accounted for almost 48 per cent of the country's total energy mix, and 92 per cent of electricity came from renewable sources. The Government's renewed efforts to curb deforestation saw a 50 per cent drop in deforestation in the Amazon, from January to September 2023, compared to the same period in 2022. Thus, public policies could result in changes relatively quickly. The Government recognized the challenges and opportunities of fulfilling the Paris Agreement commitment to a net-zero economy. Decarbonization and diversification away from fossil fuels were a challenge, as well as an opportunity for creating jobs, raising income and improving the lives of the population. The approach to meeting those objectives would be through greener infrastructure, sustainable agriculture, reforestation, the circular economy, increased use of technology in productive processes and climate adaptation. The transition towards a greener economy and the energy transition were opportunities for a new type of reindustrialization, including in many developing countries.

7. In terms of how to finance the green transition, his country's development bank was a key source of climate finance and provided concessional lending with longer maturity and at a lower cost compared to private banks. The intention was to reinforce the approach in the areas of climate mitigation and sustainable development. His country would probably also tap the international capital market to complement domestic finance sources. In taking over the presidency of the Group of 20 on 1 December 2023, his country was committed to sharing those experiences and helping other countries to carry out green transitions, while resisting a total "climatization" of development finance. Concluding, he said that the Bridgetown Covenant stressed the need for transformation of development finance to overcome obstacles to achieving the Sustainable Development Goals and recalled the

mandate of UNCTAD, since its inception in 1964, to promote effective, affordable and adequate development finance.

8. The Deputy Secretary-General of UNCTAD said that consideration needed to be given to how industrialization strategies that integrated development and climate challenges could be financed through international, regional and national measures, as envisaged in the Addis Ababa Action Agenda. At the high-level political forum on sustainable development, held under the auspices of the General Assembly in September 2023, global leaders adopted a political declaration that affirmed their commitment to steer the world towards the 2030 Agenda, striving for sustainable development and shared prosperity for all. In the resulting General Assembly resolution,¹ they welcomed the efforts of the United Nations Secretary-General to address the financing gap for the Sustainable Development Goals, through the stimulus programme, and to tackle the high cost of debt and rising risks of debt distress.

9. Furthermore, the General Assembly underscored the urgency of the situation, in the light of the growing and daunting challenges faced by developing countries, and the need to directly confront current global economic, political and climate challenges. Many developing countries were at high risk of or in debt distress. Repaying debt diverted resources away from pressing development needs and climate action. A key element of an effective strategy that fostered climate-resilient development was to unlock the potential of green finance to propel the transition towards inclusive and sustainable industrial development. A green industrial policy agenda, with careful policy planning and adapted to local economic, political and social contexts, was needed. Green industrial policies had to be aligned with strategies of Governments, private sector entities and financial institutions to ensure that sustainable projects received investments to thrive. The topic of the seventh session of the Intergovernmental Group of Experts on Financing for Development acknowledged the importance of those themes, while the guiding questions reflected the need for policies, initiatives and instruments at domestic, regional and international levels, as well as technology transfer, and for international cooperation to support the necessary measures.

10. He stressed that sustainable business models would be crucial for a massive scaling up to address the financing gap for the Sustainable Development Goals, and skills would be needed to implement and manage sustainable practices. Just transitions depended on involving all stakeholders, particularly local communities. Participants at the session would explore innovative financial solutions with better designs, guarantees and outcomes. A common set of sustainability metrics was needed to facilitate meaningful comparisons and benchmarking. Transparency and standardized environmental and social impact reporting could be used to enhance trust among investors and consumers.

11. He noted that environmentally sound industrialization would require significantly more public development finance. Developing countries had limited access to affordable development finance, which hindered their capacity to invest in climate action and green structural transformation. Thus, international cooperation was vital to overcome constraints.

Keynote addresses

12. The first keynote speaker said that the world was currently faltering in the implementation of the 2030 Agenda for Sustainable Development and that progress towards the Sustainable Development Goals had been interrupted by the polycrisis of the pandemic, food and energy inflation and tightening global financial conditions. The consequences of those crises had been particularly detrimental for developing countries, where the gap for reaching the Goals had increased. She pointed out that the great divergence between progress in developed countries and progress in developing countries carried multiple risks, including growing inequalities between countries. She also highlighted that the absence of a global sovereign debt resolution framework had aggravated the financing challenges facing countries, which was a key factor in the deviation from the path towards achieving the Goals.

¹ A/RES/78/1.

13. The second keynote speaker outlined the priorities of Brazil as the Government prepared to take over the presidency of the Group of 20 on 1 December 2023. Among the priorities, the issue of inequality was paramount, with a need for a structural understanding of the root causes of inequality and its interaction with multiple crises. She set out the three priority areas: social inclusion, sustainable development and the reform of global governance institutions. She stressed that, for developing countries, the challenge of the green transition could not be framed narrowly as decarbonization and should include the fight against poverty, inequality and hunger. Finally, she outlined five key challenges to financing the sustainable development agenda: the shortfall in the meeting of financing commitments made by the advanced economies; the understanding that climate finance needed to be new and additional to development finance; the manner in which market solutions were presented as silver bullets; the successful mobilization of domestic resources; and the inadequacy of the current international financial system for supporting developing countries in attaining climate and development objectives.

14. The third keynote speaker presented a four-point systemic action plan that sought to reflect the essence of the current version of the Bridgetown Initiative. The four points were: (a) recognizing that the international financial system was prone to shocks and needed more shock-absorbing facilities, such as the more frequent issuing and greater rechannelling of special drawing rights, as well as the introduction of “pause” clauses in all debt instruments by which interest and principal repayments were suspended temporarily in the event of a shock; (b) unblocking the flow of private capital using guarantees to lower the cost of capital and reduce hedging costs; (c) tripling the size of multilateral development banks so that the expanded lending capacity could be focused on building resilience in developing countries; and (d) grant-based money for a loss and damage fund.

15. The final keynote speaker provided updates on discussions of member States on financing climate and sustainable development. He cited two reports that estimated the global financing gap for climate and development finance to be at \$5.3 trillion per year, of which \$2.4 trillion were needed for the climate action agenda. Furthermore, \$1.4 trillion was to come from domestic source mobilization and \$1 trillion from external sources, such as from multilateral development banks, contributions from the private sector and other concessional finance. However, domestic mobilization of \$1.4 trillion for climate action would be particularly difficult given the debt and debt service challenges currently faced by many developing countries. He called on better action to relieve debt pressures on those countries, including the utilization of debt swaps and climate swaps. He also highlighted the overdependence on external debt instruments to fill the financing gap, which was not sustainable, and the need for more private equity participation, grants, concessional finance and better domestic resource mobilization. Finally, he pointed to the growing adoption of industrial policy in advanced economies and their negative spillover effects on developing and emerging countries.

16. The Director of the UNCTAD Division on Globalization and Development Strategies presented the background note (TD/B/EFD/7/2) for the seventh session of the Intergovernmental Group of Experts on Financing for Development. He stressed that the international financial system delivered a fraction of the financial resources (both public and private) required to meet the climate and development and goals to which the international community had committed itself. Because of the financing gap, developing countries were constrained by the need to address the economic, social and environmental challenges in an increasingly difficult global environment, with slow and stalling economic growth. He noted that, since the global financial crisis of 2008, the levels of investment across the global economy had either stalled or gone backwards, making achievement of the 2030 Agenda unattainable without a significant rise in investment levels. On the one hand, advanced economies were highly carbon-indebted to developing countries, while, on the other, developing countries were highly indebted financially to advanced economies. As long as those imbalances were unresolved, they would continue to limit climate-resilient and sustainable development.

Discussion

17. The representative of one regional group and some delegates stressed that the world was significantly behind schedule on the 2030 Agenda, with high borrowing costs for developing countries greatly complicating progress on achieving the Sustainable Development Goals. Some regional groups and another delegate pointed to the mounting debt burdens of developing countries that posed considerable barriers to the pursuit of sustainable development objectives. The task of repaying those debts diverted resources away from pressing development and climate needs. In that context, they stressed the need to intensify efforts to provide meaningful solutions to lift the debt burden for developing countries, particularly with regard to debt relief measures. Another delegate also noted that future climate investments should not be financed by incurring debt. Several delegates underscored the need for a permanent international framework for sovereign debt restructuring.

18. Some regional groups and many delegates expressed support for the reallocation of special drawing rights to serve as a key mechanism for financing sustainable development and climate adaptation efforts.

19. Some regional groups and several delegates stressed the importance of continuing to maintain the principle of common but differentiated responsibilities to ensure that the most vulnerable nations received the support they required and that no one was left behind, in accordance with the commitments of the 2030 Agenda. Similarly, some regional groups and delegates called on advanced economies to meet their commitments with regard to official development assistance and climate finance goals, while also stressing the need for increased global cooperation on international taxation. Furthermore, one regional group and some delegates highlighted the need to accelerate the transfer of environmentally sound technologies to developing countries on favourable terms.

20. The representative of another regional group commended UNCTAD work and recommendations on financing for development, while stressing the need for UNCTAD to help developing countries to achieve and implement those recommendations. He requested that, in future efforts, UNCTAD provide practical and concrete guidance to turn ideas to action on making development finance contribute to environmentally sound industrialization.

21. Another regional group and one delegate highlighted that the UNCTAD *World Investment Report 2023* was a reminder of the important role played by private investment in bridging the financing gap for the Sustainable Development Goals, which was estimated to be \$5 trillion. The European Union, for instance, had developed a sustainable finance framework to channel private capital towards achieving the Goals, leveraging several instruments, such as the European Union taxonomy for sustainable activities, to mobilize private capital towards sustainable projects and support businesses and the financial sector in their green transition, while addressing the risk of “Sustainable Development Goal-washing”.

Challenges and solutions for mobilizing finance to contribute to environmentally sound industrialization

22. During a three-member panel discussion, one panellist presented the status of development finance at the Brazilian Development Bank, starting with a historical overview and its functions. Since economy of Brazil was characterized by high real interest rates, the bank had an important role in mitigating volatility. It was also the only bank in the country that provided long-term loans in domestic currency to local corporations and businesses, from capital drawn from international markets (with the bank assuming the foreign currency risk). While lending rates were not concessional, the long-term nature of loans and hedging represented an attractive offer. He highlighted the role of the central bank of Brazil, which had accumulated international reserves in order to mitigate exchange rate fluctuations. The central bank’s role in managing foreign exchange rates had allowed it to avoid a major exchange rate shock in the country for the last two decades. He called for developed economies to fulfil their climate finance pledges.

23. Another panellist highlighted the current business environment faced by multinational companies, as well as by small and medium-sized enterprises. The private sector was facing a challenging global environment, in which inflationary pressures in developing countries were slowly decelerating, with stability expected by 2025. Thus, green industrialization remained a distant target because of the increasing costs of doing business. Contrary to some critics, green investment was currently a necessity for banks, which were taking it more seriously (with less and less greenwashing). Blended finance could achieve scale only with the private sector. Governments should take steps to make the financing environment more favourable.

24. She added that confidence in the legal framework for securing investment was needed, by making the legal framework clear, transparent and consistent. With the right framework in place and some extra support from export credit agencies, private financing could be unlocked. Currently, there was no clear and consistent definition of environmental, social and governance requirements. In that context, the International Chamber of Commerce was building the first ever framework to allow companies to measure the sustainability profile of trade transactions.

25. Also, 75 per cent of world trade relied on World Trade Organization rules, which provided the certainty and predictability needed to trade. But measures inconsistent with those rules were eroding the system. World Trade Organization members should revive negotiations relating to rules and disciplines on trade and environmental sustainability.

26. Finally, she highlighted the importance of investing in skilling workers to align policies with economic incentives towards environmentally sound industrialization.

27. The third panellist discussed the case of China and challenge of achieving sustainable economic growth. He noted the importance of capacity-building and vocational training, as well as of improving scientific and technological progress without increasing inequalities. He also highlighted the role of South–South cooperation in relation to learning from the experiences of other developing countries.

28. During the subsequent discussion, one regional group and some delegates recognized the necessity of a reform of the global financial architecture to ensure access to finance to developing countries. They noted the importance of financing for developing countries, in particular through multilateral development banks with conditions favourable to achieving the Sustainable Development Goals. In response, one panellist recalled the pivotal role of domestic finance and national development institutions, not only for financing but also as a way to develop expertise, collaborate with international institutions and increase savings in domestic currency.

29. Responding to another delegate, some panellists discussed how national development banks had a greater role to play in development, in addition the role of national central banks within the international system. They noted that there was space for cooperation; multilateral development banks could focus on currency risks, whereas national development banks could focus on domestic project selection by minimizing greenwashing and social washing risks.

30. Another delegate raised the issue of inclusivity. He noted that World Trade Organization discussions were not fully inclusive as not all United Nations Member States were represented. One panellist discussed inequality and how the fight to decrease emissions needed to be aligned with social measures to avoid inequalities when implementing green development. Another delegate and panellist both stressed the importance of balance between the economic, environmental and social transition and their multifaceted impacts. One regional group, one delegate and some panellists discussed predictable environmental standards and rules as a way to ensure accountability and transparency in green investments. One panellist said that the current “explosion” of regulation and standards was unrealistic; a consistent, predictable policy framework was necessary.

31. Another panellist explained that maintaining a stock of reserves was the only, though second best, way to hedge exchange rate risks in an environment where free capital mobility had already been allowed. There was no way to re-enact capital controls. Hedging could be used to reduce volatility, although not to change the trend of exchanges rates and, thus, it was possible to mobilize domestic finance for development.

32. Finally, some panellists said that cooperation was the common element of a way forward towards the achievement of a just transition.

Best practices and policies for supporting sustainable business models and their related challenges in mobilising finance for sustainable transformation

33. During a four-member panel discussion, one panellist emphasized that discussing how to finance the just transition at the national, regional and global levels should begin with referencing the global estimates required to achieve the Sustainable Development Goals. He highlighted the UNCTAD *World Investment Report 2014*, which estimated \$2.5 trillion a year for developing countries, and the 2023 report of the High-Level Advisory Board on Effective Multilateralism, which projected a financing gap of between \$3.9 trillion and \$5 trillion a year. He underscored the unequal flow of financial resources favouring the global North, the prevalence of greenwashing and substantial investments in fossil fuel assets. He addressed unequal exchange, capital flight, cost of capital and the low priority for climate finance in Africa, while commending South Africa as the first country to include the just transition, covering decarbonization, social mitigation and green industrial transformation, in its nationally determined contribution.

34. He said that the two dominant approaches (market-centred and Keynesian) were deemed inadequate to bridge the financing gap, given the shift in power from States to the market. A proposed third approach, called the “monetary architecture” approach, focused on the credit-based dollar financial ecosystem. The approach mapped the monetary landscape to identify balance sheet combinations that could be expanded to generate catalytic capital required for financing the green transformation. Catalytic capital sources should include multilateral development banks, development financial institutions, shadow banks, pension funds and sovereign wealth funds.

35. Another panellist discussed supporting sustainable business models. She highlighted the “missing middle” as a key oversight in realizing the Addis Ababa Action Agenda, underscoring the lack of support for small and medium-sized enterprises in the least developed countries. Small and medium-sized enterprises were the engine of every national economy and continued lacking proper support mechanisms, particularly in the least developed countries where they were too often considered as a risk to be avoided, rather than an opportunity for sustainable jobs and development. Similarly, entrepreneurs of such enterprises, many of them women, had not received an adequate level of support. She called for establishing a dedicated “track” for sustainable and growth-oriented small and medium-sized enterprises at the next International Conference on Financing for Development. She stressed that, while innovative and sustainability-related financing solutions, such as blended finance, sustainability bonds and environmental, social and governance investing were growing in volume, they were not prioritizing countries with larger financing needs and greater impact potential. Small and medium-sized enterprises in countries that were creating a sustainable environmental and social impact and were committed to the principles of good governance should be the focus of support. She also underlined that inconsistent regulatory frameworks and their dysfunctionality were even larger obstacles for the growth of small and medium-sized enterprises than the absence of sustainable financing.

36. Another panellist stressed the need for innovative solutions to address the widening financing gap for climate action due to worsening global macroeconomic conditions. He highlighted that private sources of capital were overestimating risks in investing in developing countries. He emphasized the importance of a holistic agenda for green industrialization, including food security, biodiversity protection and climate adaptation.

37. Another panellist proposed that developing countries should assess transition-related financial implications before establishing or revising their national targets. He suggested

developing a diverse toolbox of financing tools beyond bonds, considering sovereign debt burdens and other development imperatives. He also discussed the financing of climate-resilient development in Malaysia, emphasizing the need for \$338 billion in climate transition investments and suggested that various financing options, such as registration with the Green Climate Fund, domestic bonds, sovereign wealth funds, concessional finance, offshore bonds and hybrid approaches, be considered.

38. During the ensuing discussion, one regional group acknowledged the importance of adopting sustainable business models with the involvement of local communities and of building local capacity through investing in education and increasing workforce skills. One delegate underlined that transition to a green economy was compatible with growth, industrialization and combating poverty, but each country should have the liberty to make its own choices. Another delegate noted that developing countries were partners in green development, despite financial and human constraints. Another delegate stressed the relevance of having environmental, social and governance standards. Another delegate stressed that environmentally sound industrialization would not happen without international cooperation and mobilization of concessional finance.

Lessons from innovative financial instruments and initiatives: Designing debt-swaps and galvanising funds for sustainable outcomes

39. During a six-member panel discussion, one panellist discussed the involvement and commitment of France to support developing countries in finding innovative solutions to finance green transformation. The country hosted the Paris summit in June 2023 to discuss how to leverage all sources of finance, including official development assistance, domestic resources and private investment, to foster the green transition. The summit identified four guiding principles to help to achieve the objective: no country should have to choose between fighting poverty and fighting for the planet; facing different needs, countries might need to pursue diverse transition paths while coming together to meet the goals of the Paris Agreement; a financial stimulus was needed with more resources to support vulnerable economies lifting their population out of poverty while protecting the planet; and meeting global challenges would depend on the scaling up of private capital flows to transform emerging and developing economies, for a net-zero and nature-positive world and to reduce inequalities more efficiently. He mentioned biodiversity credits as another innovative financial instrument to boost private investments.

40. Some panellists examined the case studies of Barbados, Cabo Verde and Ecuador. In Barbados, the Inter-American Development Bank financed the first sovereign sustainability linked loan, at a total of \$150 million. The funds were used to create marine protected areas and strengthen marine spatial planning. Ecuador was currently the country that benefited from the largest loan linked to sustainability: \$659 million for the reclassification of a particular part of the Galapagos. Finally, they presented the case of Cabo Verde. Cabo Verde had a debt-to-gross domestic product ratio of 120 per cent and did not have the budgetary space necessary to mobilize financing on a large scale. The country therefore engaged in finding innovative solutions to mobilize financial resources at low cost, in particular by attracting private investments (national and foreign) in the form public-private partnerships or mixed financing (blended finance). In that context, and as part of the strong relationship and cooperation with Portugal, Cabo Verde benefited from being able to exchange part of its public debt with Portugal for investments in low-carbon projects to improve water and energy efficiency. The total investment portfolio for those projects amounted to around €12 million.

41. Furthermore, they noted that the lessons learned from those experiences included: the central role of multilateral development banks as a catalyst; the importance of cross-ministry workstreams; and the relevance of financial and non-financial partnerships and of technical cooperation (for example, the Clean Technology Fund and debt management capacities).

42. In discussing the cases, several panellists also recognized that debt swaps could be a useful instrument when the objective of the swaps was to free up resources and to provide fiscal support for countries in order to achieve a climate or conservation agenda. However, currently, debt swaps remained a niche instrument and the scale of transactions involved

was relatively small compared to the total amount of debt in developing countries. For example, the debt swap of Ecuador accounted for only 1 per cent of its total debt. In addition, debt for climate and nature swaps could involve relatively high transaction costs when there were many parties involved and high monitoring costs. That made it difficult to scale up debt swaps as an instrument to help countries finance climate-ambitious objectives.

43. Some panellists said that, if the objective was to solve a country's unsustainable debt problem, then debt swaps might not represent the best instrument to achieve it. There were alternative instruments that could be more useful, for example, grants, concessional lending or a comprehensive restructuring of debt. Additional challenges related to nature of climate debt swaps included donors' conditionality and greenwashing or bluewashing, which referred to the practice of systematically overstating commitments to responsible social practices related to green and (respectively) blue sectors in order to participate to swap programmes. As a mechanism to mobilize investment into green projects, as was the case for Cabo Verde, debt for climate swaps might be a useful option.

44. One panellist suggested that debt funded projects should have a high domestic content in order to maximize the impact on the national economy. In order free up fiscal space, all panellists highlighted the issue of debt transparency and good allocation and management of scarce financial resources.

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

45. A six-member panel acknowledged the cascading crises affecting the world, that countries were behind schedule to achieve the Sustainable Development Goals and that stronger global cooperation was needed. They also underlined the need for a clearer multilateral debt restructuring mechanism and an increase in concessional lending.

46. One panellist explained how the financial gap between developed and developing countries was a complex issue, entailing multiple risks and interdependencies that needed to be considered to address climate change. She noted that it was not a matter of choosing between addressing sustainable development or addressing climate change and that climate challenges could not be tackled if debt issues were not addressed. In addition, while unilateral measures did not help, she called for a new Bretton Woods moment to restructure the global financial architecture and World Trade Organization processes, for global tax cooperation and for a sovereign debt restructuring mechanism.

47. Another panellist highlighted the need to integrate financial support with inclusive social policies. Current official development assistance was insufficient, and multilateral action was required to address issues such as tax harmonization, illicit funds and debt restructuring. He noted how development finance was not just about liquidity transfer but more importantly about empowering institutions with know-how and technology transfers. The private sector could be responsive even when the State was absent, as companies could not be successful in failed States. He mentioned the Global Gateway of the European Union, which combined the development agencies of France, Germany, Italy and Spain.

48. Another panellist said that an additional \$1.2 trillion were needed annually in Africa to achieve the Sustainable Development Goals. She emphasized that multilateral development banks needed to be doing more. The African Development Bank needed to increase the capital base and bring the private sector, which had shown little appetite for the matter, to the table. Thus, there was a need to understand better the barriers to risk taking. Multilateral development banks were showing leadership in green conditionalities on loans, but they needed to increase their lending capacity, using hybrid capital, and develop new asset classes.

49. Another panellist discussed aspects of concessional and blended financing and detailed specific projects with least developed countries and small island developing States at the Green Climate Fund. He stressed the importance of engaging the private sector to fulfil the objectives of the Paris Agreement and the 2030 Agenda and highlighted that developing countries needed to develop strategies for leveraging private sector capital on a significant scale. He asserted that countries could attract climate investments from the estimated \$426 trillion held by private investors and institutions if they could generate

risk-adjusted returns. Examples included the Blue Green Bank in Barbados, where the Green Climate Fund had invested half of the initial \$30.5 million in capital, the Gaia technical assistance project in 19 countries for adaptation, mitigation and biodiversity and the unrated countries guarantee fund for adaptation and water.

50. The next panellist emphasized the role of industrial policy in achieving green industrialization, using Pakistan as a case study. He underlined the significance of ecofriendly manufacturing processes in addressing various forms of pollution. He emphasized the need for countries to build the capacity to develop and implement government regulations that promoted green industrialization. He advocated for a new financing framework, suggesting that a loss and damage fund should address the damage from 20–25 years of detrimental industrial policies. He added that South–South cooperation could focus on modernizing manufacturing and technology transfer, while improved management of State-owned enterprises could unlock additional domestic resources.

51. The last panellist presented a country case study on India, focusing on the country's nationally determined contributions for emissions reduction, with 70 per cent of emissions coming from three sectors: electricity production, industry and road transport. He emphasized that finance could not operate in isolation and stressed the importance of combining policies with effective regulation, including reporting requirements, implementation and enforcement. One example he examined was the adoption of green hydrogen, which not only involved a shift to green hydrogen but also early consideration of manufacturing and supply chain localization and potential export market considerations. While hard assets such as infrastructure had been debt financed from domestic sources, he noted that domestic and international carbon markets might be an additional source of finance. In India, multilateral development banks and other banks could complement other sources of financing by creating the right conditions to attract private capital.

52. Several delegates agreed that the main challenge to achieving the Sustainable Development Goals was an inadequate global financial architecture, widespread inequality and excessive debt burden. Several other delegates pointed out that all of the Goals needed to be achieved, not only climate related ones: poverty, health and education are important targets. One panellist agreed that reform of the international financial architecture was at the crux of the problem and that multilateral development banks needed to enhance their capacity to meet countries' climate and sustainable development financing needs without compromising their AAA ratings.

53. On the role of trade agreements, one delegate highlighted how free trade agreements included regulations that could help achieve better domestic standards if production was for export. Another delegate highlighted the need to distinguish philanthropy from derisking and that a useful plurilateral platform was provided in negotiating World Trade Organization investment rules.

54. In closing, one panellist concurred that regional integration had effectively spurred industrial development with minimal adjustment costs but acknowledged that those benefits were limited to participating countries. Another panellist emphasized the need to upgrade the role of multilateral development banks to ensure that countries had resources, at scale, through private sector mobilization. That approach should be accompanied by a conducive environment, an effective domestic resource strategy and development of domestic capital markets. Another panellist added that countries would need foreign capital to work in collaboration with domestic financial institutions or domestic financial markets. Lastly, another panellist noted that green industrialization would require holistic coordination of public policies in donor and recipient countries, which could be achieved through high-level political dialogues.

III. Organizational matters

A. Election of officers

(Agenda item 1)

55. At its opening plenary meeting, on 1 November 2023, the Intergovernmental Group of Experts on Financing for Development elected Mr. Guilherme de Aguiar Patriota (Brazil) as its Chair and Ms. Aurora Díaz-Rato Revuelta (Spain) as its Vice-Chair-cum-Rapporteur.

B. Adoption of the agenda and organization of work

(Agenda item 2)

56. Also at its opening plenary meeting, on 1 November 2023, the Intergovernmental Group of Experts adopted the provisional agenda, as contained in document TD/B/EFD/7/1. The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Delivering development finance to achieve the 2030 Agenda for Sustainable Development: Making development finance contribute to environmentally sound industrialization
4. Provisional agenda of the eighth 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 seventh session.

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

(Agenda item 5)

57. At its closing plenary meeting, on 3 November 2023, 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 seventh session after the conclusion of the session.

Annex

Attendance*

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

Algeria	Jamaica
Angola	Japan
Argentina	Kenya
Armenia	Kuwait
Bahamas	Malaysia
Bhutan	Mexico
Brazil	Morocco
Cabo Verde	Nepal
Cambodia	Nigeria
Cameroon	Pakistan
Chile	Philippines
Colombia	Russian Federation
Comoros	Saudi Arabia
Congo	South Africa
Costa Rica	Spain
Dominican Republic	Syrian Arab Republic
Ecuador	Thailand
Egypt	Togo
Ethiopia	Trinidad and Tobago
Fiji	Tunisia
Gabon	United Arab Emirates
Gambia	United States of America
India	Uruguay
Iran (Islamic Republic of)	Viet Nam
Iraq	Zambia

2. The following intergovernmental organizations were represented at the session:
 - African Development Bank
 - Economic Cooperation Organization
 - European Union
 - Inter-American Development Bank
 - Organization of Islamic Cooperation

3. The following United Nations organs, bodies and programmes were represented at the session:
 - Economic and Social Commission for Asia and the Pacific
 - Food and Agriculture Organization of the United Nations

4. The following specialized agencies and related organizations were represented at the session:
 - International Monetary Fund
 - World Bank Group
 - World Trade Organization

* This attendance list contains registered participants. For the list of participants, see TD/B/EFD/7/INF.1.

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

General category

European Network on Debt and Development

International Chamber of Commerce

International Network for Standardization of Higher Education Degrees

Society for International Development

Village Suisse ONG
