**Structure and options for a possible declaration**

**Our objectives**

***Fighting poverty***

* 120 million people have been pushed into extreme poverty in the last three years[[1]](#footnote-1). Multiple, overlapping shocks have left developing countries with reduced resources and dwindled fiscal space to confront these crises as well as build resilience for future crises.

***Supporting vulnerable countries***

* Hundreds of millions of people are potentially affected by humanitarian and natural disaster crises (including those resulting from climate change). If unaddressed, these shocks may plunge vulnerable countries into a spiral of crises.

***The planet and global public goods***

* The transition towards a ‘Net Zero’ world requires enormous transformations of key sectors of the economy. Steady economic growth, a strong human capital base, and changes to consumption patterns are necessary elements to this transition. In the meantime, all countries must be able to adapt and make their economies resilient to climate change.

***Promoting global cooperation***

* In a world threatened by fragmentation, and global challenges (climate, biodiversity, health), solutions can be arrived at only through cooperation. It is important to make sure that countries that are hit the hardest by current crises are not just part of these conversations but also leading them. It is also key to restoring trust and delivering a “financing level playing field” that benefits developing and emerging partners.

Honouring CBDR in spirit, in deeds, in treaties and in global rules will be a clear sign of promoting global cooperation and will breed trust.

**Challenges for the global community**

* Less favourable economic environment for transition: higher interest rates and higher public debt.
* Increase in poverty and derailment of the progress on achieving SDGs.
* Huge financing gaps to achieve SDGs, emission reduction, climate adaptation and other global public goods. More difficult resource mobilisation. Massive capital needs for the transition.
* International cooperation is more necessary than ever; the greatest challenge is to address new needs (global public goods and vulnerability) without diverting resources from the poor.

**Principles on Climate, Finance and Development**

* Differentiated pathways of transition according to national circumstances and priorities, defined nationally, which should however come together as part of the global effort to meet the goals of the Paris Agreement.
* Fighting poverty is fighting for climate: financing global public goods must not result in the diversion of resources from the poor and LICs.
* Crises will occur with increasing frequency: reducing vulnerability and creating resilience is essential. Some countries are more exposed (e.g., small islands, Sahel countries).
* The need for a financial system that works for everyone; a “financial level playing field” that keeps the cost of capital in low- and middle-income countries reasonable and affordable by tackling unequal access to financing and unequal distribution of financial shocks.

**Mobilising and channelling resources**

***Concessional finance***

* Concessional finance needs to be increased, and for this, every approach should be considered.
* The need for grants:
  + A call to support for IFIs concessional facilities.
  + A call to (1) mobilise SDRs for vulnerable countries and (2) explore ways to use them as hybrid capital instruments for MDBs.
  + A call to meet commitments on loss and damage.
* Concessional money must on priority, benefit the poor and low-income countries that are most vulnerables to the adverse effects of climate change:
  + Concessional money should finance all SDGs including poverty, health, education, adaptation to climate change.
  + Poor countries are indebted and need grants.

* While recognising the importance of maintaining the bulk of concessional resources to the LICs, we will further discuss how to incentivise the most vulnerable, for middle-income countries to bolster efforts for provision of global public goods, including through better use of the vertical funds.

(*What kind of principles/limits to blending:* *additionality? subsidiarity?)*.

***Scaling up private capital and shift financial flows consistent with the Paris Agreement goals***

* The need for scaling up. The numbers.
* The need to identify and better share the “cascade” of specific risks that investors face in order to reduce the gap between perceived risk and real risk:
  + Removing unintended regulatory obstacles in investors’ countries while maintaining appropriate standards.
  + Improving the investment climate in host countries.
  + Increased role of regional or sectoral funds to better assess risk and better organise financial intermediation.
* Climate mitigation and adaptation should be financed by the private sector with proper risk sharing by the public sector, mainly in the form of guarantees. Reorientation of the operational model of MDBs in line with the goals of the Paris Agreement is necessary for that purpose, recalling also the recent calls by the UNFCCC COP26 and COP27 .

MDBs play a critical role in supporting efforts for financing SDG-aligned projects to achieve the 2030 Agenda for Sustainable Development. Therefore, MDBs can catalyse the private finance for SDGs, in addition to climate.

* Reciprocal obligations and commitments from private capital so that host countries’ macro-economic, fiscal and financial stability are not adversely impacted.

***Addressing vulnerability***

* Vulnerability may need the channelling of specific resources through new approaches and instruments: quick disbursements after disasters; strong mobilization for reconstruction.
* Some immediate progress: automatic debt rescheduling for disaster-hit countries; additional contingent financing by MDBs; new methodologies to assess debt sustainability for investment in resilience and adaptation.

***Innovative sources of finance***

* Absolutely necessary in the future (with limited fiscal capacity in most countries).
* Need for resources that are stable, predictable and concessional (to be leveraged; financing of humanitarian actions).
* *Establish process for review and policy discussion? Point to some specific directions?*

**A reformed architecture**

* Strengthening multilateral coordination to address the deteriorating debt situation and facilitate coordinated debt treatment for debt-distressed countries.
* Greater cooperation on debt treatments, both for low-income and middle-income countries, including the swift conclusion of cases currently under treatment under the G20 Common Framework (*to be developed*).
* For strengthening MDBs, reforms must include, among others (1) greater resources, starting with the additional financing capacity created by CAF measures (2) an increase in leverage (3) a reformed operational model (e.g., the use of guarantees) and (4) more mutual synergies: MDBs should work as a system, also in cooperation with regional, national development banks and vertical funds. The work under the G20 Indian Presidency on strengthening MDBs to address shared global challenges of the 21st century is crucial. We look forward to the Report of the G20 Expert Group on Strengthening MDBs.
* Work on better standards and data information and certification systems for decarbonised investments *(should multilateral institutions – the World Bank – take an increased role?).*
* Perspectives for vertical funds. Promoting better use of existing resources including by increasing their leverage. Is there a road to some rationalisation? At least the vertical funds could contribute with their concessional resources to the action of MDBs supporting global public goods. (*Governments must balance the benefits of diversity, additionality, and efficiency when they set up vertical and trust funds. The dangers of too much dispersion in concessional money. Are they prospects for leveraging?).*
* Promote an approach that builds on countries’ needs, ensures broader financial mobilization and helps address poverty and global challenges jointly.

**Follow-up and avenues for the future**

* Develop carbon credit markets (integrity, efficiency, scale).
* Study mechanisms for hedging exchange risk. The high cost of capital is blocking the flow of capital, projects and climate mitigation. The greater part of the capital cost is the foreign exchange risk premium. Mechanisms could be explored using the benefits of diversity, liquidity and capital, to conservatively selects periods to reduce the market cost of FX hedging.
* Look forward to outcomes from the G20 under India’s Presidency.

1. https://press.un.org/en/2022/ecosoc7078.doc.htm [↑](#footnote-ref-1)