STATEMENTS BY SOUTH AFRICA AT THE SECOND PREPARATORY COMMISSION FOR THE INTERNATIONAL CONFERENCE ON FINANCING FOR DEVELOPMENT

DOMESTIC PUBLIC RESOURCES (4 DECEMBER 2024)

With regard to implementing global solidarity levies, South Africa has questions about how, for example, does one implement these without contradicting the principle of Common But Differentiated Responsibilities and Respective Capabilities?

With regard to financial flows, we tend to focus on the inflow side of the ledger, while not paying sufficient attention to outflows. Research suggests for every dollar of Official Development Assistance, 5 dollars is lost in Illicit Financial Flows. Even if we succeed in doing all the things proposed to increase in-flows, such as getting tax rates to 15% of GNI, full implementation of the G20 CAF recommendations, and we fulfil the 0.7% ODA target, we would still only be turning the trickle into a small stream pouring into a bucket with a much larger hole that has not been plugged. Although by its nature difficult to measure, IFFs are estimated to be in the trillions. While we support the proposals on IFFs in the elements paper, our question is whether we could not be even more ambitious given the scale of the challenge, by trying to reflect in the zero draft more of the FACTI panel recommendations and other work that has been done on stemming IFFs?

Yesterday and today we heard a common misconception about domestic resource mobilisation, creating the impression that development financing relies on foreign aid. In Africa tax as a percentage of GDP is already on average around 16.6%. The truth is that Africa is already largely financing its own development – public revenues and private savings are, for example, 16.5 times ODA. While domestic efforts to mobilise resources are of course critical, we need to pay equal attention to international factors that rob developing countries of potential resources before they can be mobilised, like the international enabling infrastructure supporting IFFs and tax evasion and avoidance, as well as the unfair distribution of international taxing rights.

While we support establishing national development banks in countries that do not have them, the key question remains how these banks would be capitalised? Even for countries that do have them, national development banks in developing countries do not receive the necessary levels of resources needed to make real developmental impacts. What actions can we propose in FFD4 to address this?

DOMESTIC AND INTERNATIONAL BUSINESS AND FINANCE (4 DECEMBER 2024)

While we support the need for strengthening the pull factors in developing economies - i.e. enabling environment to attract investment - it will also be important to reflect on the push factors in developed economies that would encourage investment and finance to flow where needed. What regulations need to be changed and incentives put in place in developed countries to remove impediments to finance flows that currently hinder investments in markets considered high-risk?

Once again, while the mobilization of private sector resources is critical, it is important that it is not treated as a substitute for traditional ODA.

With regard to the list of actions under private capital mobilisation, it would be important for the list to also call for the deployment of new financial instruments, particularly non-debt instruments, policy-based guarantees, and options that do not require sovereign guarantees. These instruments should focus on taking first loss risks on investments. In addition, we need approaches that facilitate scaling-up through interventions that help bridge the gap to commercial project viability, mitigate risks, finance first-of-its-kind projects and support technical assistance work.

Blended finance has not delivered as expected. TOSSD figures for 2022 count just 62 billion mobilised. For the private sector to be crowded in effectively through this instrument , and if we to see real progress of the billions to trillions promised- we need to see clear commitments for higher leveraging ratios from MDBs and DFIs in the outcome document.

The blended finance model has also been criticized for entailing an unbalanced distribution of flows, revenues and risks, with large and emerging developing countries receiving the bulk of flows, revenues mostly accruing to private investors and the risks unduly borne by international financial institutions (IFIs) and developing country governments.

While we are open to establishing new facilities, we should be careful of already scarce resources being used to finance operations that are carried out by existing institutions such as the MDB's, Regional Development Banks, Projects Preparation facilities that already provide investment-related support, and also assist with the development and implementation of project pipelines. We should also be calling for enhancing support of these institutions, such as International Development Association and the African Development Fund.

INTERNATIONAL DEVELOPMENT COOPERATION (4 DECEMBER 2024)

South Africa strongly supports grant based and non-debt creating financing. Concessional loans contribute to a country’s debt load.

We would like to see a clear commitment in the FFD outcome document to reversing the trend of increased concessional loans at the cost of grants.

On enhancing aligning of vertical climate funds to national priorities, our view is that this is already the case, as countries need to sign off on all projects submitted to these funds- to confirm that they are aligned.

We do not support the call for a process to look for opportunities for consolidation of vertical climate funds.

The climate funds under the Financing Mechanism of the UNFCCC are established with specific mandates and governance structures.

Developing countries have an interest in protecting these funds - in terms of the voice that they hold in the funds and the fact that these are nationally owned and led.

Recommendations coming out of the FFD process must not undermine the governance structures and frameworks of vertical climate and environment funds.

We need to rather be calling for the ambitious capitalisation of these funds - aligned to the New Collective Quantified Goal Decision.

A missing element from the reforming development cooperation architecture section of the paper is the need for development partners to make efforts to streamline and harmonise their respective application/ monitoring and evaluation/ reporting criteria, which result in very high transaction costs for developing countries.

On establishing a process to determine measure(s) of development impact to guide the allocation of development cooperation, our concern is that this might put at risk the country owned and led approach. Decisions would then be made based on an impact assessment that is informed by measures decided upon outside of the country context - instead of being informed by country plans and priorities. It would be important to be very clear on how these would be balanced.

We have concerns with committing to using country platforms. While country platforms are a useful tool in the development finance tool-kit, it is not the only tool available. Country platforms should not become a prerequisite or condition for accessing finance. It must remain a countries' prerogative to use whichever of the various tools are available to it, and aligned with its national priorities.

Any calls for MDB capital increases need to be preceded by a review of their governance structures to ensure that they reflect the realities of the world today. Development institutions should ensure that processes do not reflect the preferences of selected parties, with limited developing country and African representation within their leadership structures.

INTERNATIONAL TRADE AS AN ENGINE FOR DEVELOPMENT (5 DECEMBER 2024)

Allow me to quote from the outcome of the Africa Regional Consultations on FFD4 held a few week ago in Addis Ababa:

‘There is a rise of unilateral trade measures, including the Climate Border Adjustment Measures (CBAM), which discriminate against developing countries by unilaterally imposing sustainability standards on their exports, which threaten not only their exports but production processes within their economies. Africa calls for strengthened multilateral dialogue and cooperation through the WTO to address climate and trade issues in ways that support, rather than hinder, developing countries' industrialization efforts. Such measures should be stopped.’

The strength of the FFD process is that it addresses both the financial and enabling environment dimensions of sustainable development holistically, in particular, obstacles to development. One such obstacle, which will erase decades of development progress and seriously exacerbate poverty and unemployment, is unilateral environmental trade measures. This is the elephant in the room that FFD4 needs to address squarely if it is to make a difference to the lives of the poor.

We are concerned that the language in section 1E, rather than contributing to solving the problem, instead legitimises these inadmissible measures. Impact assessments, as well as due diligence with multilaterally agreed rules, should have been done before the horse had bolted.

We cannot support the idea of scaling up support to assist countries with compliance, as this amounts to condoning what are illegal measures. FFD4 should instead call for the suspension of the implementation of CBAMs, as was done with the de-forestation regulation, to allow for a cooperative multilateral solution to be found.

FFD4 should also call for mandated bodies to be set up at the UNFCCC on Trade and Climate Change and for the WTO working group on Trade and Climate to be strengthened.

Climate leadership is not about burden shifting and transferring costs to others. SA does not agree that any country or supra-national entity has the right to set itself above others by deciding whose actions are ambitious and should be rewarded, and whose actions are deemed insufficient and should be penalised through taxes.

The CBAM is impervious to the suffering of many countries and peoples, and particularly vulnerable developing countries, to the losses and damages that are being suffered to climate change that is not of their making. Companies trading with the EU do not operate in a vacuum removed from the on-the-ground realties of the countries they work in and the lives of the people who live there. It is therefore a false narrative to say, as the EU does, that CBAM is not about countries but rather about companies. This is more so when the bureaucracy and costs of CBAM may close the EU market to small and micro enterprises that are a fundamental part of society and the economies of developing countries.

The unequal international playing field is not only a legacy of the past. It is a product of the current discriminatory and unfair global decision making and financial architecture, practices and policy impositions, such as trade distorting subsidies, control of global currency and banking markets and technology development and access. These give companies in the global North a decisive edge over their competitors elsewhere. In this context the impacts of CBAM will fall unequally and many companies in the global South that are already operating under constrained conditions may be pushed out of business.

A transition to a climate-resilient and low-emissions economy that results in the same structural inequalities, including where developing countries remain subject to long-standing trade protectionism and distortions, unilateral taxation in particular in agriculture, and as suppliers of unprocessed materials with low-value added and strategic minerals to drive development elsewhere, cannot be considered just. Reiterate that the unequal international playing field is not only a legacy of the past. It is a product of the current discriminatory and unfair global decision making and financial architecture, practices and policy impositions, such as trade distorting subsidies, control of global currency and banking markets and technology development and access. It is thus in this context, that the impacts of CBAM will fall unequally

CBAMs, however, present developing countries will an opportunity to reflect on whether the new economy or so-called green transition ought to operate in the same way as the fossil fuel and raw material industries have to date. Should strategic minerals and rare earths simply be handed over at low cost to developed countries, or should they be sold at real value or be utilised for local industrialisation and creation of local value chains, as contained in the UN Secretary General's position paper on "Resourcing the energy transition towards Equity and Justice"?

In this regard, we warmly welcome the section on Trade in critical minerals and commodities, including support for the recommendation of the Secretary General's Expert Panel on Critical Energy Transition Minerals, which will contribute to ensuring that FFD4 results in a meaningful outcome, by igniting a new growth path for developing countries.

DEBT AND DEBT SUSTAINABILITY (5 DECEMBER 2024)

We wish to align ourselves with the statement delivered by the African Group.

We support the recommendation for an intergovernmental process to agree updated principles on sovereign lending and borrowing, to address the root causes of recurrent debt crises.

With regard to 2a, we should add that official creditors should also ensure that Liability Management Operations such as debt buy-backs and debt exchanges - which are already entrenched practices in sovereign debt management, are not seen by Credit Ratings Agencies as an act of default or intention on the part of debtor countries not to faithfully honour their payment obligations.

We can also support the idea of a Protocol to UNCAC to make illegitimate debt unenforceable.

We agree that pre-emptive debt restructuring should be encouraged where needed taking a case-by-case approach.

South Africa supports debt suspension during Common Framework negotiations for debt treatment on a case by case approach.

We would like to conclude with a question: How will the Sovereign Debt Review agreed in the Pact for the Future relate to the FFD process, and in particular can we expect to get recommendations from the review in time to inform the FFD4 outcome?

SCIENCE, TECHNOLOGY, INNOVATION AND CAPACITY BUILDING (5 DECEMBER 2024)

South Africa is pleased with the general thrust of the elements paper especially its point of departure in recognising the need to close STI divides and leveraging STI to advance the implementation of the SDGs.

South Africa believes that its could be improved in the following manner:

Specific measures for the development and support of STI ecosystems in LDCs, LLDCs and African countries. Whilst the elements paper recognises the need for the support of STI ecosystems in these special situations, it falls short of listing specific measures. To this end, as per discussions during the 8th STI Forum in 2023, South Africa advocates for the ringfencing of 0.2% of GNI for the development and support of STI ecosystems.

The Global South needs to be capacitated. Therefore, inclusion of Technology Assessment is very important as part of STI policy development. Open Science should be used as a starting point for Open Innovation for sharing of innovations especially between the Global North and Global South.

Advancing women-centred science and technology solutions is an important issue that deserves its own subheading. This is because the underrepresentation of women and girls in the STI and STEM fields is symptomatic, and is a key feature of STI divides. However, STI divides covers a diverse range of topics, thus, whilst including women and girls within the broad rubric of STI divides is substantively correct, doing so risks diluting the underrepresentation of women and girls with other issues.

Within our current global digital village whose key feature is global digital connectivity, a discussion on STI for financing for development is incomplete without digital technologies. The elements paper refers to financial technology as a key ingredient for achieving financial inclusion and financial health. The importance of financial technology can be strengthened by prefacing it with the important matter of access to digital infrastructure and digital technologies. Digital technologies and its related infrastructure are the key ingredients upon which financial technology is founded upon.

In all references to Artificial Intelligence, preference should be given to previously agreed language on the subject. Technology transfer from the Global North to the Global South should be advanced without conditions. This issue is marginally addressed in the elements paper with the mention of TRIPS.

DATA MONITORING AND FOLLOW UP (6 DECEMBER 2024)

We fully concur with the comments made by Canada and others on the importance of data, and we would add that we also need a strengthened performance monitoring and evaluation framework, to ensure that FFD4 does not become just a laundry list of ambitions that are not implemented.

We support the elements in this section, including the proposal to task the IATF to propose a financing indicator framework for inter-governmental discussion.

We think it would be important to have a peer review process to support learning and enhance accountability and implementation.

We would like to draw your attention to the call made in the Africa Regional Consultation, which took place after the elements paper was released, for a Universal Financing Accountability Framework, modelled after the Universal Periodic Review Process, to track progress on financing commitments, and for an integrated FFD Follow-up System, to address policy gaps and facilitate evidence-based policy-making.