CIVIL SOCIETY FINANCING FOR DEVELOPMENT MECHANISM

2023 Financing for Development Forum

Session: *The 2030 Agenda Requires Critical Reforms in the International Financial Architecture*

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Achieving the Sustainable Development Goals by the 2030 timeline is under siege. Growing **evidence** points to how developing countries finance developed countries through illicit financial flows, in particular tax evasion and avoidance, debt repayments that are not being restructured due to the absence of a multilateral debt workout mechanism, asymmetrical trade rules, capital outflows due to the inability to regulate finance capital, high borrowing costs constructed by risk premia and spending foreign exchange reserves to defend currencies depreciating sharply due to monetary tightening in the US and EU in particular. And these are just a few examples out of many.

It is in this context of resource drain that the global narrative of the SDG financing gap is created, leading to the Secretary General's call for an **SDG Stimulus** to scale up affordable long-term financing by calling on the World Bank and other MDBs to massively expand lending and offer it on better terms. However, the World Bank's Evolution Roadmap reinforces a '**private turn'** in its financing approach. This means MDB lending, including concessional, is focused on **mobilizing and leveraging private capital** through 'the de-risking state,' in that the state absorbs private sector risks through means such as co-financing, loan guarantees, political risk insurance or public equity co-investments. Such an enabling environment for private investment involves deregulatory, normative and legal reforms, which can also include the creation of new financial products and tools to mitigate private risks.

The Evolution Roadmap highlights the imperative of incentivizing private investors through a pipeline of bankable projects and assets with green or sustainability credibility; where incentivizing entails a **transfer of risks** from the private sector and onto state and citizens. What about the plethora of **risks** to social equality, the resilience of public systems, climate justice, policy space for structural transformation, and state accountability to citizens? In the global zeal to tap into private financing to plug fiscal gaps, we need to ask: **Who and what is private finance benefitting? What is being undermined and ignored?**

The numerous **failures** of leveraging private finance to achieve the SDGs sets a cautionary precedent against deepening market creation at the expense of the public sector, including commodifying public services at the heart of the SDGs, such as health and education. **Financialization** deepens developing countries' exposure to international capital markets and its volatility. In the absence of a multilateral **debt** workout mechanism, incentivizing private finance introduces new creditors and new debt instruments that further compounds debt restructuring and resolution efforts. Meanwhile, **communities** are decentered as democratic and participatory policymaking is sabotaged when the government's accountability is directed toward the needs of private investors.

For private investment to channel funding in equitable ways, there must be ample space for **regulation** by the state over private actors. Examples of such regulation involve prioritizing national and local firms and investors through means such as joint venture arrangements, sharing or transferring technology, ensuring that a certain amount of inputs be locally sourced and for employees to be local, not foreign, and creating domestic facilities for research and development.

In the red hot urgency **of a global South debt crisis**, where total debt in the developing world stands at a 50-year high, over 60% of low-income countries are in debt distress and spend far more on servicing their debt as a proportion of gross national income than at any point in the past three decades, the **just and rights-based approach to SDG financing would be new, additional, debt-free and unconditional public grant financing**. Such financing was made available by rich countries during the pandemic's fiscal stimulus, as well as in recent and past bank bailouts, not to mention historical examples such as the Marshall Fund. It is not a matter of feasibility, it is a matter of political will and concern borne out of historical and current responsibility of the long legacy of colonialism, extraction and structural inequalities.

The SDG Stimulus includes rechanneling **Special Drawing Rights** through the MDBs. However, the developmental value of SDRs to finance SDGs lies exactly in its original identity of being a non debt creating and unconditional reserve asset. Even though its **quota-based distribution** led to over two-thirds of the $650 billion issuance in 2021 to go to developed economies that didn't need them, at least 99 developing countries used their SDRs for SDG-related health and welfare needs such as Covid vaccines and social protection financing. **The full potential of SDRs** to create financial resources for the SDGs requires decoupling SDR issuances from economic power and instead, allocating by economic need. If allocated by need, regular issuances of SDRs are a countercyclical boost toward a more resilient global financial safety net, which could also help prevent harmful currency depreciations in developing countries.

Systemic course corrections to make the IFA fit for purpose: Debt, tax and structural transformation

Debt servicing comprises approximately 25% of total government spending across all developing countries, and is twice the amount spent on education, 9.5 times more than health spending, and 13.5 times more than social protection. For a smaller group of countries reporting climate spending, debt servicing is 32 times as high as climate spending. As numerous developing countries default on their debt, with many more projected to default as interest rates continue to rise and debt stocks come due, and with the initiatives of the G20 and IMF failing or being temporary and insufficient, the urgency for systemic reform of the existing debt architecture is indisputable. As the Financing for Development forum this week has highlighted, a **rules-based multilateral debt workout mechanism under the auspices of the United Nations** is required. Such a mechanism could provide **fair**, **timely** and **comprehensive** debt treatment from all lenders - bilateral, multilateral and private - and for all countries according to their needs. A fair process also entails debt sustainability assessments that integrate gender equality, human rights, and climate-crisis-related commitments as well as the feedback loops between social equity and economic growth.

Over the years, research has demonstrated that developing countries have lost approximately $7.8 trillion due to tax evasion and avoidance carried out primarily by firms and investors in industrialized countries during the 10-year-period from 2004 to 2013.

There is a historic call by developing countries in the General Assembly for a **UN Tax Convention** to tackle **tax evasion and avoidance,** democratize the development of tax rules and create an inclusive and level playing field for all countries. This sea-change in tax governance could release critical scales of public revenues which developing countries could employ to achieving SDGs and redress inequalities, particularly gender inequality.

Perhaps the biggest elephant in the room is precisely that of **structural transformation**, the processes by which domestic production sectors are articulated through diversification, value chain upgrading, nurturing endogenous firms, and the active role of public development banks that provide patient capital. Achieving the SDGs requires transforming out of low-wage and low-value global value chains and commodity dependence, as only such transformation will deliver debt justice beyond cycles of debt distress. However, as the African Union representative noted in the FFD forum this week, "the international environment is not conducive enough to execute the structural transformation from net exporter of raw materials to diversification." Indeed, **Financing for Development** within the UN is a key arena that connects systemic inequalities to the right to development in global debt, financial, tax, and trade systems. After all, without such **systemic course corrections** in the international financial architecture, scaling up financing may be akin to pouring water down a sieve, in light of a financial system riddled with loopholes. To do this the world needs inclusive and democratic decision-making in the one **global institution** upholding universal multilateralism, self-determination and human rights for all peoples, and that is the UN.