Fourth International Conference on Financing for Development

India's Input Paper

Introduction

The Addis Ababa Action Agenda, adopted at the Third International Conference on Financing for Development in July 2015, set forth a global framework for mobilizing and aligning the financial resources with sustainable development to achieve the 2030 Agenda. Despite continuous efforts to significantly increase financing for sustainable development, an annual financing gap of USD 4 trillion is estimated to be required by 2030 to meet Sustainable Development Goals (SDGs). The financing costs are acute in developing countries, which face higher cost of capital and significantly more challenging access to capital. Additionally, debt distress, vulnerabilities to external and climate shocks, rising inequality, technology gap and lack of private sector investment exacerbate the problem.

The current international financial architecture falls short in mobilising sufficient long-term financing to address these challenges. This requires comprehensive reforms, including the modernization of global financial system, particularly Multilateral Development Banks (MDBs), increased capital infusion, innovative financing solutions, increased capacity building and strengthening of public-private partnerships to mobilize the necessary resources for sustainable development.

This paper outlines key aspects of these challenges and offer recommendations. It is a forward-looking, action-oriented document incorporating national, regional, and global perspectives.

Section-I: A Global Financing Framework: A Comprehensive Approach towards SDGs

The need for a Global Financing Framework is increasingly evident as the world faces complex, cross-cutting challenges that could slow down progress toward achieving the SDGs. Interconnected issues like climate change, debt vulnerabilities, inequality, and geopolitical situations are straining existing financial systems, making it harder to mobilize the resources needed for sustainable development. A Global Financing Framework would provide a cohesive strategy to streamline efforts by multilateral institutions, national governments, and the private sector, ensuring that resources are directed toward sustainable, inclusive, and resilient development.

Key Principles of a Global Financing Framework

1. **Triple Sustainability Approach:** The framework must address financing for development with a focus on economic, social, and environmental dimensions. Economic growth should promote inclusive development, while social protection and environmental sustainability remain at the core of financial decisions.

2. **Country-led and owned platforms:** Country-led platforms, recommended during India's G20 Presidency, allow each nation to account for its unique processes and realities when it comes to framing Country Financing Frameworks. These platforms should assess financing needs, develop resource mobilization strategies, and ensure the efficient implementation and review of progress, considering each nation's specific context and challenges. The UN Integrated National Financing Frameworks (INFFs) should be the cornerstone of this global effort.

3. **Strengthening International Cooperation**: A coordinated global effort is required to realign multilateral institutions and bilateral agencies to complement and catalyze priorities determined by country-led platforms. This will facilitate scaled-up investments in SDG priorities such as climate action, social protection, and industrialization, ensuring the better alignment of international support with national goals.

4. **Innovative Financing Mechanisms:** The framework must integrate innovative tools like blended finance, green bonds, and social impact bonds to attract private capital into sustainable projects. Public-private partnerships (PPPs) can play a critical role in leveraging private sector expertise and resources for development financing.

5. **Addressing Social Protection and Public Services:** The financing gaps in social protection and essential public services, particularly in least developed countries (LDCs), must be a priority.

6. **Supporting Sustainable Industrialization:** The financing framework should support developing countries in pursuing green and sustainable industrialization. This can be achieved by providing access to long-term concessional capital through Multilateral Development Banks (MDBs) and establishing dedicated facilities within international financial institutions that focus on financing green industrial transitions, in addition to fulfilling ODA commitments.

7. **Whole-of-Government and Multi stakeholder Engagement:** A financing framework requires collaboration among governments, the private sector, civil society, and international institutions. A "whole-of-government" approach, engaging capital providers, will ensure that country-specific priorities are addressed, and investments are aligned with national sustainable development strategies.

Section II: Action Areas

a) Domestic public resources

The effective mobilization and utilization of domestic public resources are crucial in the pursuit of SDGs. The developing countries have made notable progress in reforming the tax system by broadening the tax base and improving tax administration. Despite this progress, significant challenges remain, including **combating illicit financial flows, international tax cooperation, strengthening resource mobilization and enhancing the efficiency of public expenditure.**

Domestic tax and expenditure policies: A stable, predictable tax system is essential for fostering economic growth. Domestic tax policies should promote fairness and distributive justice while balancing the need to mobilize revenue against practical challenges. Ensuring progressivity in tax policy is important to advance the objectives of fairness and equity, however, the design of such policies should be left to national governments, based on the **principle of respect for tax sovereignty**.

To enhance the efficiency of public expenditure, the expenditure policies must adhere to the principles of **productive efficiency and optimal utilization** of available resources. Additionally, leveraging **technology** to ensure greater transparency and accountability in public financial management is essential.

A greater share of **expenditure** needs to be allocated to funding public goods and services such as health, education, infrastructure and ensuring social welfare in developing countries. However, a **'One-Size-Fits-All'** approach with uniform international targets may not be desirable as the form and requirement of social protection may vary across countries. Further, for **effective gender-responsive budgeting**, it is important to design appropriate interventions through schemes/programmes, ensuring that financial outlays are efficiently and effectively translated into the intended outcomes.

International tax cooperation: India advocates for an **international tax framework that provides fair allocation of taxing rights** to enhance domestic resource mobilization. An inclusive process is essential for all nations to participate in **setting the agenda and negotiating solutions,** particularly by supporting low-capacity countries with resources and technical assistance. Governments must cooperate to mitigate tax avoidance strategies that abuse domestic and international tax rules to artificially and unfairly minimise tax liabilities. Further, countries may support the **UN Framework Convention on International Tax Cooperation** for a fairer and more transparent global tax system.

Combating Illicit Financial Flows: Strengthening the regulatory frameworks and enforcement mechanisms requires countries to **coordinate actions to combat money laundering and terrorist financing risks.** This involves regulating financial institutions, utilizing financial intelligence, and focusing on investigating and prosecuting offenses. Furthermore, risks from emerging technologies must be addressed through devising appropriate Anti Money Laundering (AML) regulations.

b) Domestic and international private business and finance

Despite growth in sustainable investment and financial inclusion, driven largely by digitalization, many developing countries continue to face significant challenges in mobilizing private resources at scale. The **cost of capital remains disproportionately high,** and financing for investments in areas like climate technologies and infrastructure is often more expensive than in developed countries. As a result, projects that are financially viable in developed countries may not be competitive in developing countries.

The misalignment of incentives leads investors to favour 'unsustainable' activities over SDG-related projects. To **create a more enabling environment for private investment,** it is crucial to streamline regulatory processes for starting and operating businesses, enhance legal protection for investors and ensure fair competition. Providing fiscal incentives such as tax breaks or subsidy for businesses that adopt sustainable practices, as well as fostering public-private partnerships can help leverage private sector efficiency in development financing.

Developing **innovative financial instruments** such as green bonds and social impact bonds is essential to attract private capital for sustainable projects. Additionally, **offering**

technical assistance to create conducive environments for private investment and fostering regional collaborations can help develop larger markets and attract significant investments in developing countries.

To align business and finance with sustainable development, it is imperative to integrate **sustainability practices** into businesses based on country-specific circumstances. Raising awareness of sustainable business practices and strengthening regulations to ensure compliance with SDGs, are key for long-term sustainability.

Promoting **balanced financial inclusion** is also crucial to ensure no-one is left behind. Expanding access to financial services through digital technology and implementing financial literacy programs can empower individuals and businesses to make informed decisions. Supporting microfinance institutions to provide credit to small businesses and MSMEs is equally important. Furthermore, developing gender-sensitive policies is essential to meet the specific financial needs of women and marginalized groups.

MDBs and DFIs can play an important role in catalysing private investment in sustainable projects by offering measures such as de-risking, credit enhancement, guarantees, and local currency investment, to reduce the high cost of capital in developing countries.

c) International development cooperation

International development cooperation has undergone significant transformations over the years, evolving through various forms such as **North-South cooperation, South-South cooperation, and triangular cooperation**. These frameworks are now indispensable in addressing global challenges and closing the financing gaps necessary for achieving the SDGs. This cooperation, involving **key elements such as Multilateral Development Banks (MDBs), Official Development Assistance (ODA), and climate finance mechanisms**, aims to enhance resource mobilization, foster capacity building, and promote innovative financing approaches.

1. **MDBs Reforms**

   Financing the SDGs is central to the MDB reform agenda. While each MDB has their institutional mandate, they must coordinate to comprehensively address SDG financing. This requires reframing their vision and mission, both individually and as a system.

In 2023, under **India's G20 Presidency**, concerted efforts were taken to encourage MDBs to evolve their vision, incentive structures, operational approaches, and financial capacities so that they are better equipped to maximize their impact. Efforts to scale up MDB lending capacity involve strengthening the Capital Adequacy Frameworks (CAF), introducing innovative financing instruments and mobilizing private capital. These reforms are expected to yield additional lending headroom of USD 300-400 billion within the MDB ecosystem over the next decade, this falls considerably short of the global development financing gap. Therefore, fresh capital infusion is required into the MDB ecosystem.

Enhanced coordination across the MDB ecosystem is crucial for addressing development financing challenges by scaling impact, sharing risks and costs, and improving capital efficiency.

2. **ODA allocation and effectiveness**

ODA remains a central pillar in financing development, especially for low-income countries; therefore, it is emphasised that ODA allocations should be **based on recipient countries' specific needs and development stages** while aligning with national development plans and priorities. While other mechanisms such as long-term loans by MDBs, private sector mobilisation and blended finance instruments can support ODA, the responsibility for implementation should not shift from the public finances of developed countries to the private sector or non-state actors. As stated in the **G20 New Delhi Leader's Declaration**, the developed countries must fully deliver on their respective ODA commitments that complement and encourage development financing from all other sources, including public and private, domestic and international, in a timely manner and contribute to addressing the financing needs of developing countries.

3. **Climate finance**

Climate vulnerability is closely linked to a country's level of development, making climate finance essential for promoting resilience and economic growth. The scope and speed of climate finance must be significantly increased, with developed countries fulfilling their commitment under the Paris Agreement to mobilize USD 100 billion annually for developing nations. While, the delivery has been dismal in terms of volume and accessibility, there is a need to set an ambitious, transparent and trackable New Collective Quantified Goal (NCQG) of climate finance, taking into account the needs and priorities of developing countries.

In the context of Multilateral Environment Funds like GCF, GEF, etc, easing access to finance, streamlining processes, improving harmonization among the funds, and reducing fragmentation are crucial to providing concessional development finance. Finance for pre-project development and early turnaround time for approvals are also important.

d) International trade as an engine for development

International trade serves as a powerful engine for economic growth and poverty reduction by increasing job opportunities, raising living standards, and helping to reduce inequalities. However, the current slowdown in global trade, coupled with rising protectionist sentiments, necessitates intensified efforts to effectively **integrate developing countries into the global trading system.**

The **multilateral trading system** must significantly contribute to achieving the SDGs across their **economic, social, and environmental dimensions**. A strong commitment for a rules-based, non-discriminatory, open, fair, inclusive, equitable and transparent multilateral trading system with the World Trade Organization at its core is essential for advancing these objectives.

While trade will remain an essential enabler for sustainable development, **trade-restrictive measures** under the guise of environmental protection must not be imposed as they hinder free and fair trade. There are concerns about the increasing use of protectionist unilateral measures impacting trade. These measures effectively nullify the carefully negotiated balance of rights and obligations under specialized Multilateral Environmental Agreements (MEAs). This also violates the principles of Nationally Determined Contributions (NDCs) and Equity and Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC) in line with different national circumstances.

To **improve market access and integration,** the development trajectory of developing countries should be given due recognition while respecting each country's policy space and leadership in establishing and implementing sustainable development policies. Sustainable development **requires mutual supportiveness and harmonized** application of international instruments under MEAs and World Trade Organization (WTO) agreements. In the realm of **trade finance, it is vital to develop** instruments that support the integration of developing countries, particularly MSMEs, into higher-value global value chains ensuring that the benefits of trade are equitably distributed.

e) Debt and debt sustainability

Sovereign debt plays a crucial role in financing sustainable development initiatives. However, rising debt vulnerabilities, coupled with exorbitant borrowing costs and significant shortfalls in development financing, hinder the growth of low-income and developing countries. These countries face challenges at every stage of the sovereign debt lifecycle- access to finance debt issuance, management, servicing, and resolution, impairing their ability to achieve the SDGs.

Addressing these challenges require a comprehensive approach with short-term, medium-term, and long-term measures that account for evolving trends in the global debt landscape. Strengthening multilateral responses is key to support countries with unsustainable debt enabling debt reduction while prioritizing government expenditure on SDGs. Further, **collaborative international efforts** are crucial for transparent, efficient debt restructuring aligned with broader development objectives. Building on these points, key areas requiring attention are outlines below:

- **Enhancing debt transparency** in accordance with country-specific circumstances is crucial for effective debt management and preventing future crises. This requires early collaboration between debtors and creditors in the debt resolution process, quick reconciliation of outstanding debt and providing stronger incentives for creditors to participate. Key stakeholders, including the IMF, the World Bank, and official bilateral creditors, should ensure timely sharing of information, particularly on Debt Sustainability Analysis (DSAs) and macroeconomic frameworks. Facilitating technical support to countries on effective debt management strategies will promote a prudent medium-term debt profile and resilience to withstand shocks.

- Countries in debt distress often face significant climate vulnerabilities, prompting the exploration of **innovative instruments such as Climate Resilient Debt Clauses (CRDCs) and debt swaps**. However, the effectiveness of these instruments must be assessed on a case-by-case basis, with thorough research to evaluate their effectiveness compared to other alternatives.

- Global coordination is needed to ensure that the **Sovereign Rating Agencies rectify fundamental problems in their rating models,** which are necessary for optimal financing for sustainable development in emerging and less developed economies.

- Reviewing the **IMF- WB Debt Sustainability Framework (DSF** is critical as it distinguishes unsustainable public debt and current account deficits arising out of big investments in infrastructure and that arising due to weak fiscal institutions and a lack of transparency.

f) Addressing systemic issues

The resilience of the global economy today is being tested in the face of multiple headwinds that are amplifying the challenge of maintaining global financial stability while achieving inclusive growth. The international financial architecture faces heightened risks from geopolitical situations, rising living costs, interest rate fluctuations, and climate-related uncertainties. These challenges are exacerbated by the spillover effects of monetary policies in Advanced Economies (AEs) contributing to financial instability in many EMDEs. To address these challenges, a comprehensive approach is necessary, focusing on improving global economic governance, promoting macroeconomic stability and strengthening regulatory frameworks.

- **Global Economic Governance:** Cooperation on debt resolution and restructuring for heavily indebted poor countries and enhancing funding for development through strengthening MDBs is the need of the hour. Coherence and coordination across fora are particularly important in such areas as monetary policy. Implementing the Basel Committee on Banking Supervision (BCBS) recommendations tailored to country specific circumstances can support financial stability.

- **Macroeconomic stability and the Global Financial Safety Net (GFSN)-** Given the role of the IMF as the center of the GFSN, it is imperative that governance reform of the IMF in terms of review of the quota and voting shares should be undertaken for better representation of EMDEs and LICs. While IMF has launched several instruments to provide quicker access (Rapid Credit Facility (for non-PRGT countries), and Rapid Financing Instrument (for PRGT countries)), there is still scope for further improvement. Coordinated monetary policies, clear communication of policy stances, and robust macro-prudential measures are necessary to manage capital flow volatility, reduce external shocks, and ensure a stable global macroeconomic environment conducive to sustainable development.
- **Financial regulation-**There are several risks and opportunities arising from technological advancements and climate change that need to be addressed through the implementation of financial regulations. The growing role of Non-Banking Financial Institutions in financial intermediations also poses a risk to financial stability and requires greater regulatory oversight, as they are not as tightly regulated as banks. Additionally, integrating climate risks into financial regulations will be critical in mitigating environmental impacts on economic stability.

g) Science, technology, innovation and capacity building

Science, Technology, Innovation (STI) and capacity building are important drivers for accelerating progress towards achieving SDGs. However, EMDEs and LICs face **significant technology gaps** and capacity constraints, particularly in research and development. The technological divide poses significant challenges, including uneven innovative capacity, connectivity and access to technology within and between countries. To address these barriers, the following key points are proposed:

- **Technology transfer and collaboration:** It is important to share best practices, exchange policies, operationalize technical assistance and tailor training programs and technology transfer from developed to developing countries. Strengthening international collaboration by enhancing **South-South and Triangular Cooperation** foster inclusive and non-discriminatory digital transformation while addressing the associated challenges and risks.

- **Research in Emerging Fields:** Forging public-private partnerships in emerging fields such as Quantum Technology, Green Energy, and Climate Action will drive innovation and development. Harnessing the potential of AI while managing potential risk can also benefit countries.

- **Bridging the Digital divide:** Democratization of technology and responsibly managing the potential risks posed by STI are key tools to help bridge the data divide. Promoting **digital inclusion through literacy and vocational skills development** is also essential, particularly in increasing access to digital tools that empower women and youth.

- **Scaling up financing for innovation:** Mobilizing financing from all sources to advance scientific research and innovation is important to support sustainable development and global cooperation in these fields.

- **Supporting capacity building:** Strengthening capacity building in developing countries is crucial for harnessing data for development, particularly through investments in the digital economy and infrastructure.

Section III: Emerging Issues

The global economy has become increasingly interconnected, with growth prospects tied to geo-political and geo-economic standing. However, recent disruptions like COVID-19, on-going conflicts, technological advancements and the green transition have led governments to rethink external dependencies. As globalization shifts to geo-economic fragmentation, the world faces slower growth, financial vulnerabilities, and inflation—impacts felt most by the Global South, particularly its vulnerable populations.

Crypto assets and Central Bank Digital Currencies (CBDCs)

Crypto assets present both opportunities and risks, particularly for EMDEs. While blockchain technology can enhance financial inclusion, increase transparency, and reduce transaction costs, the decentralized and borderless nature of crypto assets poses significant challenges to regulatory frameworks in developing countries. Stablecoins, especially those pegged to foreign currencies, could undermine monetary sovereignty and financial stability in these economies. Furthermore, crypto assets raise concerns over money laundering, terrorism financing, and other illicit activities, these risks are amplified in EMDEs where regulatory infrastructures and enforcement mechanisms may be less developed.

To address these issues, EMDEs must engage in international cooperation to develop a comprehensive regulatory framework. This includes learning from advanced countries, particularly regarding data gaps, AML and Countering the Financing of Terrorism (CFT) measures and adherence to the travel rule for cross-border crypto transactions.

Artificial Intelligence (AI)

AI has the potential to bring huge advantages to humanity. Used well, it could help humanity meet the Agenda 2030. However, there are serious ethical, safety and societal risks associated with the rapid growth of AI technologies.

Despite the transnational nature of this technology, there is no unified regulatory framework governing its funding, design and use of data. It is vital that governments provide 'guardrails' for private sector development through effective regulation. An urgent inclusive dialogue is needed to raise awareness about AI's current application and to collectively define where AI should or should not be deployed. Trust in AI will be best delivered by clear regulation informed by an engaged and consulted public.

Section IV: Data, monitoring and follow-ups

Measuring progress toward sustainable development requires the development and adoption of metrics that go beyond GDP. **High-quality, consistent, comparable, timely and reliable data** is critical for achieving SDGs, enabling evidence-based decision-making, progress monitoring, identifying implementation gaps, and making timely course corrections. Despite several efforts, significant data gaps persist, particularly for gender and geographical data, contributing to inequitable distribution of resources and opportunities. Inadequate digital infrastructure and resources hinder the consistent collection, analysis, and dissemination of high-quality data. The **underinvestment in data systems and lack of statistical capacity** pose further challenges for effective monitoring of the data. Key suggestions for addressing data gaps and effective monitoring include:

- **Innovative Approaches-** Exploring non-traditional data sources such as Small Area Estimation, Citizen-Generated Data, and remote sensing is essential for gathering more granular data while avoiding duplication. The use of AI can enhance the effective monitoring and implementation of SDGs.

- **Monitoring and Reporting-** Addressing data gaps requires developing a framework with guiding principles for collecting citizen-generated data tailored to national circumstances. Developing **SMART** (specific, measurable, achievable, relevant, and time-bound) indicators is key to tracking progress and ensuring transparency and accountability.

- **Enhancing Cooperation-**Developing open and accessible data systems; enhancing Public-Private Partnerships to leverage data from non-state actors, such as CSOs, NGOs, think tanks and the private sector is crucial. Promoting South-South cooperation will improve statistical capacities in low-income countries, while strengthening international cooperation will help close data gaps and increase public availability of development data.

- **Capacity Building-**Strengthening capacity building efforts in data-related skills, responsible data use as well as accessing, developing, using, and governing AI systems for sustainable development is important, particularly in developing countries.

- **Financing and investment-** Significant investment in upgrading statistical **systems** is needed to modernize and strengthen statistical systems. Exploring domestic fiscal policies that disincentivize actions harmful to SDGs while promoting positive ones is also essential.

Section V: Overarching Issues

The successful implementation of the Financing for Development agenda requires concerted efforts across multiple fronts. Key overarching issues include:

- **Strengthening Review and Effective Implementation of FfD4:** Robust follow-up mechanisms are crucial for the success of FfD4. Though ECOSOC plays a pivotal role in monitoring progress, strengthening the follow-up process requires greater involvement from both developing and developed countries. Inclusion of regional bodies and organizations focused on trade, investment, and development can enhance coordination, ensure broader representation, and address region-specific challenges more effectively.

- **ODA for Sustainable Development and Climate Finance:** Developed countries must fulfil their ODA commitments to provide adequate development finance to developing countries. Developed countries should also multiply their contribution, especially through concessional/grant financing for climate action. Providing new and additional financial resources and the transfer of technology to address the global climate change challenge are among the commitments and responsibilities of the developed countries under the UNFCCC and the Paris Agreement.

- **Better Representation of Developing Countries in International Governance Structures:** Despite some gains following the 2008 financial crisis, developing countries' representation in international financial institutions, regional development banks, and standard-setting bodies remains inadequate. Efforts must be made to increase the voice and participation of developing countries, particularly EMDEs and LICs, in global economic decision-making processes.

Moving forward, galvanising political will to implement the development agenda is paramount. A robust regulatory framework, addressing capacity barriers, and sharing best practices will support the development objectives of all countries, particularly EMDEs and LICs, ensuring that no one is left behind in our collective pursuit of sustainable development.