NGO Committee on Financing for Development input to the Elements Paper on Financing for Development

The NGO Committee on Financing for Development, established in 2004 as a substantive committee of the Conference of NGOs (CoNGO), advocates to "end poverty and hunger and to achieve sustainable development in its three dimensions through promoting inclusive economic growth, protecting the environment, and promoting social inclusion," as outlined in the Addis Ababa Action Agenda and the Monterrey Consensus. As a substantive committee of CoNGO, the NGO Committee does not negotiate agreed positions. This input is based on its thematic working groups on social protection, financial and digital inclusion, and climate finance over the last several years and expert insights from members providing direct services on the ground.

## Chapter I. A Global Financing Framework (including cross-cutting issues)

As "We cannot solve a problem within the same mindset that created it."[1], FfD 4 must pave the way for a major course correction through a close examination of why current efforts have consistently failed to address the fractured global financial system and honour all the commitments made in the Addis Ababa Action Agenda. FfD 4 must be realistic in its expectations and commitments to generate actions that will be transformational, intentional, disruptive, and innovative, to set right misaligned policies that allow the five richest men in the world to more than double their fortunes from $405 billion (£321 billion) to $869 billion (£688 billion) since 2020, while the wealth of the poorest 60 percent - almost five billion people - has fallen further[2]. FfD4 must ensure inclusive, equitable, and transparent management and implementation of already scarce development financing by boosting the technical capacity of governments through effective budget setting, monitoring, evaluating, and reporting on how funds are being spent. No longer are promises of "renewed commitment" and "strengthened resolve" sufficient.

While resilience is often viewed as a national responsibility requiring political commitment, gender-lens investments, supportive policies, institutions, and prioritisation, true collective resilience—where communities can collectively adapt and cope with crises —depends on equitable access to essential public goods. These include social protection, digital connectivity, decent work, inclusive finance, climate justice, and education. The experience of the COVID-19 pandemic showed us that

[1] Dr. Albert Einstein

[2] https://www.oxfam.org.uk/media/press-releases/wealth-of-five-richest-men-doubles-since-2020-as-wealth-of-five-billion-people-falls/

"delivering critical global public goods and inclusive economic development requires significantly greater investment in a long-term vision of collective resilience" and the failure to make such investments leads to catastrophic macroeconomic outcomes."[3]

**Recommendations:**

1. Invest in solutions that address the root causes of inequality, environmental degradation, and gender injustice, rather than treating symptoms through financing short-term projects with the singular aim of 'responding' to challenges faced by marginalized and poor communities.
2. When women have equal access to education, employment, and financial resources, it significantly boosts economic growth, productivity, and innovation within a society. But to make this a reality, it must be ensured that global gender equality funding is increasingly allocated to grassroots organizations led by women, particularly those in the Global South and historically marginalized communities. Recognize that funding rarely 'trickles down' to those at the forefront of grassroots action, who have the knowledge and power to understand and address the complex needs of communities that are left behind.
3. IMF country adjustment programs, supported with IMF loans, should make adequate fiscal space for social spending measures, including investment in the care infrastructure needed to reduce economic and gender inequalities.

**Ensuring an enabling environment for inclusive and equitable allocation of resources and shifting the focus of development financing to social outcomes**

FfD 4 must generate actions to correct the misconceived value of development only for the immediate beneficiaries with little if any, mention of the broader benefits to society at large. For example, instead of the zero-sum perception that more loans for women-owned businesses necessarily reduce the lending capacity for everyone else, experience shows that such initiatives have, in fact, consistently proven to be a win-win for the entire business community raising local household incomes, thus creating new customers for existing businesses, reducing unemployment, increasing local investment, and expanding the local tax base.

**Recommendations:**

1. Economic development professionals must present their objectives' benefits to all stakeholders, including the public sector, private enterprises, financial institutions, and taxpayers, and not limit the immediate targets of aid.

[3] Concept note of the side event organized by the NGO Committee on FfD on Action Day 2 of the Summit of the Future

2. Developmental financing must focus on the social outcomes, not the immediate actions. The message must be that social investments are not just the right thing to do. They are the smart thing to do.

## Chapter II. Action Areas

### a. Domestic Public Resources

**Strengthen the technical capacity of States to raise and spend revenue efficiently.**

The call “to leave no one behind” demands strengthening the technical capacity of States to raise and spend revenue efficiently and take steps to end poverty and hunger, provide quality education and healthcare; water and sanitation; affordable energy, and decent jobs ‘to reach the furthest behind first.’ In many countries, the government provides these basic services directly and through state-owned enterprises. Most services provided to the vulnerable are sub-standard or non-existent due to corruption at all levels and a lack of accountability and transparency. The vulnerable are forced to bribe the institutions funded by their taxes, to receive services that are rightfully theirs. Lack of and often denial of access to basic services, justice, and participation in governance leads to widening inequalities.

**Recommendations**:

1. “National ownership” of public policy presumes a political process of budgeting, involving engagement with relevant stakeholders, most obviously a well-informed legislature, but also public consideration of policy options through a free press and among civil society and business stakeholders. Such political processes can also help bring outrage to the surface when public intent is undermined by corruption or incompetence.
2. “Social Dialogue.”, a tried-and-true mechanism to encourage a sense of national ownership of public policy involving discussions among representatives of governments, workers, and employers, and other civil society and social actors, including representatives from women, youth, and persons with disabilities can help to construct a strong social consensus that acts as a driver for sustainable, inclusive, fair, and rapid transformation. Among other consequences, we find that social dialogue tends to give political emphasis to the social protection obligations of governments, which may otherwise not be in the minds of budget authorities in finance ministries. A strong practice of social dialogue can help achieve consensus on the “why” of social policy. Green infrastructure could create millions of jobs which can then encourage legislative and regulatory reforms of the “how” and their enforcement.
3. Finance current expenditures out of tax revenues and reserve borrowing for physical investment and tough times for counter-cyclical economic purposes and to maintain or

increase social protection expenditures, like cash transfers, food aid, emergency housing, maintaining teacher salaries, etc. during challenging times and emergencies.

**4.** A key part of budget debates should be on expenditure priorities, wherein social obligations can contend with calls to boost spending on other parts of government.

**5.** Investment budgets, among other priorities such as infrastructure and energy transition, must make adequate provision for developing social protection systems, including public health systems, not only to provide essential services in normal times but also to meet emergency needs, as we saw the consequences of not having such capacity during the pandemic.

**6.** The investment budget can be financed both with current revenues and with public debt, the latter on the argument that the beneficiaries of the investment will be spread over time, and they should share the cost of building the public asset that the investment creates by making interest and principal payments over time.

**7.** In the realm of infrastructure, many projects can become self-financing by collecting their own funds through user charges, such as tolls for highways, charges for water or electricity, etc.

**8.** We would discourage financing public investment through public-private partnerships, whose funding is often hidden from the budget process and whose need to generate a profit can require pricing of services outside what most people can afford and/or require ongoing subsidies from the public purse.

**Austerity measures in times of worsening debt fragility**

After expanding government spending and borrowing to address the fallout from the pandemic, and worsening sovereign debt fragility in many developing countries, calls are being made to adopt "austerity measures' – often translated into cutting down social protection provisions as the "go-to" solution, as the poor who are the main beneficiaries are the least effective lobbyists for their needs. Not only is this approach to government spending immoral and a violation of government human rights obligations, but it is also ineffective as the high "multiplier" for social spending worsens economic contractions when the spending is removed, just as it increases recovery when the spending is increased.

These austerity measures often include "pension and social security reforms; cutting or capping the public sector wage bill; labour flexibilization reforms; reducing or eliminating subsidies that benefit the poor; increasing regressive consumption taxes; strengthening public-private partnerships (PPPs); and privatising public assets, all of which exacerbate inequalities." Significantly, these cuts are false economies. Social spending has been proven to add to the productivity of the workforce as well as limit reductions in private consumption.

**Recommendations:**

1. Adequate Social spending should be guaranteed in fiscal targets that are part of IMF conditionalities. This can be achieved by deepening the integration of social policy into the IMF programme.
2. Social spending floors should be protected in austerity programs and be well funded during normal times. This can be accomplished through adoption during normal times of progressive revenue-raising measures, especially different forms of wealth taxation.
3. The IMF should support universal, good-quality, free public services, which reduce inequality and poverty, such as an increase in spending on health and education.
4. Proven to reduce inequality and poverty, the IMF in its macroeconomic responsibilities and the international community more generally should support universal social protection measures, as agreed in SDG target 1.3.
5. Adequate gender-responsive social protection supported by a care infrastructure that reaches all corners of every country, meeting the needs of vulnerable and marginalised communities, taking care to stem the leakage of funds through corruption and inefficiency.
6. Governments to impose supplementary taxes on high incomes to capture windfall profits from international crises, such as pandemics and war-related shortages, as part of adequate and fair tax systems.
7. Donor governments to boost their bilateral grant assistance during times of international crisis and members of the International Monetary Fund (IMF) should transfer some of their idle holdings of special drawing rights (SDRs) during crises to the IMF and relevant prescribed holders of SDRs to benefit less fortunate countries. The IMF should institutionalize the effective policy of the financial and Covid-19 crises to issue additional SDRs as a global crisis response mechanism.
8. A comprehensive sovereign debt restructuring system that brings low and middle-income countries to sustainable debt while maintaining adequate social protection.
9. Increase support for the Global Accelerator for Jobs and Social Protection for Just Transitions through the Joint SDG Fund so that more countries may benefit from this initiative.

**Illicit Financial Flows and Corruption**

Global Illicit Financial Flow-related activities, encompassing trafficking in drugs, weapons, humans, and wildlife, are frequently interlinked, and corruption plays a significant role in fostering these diverse forms of illicit flows. While the immediate impact burden of corruption falls most heavily on the most vulnerable and disenfranchised, all of society are victims through lost economic opportunities, lower levels of economic and social efficiency, lower levels of investment and innovation, less productive workforces, smaller tax bases, and public distrust in public authority and hostility against even legitimate political processes.

**Recommendations:**

1. Every country needs to commit to taking steps to prevent, trace, and return stolen assets and use their proceeds for investing in SDGs. The FACTI Panel recommended a proposal for a "Global Pact for Financial Integrity for Sustainable Development". What has happened to this proposal? What steps has the UN taken to follow up on the Mbeki Panel report, which called for: "Track it. Stop it. Get it. And use it to finance the SDGs"?
2. Institute measures to collect reliable disaggregated data to see the outflow and inflow of IFFs to know which sectors are most prone to illicit finance and take concrete measures to stop flows.
3. Financing and aiding developing countries should take into consideration "at-risk industries" and those countries that systemically undermine human rights. Industries often credited with bolstering developing countries' economies such as agriculture, garment manufacturing; the harvesting of chocolate, marble, granite, and precious stones; fishing; mining; and deforestation, are all industries that are rife with forced and bonded labour. For forced and bonded labour to persist, "employers," sometimes where the employer is the government itself, are effectively slaveholders utilizing corruption to stay in operation.
4. All nations must develop and implement legislation requiring accounting regulations and prosecutorial powers- e.g. the United States Foreign Corrupt Practices Act- including disclosure of beneficial ownership and criminal prosecution for participating in bribes and other forms of corruption.
5. Additionally, countries can licence and monitor "at risk" industries and require those industry employers to certify that their total operations, including all its supply and service chain, are free of forced labourers and/or trafficking victims. Audits could be performed by independent organisations that would validate if the terms of certification have been met.

**b. Domestic and International Private Business**

**Financial and digital inclusion**

The inequalities resulting from financial and digital exclusion came to light with the onset of COVID-19. As banked consumers shifted to online digitized services, unbanked cash consumers, particularly in remote/rural communities, faced difficulties even with purchasing basic provisions. Digital public infrastructure (DPI) can accelerate financial inclusion and close existing gaps in digital financial services but can also introduce risks and exacerbate the existing ones if not designed using good principles and global standards.[4]

**Recommendations:**

1. Invest in safe and inclusive digital public infrastructure that facilitates scaling of innovation in payments, while creating technological, regulatory, and institutional safeguard mechanisms necessary to address barriers to transparent, accessible, and affordable digital financial services tailored to the needs of vulnerable/marginalized groups and MSMEs. Ensure that these services promote public trust by preventing abuse and misuse, such as predatory and fraudulent lending schemes.
2. Invest in digital identity programs and interoperable payment systems, to ensure social cash transfers and relief measures in times of crisis reach vulnerable/marginalised communities in an effective and timely manner. (Note: Studies show that Digital ID alone can unlock economic value equivalent to 3–13% of GDP, with an average improvement of 6% for emerging economies.)
3. Implement targeted policies, to improve women's access to financial services and the internet and address the difference in attitudes, discrimination, and social norms and laws that marginalize women's access in many countries.

**Micro Small Medium Enterprises (MSME)**

Despite their contribution to employment, profit potential, poverty alleviation, and gender equity, which play a significant role in the economy of developing markets, MSMES, which account for 90% of businesses, 70% of global employment, and 50% of GDP worldwide[5] are largely excluded from formal financing. Stringent collateral requirements are a key barrier, driven by a perceived high credit risk on the part of formal lending institutions for smaller firms, and especially greenfield projects. Government corruption combined with a weak judicial system, inadequate digital infrastructure, and a lack of appropriate regulation creates sometimes insurmountable hurdles for MSMEs in developing countries, where no recourse for remedying unjust treatment by banks, suppliers, or vendors is available.

**Recommendations:**

1. Structure financially inclusive products and strategies that offer innovative and customized solutions responsive to the needs of smaller/micro-businesses that are otherwise un-bankable, for example: reduced collateral requirements and collateral

[4] G20 Policy Recommendations for Advancing Financial Inclusion through Digital Public Infrastructure

[5] https://www.un.org/en/observances/micro-small-medium-businesses-day#:~:text=MSMEs%20account%20for%2090%25%20of%20businesses%2C%2060%20to,70%25%20of%20employment%20and%2050%25%20of%20GDP%20worldwide.

substitutes, lower-interest/non-predatory loans, government-subsidized lending, and financial literacy training, and less prejudicial risk assessments by lenders.

2. Encourage digital lending with data that can better assess risk, giving MSMEs better footing in the lending market. Use FinTech to collect and process information about MSME lending.
3. Deliver the Addis target for reducing fees on money transfers (migrants remittances) to less than 3 per cent on average and less than 5 per cent in low-volume corridors by 2030 (para 40).
4. Require Transnational Corporations (TNC) to take active steps to go beyond the first tier of suppliers and integrate lower-tier suppliers in global supply chains, by communicating the TNC's Environmental Social Governance Commitments to the MSMEs in their supply chains and providing the necessary training to implement these goals and collect reliable and clean data.

### c. International Development Cooperation

#### Climate Finance

Climate change threatens the right to development by destroying livelihoods, limiting access to food and energy, and diverting resources from poverty reduction efforts. Vulnerable and marginalized groups facing discrimination and human rights violations are especially powerless against these challenges. This undermines their civil, political, economic, social, and cultural rights. Effective climate justice reforms must embrace the principle of 'leaving no one behind,' promoting human rights through policy reforms and new global standards. As countries experience irreversible climate damage, equitable and sustainable climate finance becomes essential.

**Recommendations:**

1. **Strengthening Mitigation, Finance, and Capacity Building**: Intensify mitigation efforts and scale up finance, technology transfer, and capacity building to avert future loss and damage from climate change. Immediate financing must support just transition from fossil fuels to alternative energy, using diverse funding mechanisms like bonds, swaps, special drawing rights, and blended finance.
2. **Inclusive Design and Implementation of the Loss and Damage Fund**: Operationalize the Loss and Damage Fund through a participatory approach, ensuring marginalized groups (e.g., women, youth, Indigenous peoples, and migrant workers) are included in decision-making processes. Ensure equitable allocation, focusing on severely impacted countries such as those in the Climate Vulnerable Forum and Least Developed Countries.
3. **Funding Commitments from Big Polluters**: Countries that have profited from fossil fuel investments must contribute to the Loss and Damage Fund, as well as corporations

through appropriate taxation, following the 'polluter pays' principle. Clear guidelines and mechanisms, including taxes on fossil fuels, should be established to collect these funds.

4. **Gender-Just and Community-Centered Climate Finance**: Address both economic and non-economic losses, ensuring gender-responsive financing to meet the needs of women and marginalized communities. National Loss and Damage Mechanisms should be developed for effective fund distribution to those most affected, especially Indigenous peoples and local communities.
5. **Infrastructure and Energy Transition Support**: Address infrastructure gaps that exacerbate climate impacts in vulnerable regions and accelerate the transition from fossil fuel systems to sustainable energy through public and private finance. Prioritize the development of alternative energy grids and systems to mitigate long-term damage.
6. **Ecologically Restorative Activities:** Establish a clear regulatory framework that prohibits public and private finance, which harms nature. Prioritize the financing and integration of ecologically restorative productive activities of small producers at the local level.
7. **Sustainable Development and Just Transition**: Align climate finance with SDGs by ending fossil fuel subsidies, divesting from fossil fuel investments, and reallocating those funds to support adaptation to renewable energy. Ensure local participation in formulating and implementing National Action Plans, prioritizing people, and communities beyond corporate interests.

## f. Addressing Systemic Issues

### Structural Forms of Discrimination

As evidenced by the COVID-19 pandemic, the ongoing impacts of climate change, war and conflict, and natural disasters, it is the most marginalized in a society that suffer the most through structural forms of oppression against women and girls, LGBTQI communities, Indigenous communities, racial minorities and communities discriminated on work and descent. Reforms and measures taken by national governments to address the issue of discrimination faced by these communities are mixed. Investments in social protection have a strong economic stabilizer effect in times of crisis and thus contribute to long-term, sustainable, and inclusive economic growth.

**Recommendations:**

1. Acknowledge and address structural forms of discrimination and guarantee basic human rights and amenities for socially marginalized and vulnerable groups such as women and girls, LGBTQI, Indigenous communities, and communities discriminated on work and descent, through social protection floors.
2. Recognise the urgent need to support people in vulnerable situations, in particular women and girls, and the intersectionality of gender and violence.

3. Address the structural barriers that prevent women and minorities from accessing financial services such as property rights, the right to form businesses, the right to enter contracts, and the ability to fully participate in the formal economy.

**Science, technology, innovation, and capacity building**

**Fintech**

Financial technology companies (Fintech) help advance financial inclusion through mobile banking apps, quick transfer of government emergency funds, digitising social protection payments, to name a few. However, reports indicate that fintech tends to be predominant in urban areas. Local banks, as they are physically present in rural and isolated communities where the majority of those financially excluded are based and understand the pulse of the communities must be strengthened to play a crucial role in advancing financial inclusion. The unbanked population using fintech solutions often faces risks like those in the formal financial system including predatory lending practices, higher lending rates, lack of financial and digital literacy skills, and skills to navigate a technology platform.

**Recommendations:**

1. National and local governments must create a conducive regulatory environment promoting partnerships between local banks and fintech firms creating a more extensive reach for the branch and touchpoints
2. Collaborate across aisles-governments, microfinance institutions, and fintech companies- to collect gender-disaggregated data, digitise services for MSMEs, and scale investments.
3. Establish trust by prioritizing transparency in fintech operations, transactions, and interchange fees involved, prioritizing AML compliance, and adopting stringent measures to detect and prevent financial crimes.
4. Governments, regulators and Fintech companies must collaboratively develop regulatory frameworks that harmonize innovation and consumer protection.
5. Build digital and financial literacy and numeracy skills of all, including identifying digital fraud and predatory practices, by making available courses and training to the public, free of charge, and include such courses in school curriculums[6].

**Central Bank Digital Currencies (CBDC)**

With 134 countries & currency unions, representing 98% of global GDP, exploring a CBDC, in a world in which 1.4 billion people, or 24% of adults globally remain unbanked, governments

[6] https://www.nytimes.com/2021/04/20/learning/should-all-schools-teach-financial-literacy.html

need to ask what they are trying to solve with CBDCs - is it total financial inclusion to improve the situation of the excluded or rather total visibility on the whereabouts of the money?

**Recommendations:**

1. Conduct public consultation including rural and community banks, to decide on the issuance of a CBDC, as the real challenges to addressing financial exclusion go far beyond issuing a digital currency. A good example would be the public consultations held by the Bank of Canada[7].
2. Conduct in-depth research in the lead-up to launching a CBDC and design it carefully from the bottom up, taking into consideration the experiences of countries that have already launched a CBDC and understanding the extent to which they have accomplished the goals that were the motivating factors for launching it.
3. Raise awareness about the CBDC, and build trust by educating consumers, who may be resistant to change, on its use and proper security practices as well as provide equipment such as smartphones to consumers if they do not have it, especially if the expectation is for decreased use of cash.

## V. Overarching reflections

### Engaging the full potential of all three sectors

To leverage all available resources, financing for development efforts must fully engage all three sectors of the economy: the public sector, the private sector, and civil society.

**Recommendations:**

1. No one sector is best suited to be the primary provider for every issue in every circumstance. While public sector providers can provide scalability to serve the most common needs, CSOs can more easily identify and address the specific concerns of specific populations.
2. In Every social sector, healthcare, education, the arts, housing, the environment, and others, we find private, public, and nonprofit organisations working side-by-side, each applying its strengths where most effective and leaving to the others what is beyond their capacities. Development planning needs to bring more resources and financial models to the table in developing the plan and winning buy-in from private sector, non-profit, and CSO stakeholders.

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[7] https://www.bankofcanada.ca/wp-content/uploads/2023/11/Forum-Research-Digital-Canadian-Dollar-Consultation-Report.pdf

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