G-24 Technical Group Meeting

July 17-19, 2023

Abidjan, Cote D'Ivoire

SUMMARY REPORT

The Summer 2023 Technical Group Meeting (TGM) was hosted by Cote D'Ivoire and held in Abidjan July 17-18. The overall theme of the meeting was ***Financing Sustainable Economic Transformation.*** Panel sessions focused on four topics on *domestic revenue mobilization*, *foreign and private financing*, *climate change and financing*, and *sovereign debt resolution*.

KEYNOTE PRESENTATION: MOBILIZING FINANCANCE FOR SUSTIANABLE AND ECONOMIC TRANSFORMATION

Speaker: Dr. Adama Coulibaly, Chair of G-24 and Minister of Finance and the Economy, Cote d'Ivoire

Minister Adama Coulibaly's Keynote presentation focused on *Mobilizing Finance for Sustainable Economic Transformation*. He highlighted the importance of pursuing Sustainable Development Goals (SDGs) and climate action despite global economic challenges. He encouraged participants to consider global developments in discussions, and to recommend financial frameworks that aligns with member countries' long-term development goals.

Regarding financing sources, the Minister emphasized domestic resource mobilization as foundational, urging countries to enhance revenue generation and use tax policies for to achieve inclusive development. He emphasized the need to scale up foreign and private financing for development, along with reforms of international financial architecture. Structural policies were also highlighted to stimulate investment, employment, and innovation, particularly among the youth. Climate action collaboration and sovereign debt architecture reform were underscored as urgent.

In closing, Minister Coulibaly called for meaningful discussions and recommendations to achieve SDGs, climate action, and economic transformation, fostering inclusive growth and addressing global challenges.

SPECIAL SESSION: SETTING THE CONTEXT: DEVELOPMENT AND GLOBAL CHALLENGES – IMPLICATIONS FOR FINANCING

Speaker: Dr. Iyabo Masha, Director, G-24

Iyabo Masha's presentation provided a context to the main theme and subtopics of the TGM. She noted that the Millennium Development Goals (MDGs), the successor Agenda 2030, and the Paris Agreement on climate change are now widely regarded as the world's consensus on human and societal progress. The agreements provide a framework that countries use to guide economic transformation plans, human and physical capital investment, and climate-friendly policies. She noted that the initial progress in the overarching goal of poverty eradication has slowed down since 2015, and by 2020, the pandemic and subsequent macroeconomic and geopolitical challenges have all contributed to an outright reversal of progress. Consequently, many countries now find themselves falling behind in their pursuit of the SDG goals. In addition, with the escalating effects of climate change and extreme weather-related conditions, the threat to global development prospects is formidable. Under the circumstance, urgent international action is needed to secure a sustainable future for all.

Masha recognized the significant obstacle as the shortfall in financing and investments, relative to the needs. In this regard, she considered the overall theme of the two-day meetings appropriate. She noted that at the conception stage of the global agreements, early estimates of investment and financing needs revealed a daunting financing gap, surpassing the capacity of many Emerging Market and Developing Economies (EMDEs) at their level of development. But the expectation that additional domestic and external resources would be mobilized to fill the gap did not however, materialize, with the result that the funding gap especially in EMDEs and Low-Income Countries (LICs), is now magnifying the pre-existing development divide between rich and poor nations.
In a review of recent developments with respect to the main sources of financing which form the topics of the panels, the conclusion is that none of them is performing at a level sufficient to ensure that SDG goals are met by 2030. Domestic revenue mobilization has slowed, impacted by global economic downturns, including the COVID-19 pandemic and geopolitical conflicts. External financing conditions have tightened, increasing the cost and reducing the access to external finance for LICs and MICs. Volatile private financing, constrained by credit ratings and susceptibility to crises, has exacerbated the situation. Elevated debt levels have further limited access to financing, with debt distress and rollover risks impeding investment prospects for many countries. Together, all these lead to an even greater deficit, which if not addressed would widen the development gulf between countries. With new estimates for annual development spending projected to increase from $3 trillion to $5.3 trillion by 2030, urgent and innovative solutions for financing sustainable development are needed.

Masha stated that the topics of the gathering have been selected to highlight the challenges and opportunities in each of the financing categories, share experience, and to proffer solutions.

SESSION 1: DOMESTIC RESOURCE MOBILIZATION: FISCAL AND STRUCTURAL REFORMS TO MOBILIZE DOMESTIC RESOURCES, IMPROVE INTERNATIONAL TAX COOPERATION AND COMBAT ILLICIT FINANCIAL FLOW

Key presenter: Dr. Oral Williams, Director, IMF AFRITAC West 1
Moderator: Nathalie Picarelli, Senior Economist, World Bank Group

Oral Williams discussed challenges to domestic revenue mobilization due to declining external finance. Low tax revenue in developing countries is due to difficulty in taxing informal sector SMEs and shallow domestic markets. Despite low revenue, taxes are crucial for growth and tax policy can drive specific areas of development. Consumption taxes like VAT have untapped potential. Using tools like IMF's TADAT evaluation can guide policies, while the ability to achieve high domestic revenue depends on political institutions and capacity.

Williams analyzed the uncertain impact of the OECD Inclusive Framework 2-Pillar solution on developing countries' revenue. The solution might increase global Corporate Income Tax revenue, but developing countries' gains are limited, and the complexity brings administrative costs. He suggested strengthening the Framework over time by reducing thresholds and advocating for clearer guidance.

Fadhel Kaboub argued that underdevelopment and low financing in the global South stem from structural issues. He highlighted energy and food deficits, and low value-added industrialization as key problems. Addressing these issues is necessary for sustainable development, and regional cooperation and using bargaining power can rebalance the global economy.

Sukhad Chaturvedi focused on the international taxation architecture, particularly the OECD two-pillar solution. Developing countries' capacity gaps limit their ambitious revenue goals within the Framework. Challenges like language barriers are addressed through South-South cooperation. UN discussions could help rectify power imbalances in international tax negotiation, leading to fairer and sustainable tax rules. India is also working on tax reform areas like Tax Evasion and Exchange of Information.

Oscar Hendrik, of Peru, discussed achieving fiscal stability with limited revenue. Sound financial management, low inflation, and legislation against illicit flows are crucial. He suggested involving the private sector in reforestation and national climate energy plans instead of relying solely on price-based policies.

SESSION 2: FOREIGN AND PRIVATE FINANCING: INCREASING LONG TERM FINANCING THROUGH MULTILATERAL BANKS, CAF REFORMS AND PRIVATE FINANCING

Key presenter: *Hassatou-Diop N'Sele*, Vice-President for Finance and Chief Financial Officer, African Development Bank
Moderator: Ayanda Dlodlo, Executive Director (Angola, Nigeria, South Africa), World Bank Group

In the second session on foreign and private financing**, Hassatou-Diop N'Sele** discussed multilateral banks' lending capacity amidst a changing global economic landscape. AfDB aims to bridge the $1.3 trillion SDG financing gap in Africa, proposing a Climate Action Window (CAW) and emphasizing private sector mobilization through risk-sharing models and innovative solutions. On IMF SDR, N'Sele highlighted uneven distribution and proposed an AfDB initiative to rechannel SDRs through a Hybrid capital instrument, increasing lending capacity.

Fadhel Kaboub emphasized structural economic deficiencies in developing countries and suggested pan-African cooperation for strategic investments and transformation. He advocated for MDBs, RDBs, and national authorities to commit to financing transformation and align with development strategies.

Rebeca Gouget Sérgio Miranda of Brazil emphasized MDBs' role in mobilizing the private sector despite high indebtedness, advocating for conditionality and concessionality in reform discussions. The importance of credit rating agencies incorporating transformation efforts in assessments was discussed, along with MDBs' convening power in bringing investment opportunities.

Participants stressed tripling MDB resources, implementing CAF recommendations, and shareholder support for success. The session highlighted urgency in financing transformative agendas and collaboration for sustainable economic transformation and climate goals, aiming to leverage resources effectively and overcome developing countries' challenges.

SESSION 3: CLIMATE CHALLENGE AND FINANCING: CATALYZING AND COORDINATING FINANCE FRIENDLY INVESTMENT AND DEVELOPMENT

Key presenter: Amar Bhattacharya, Senior Fellow, Center for Sustainable Development at Brookings Institution and Visiting Professor in Practice at the Grantham Research Institute at London School of Economics
Moderator: Abdoul Salam Bello*,* Executive Director (Africa Group II), World Bank Group

Amar Bhattacharya's presentation focused on scaling up climate and development investment. He highlighted the risks and opportunities related to climate change and development, noting that the pandemic and geopolitical issues risk a lost decade for development. Developing countries can build better systems with green technology advancements, needing massive investment driven by climate and development goals. Key priorities for climate action include transforming energy systems, addressing vulnerability, and investing in sustainable agriculture. While initial investment is significant, the long-term savings of transitioning from fossil fuels are greater. MDBs play a central role, and private finance must be mobilized at scale through policy foundations, capacity building, and just energy partnerships.

Bhattacharya stressed meeting the $100 billion annual climate action commitment, proposing a holistic approach to climate finance. An additional $1 trillion/year by 2030 is needed. MDBs should triple their flows, scale concessional finance, replenish the GCF, and address loss and damage.

Igor Paunovic highlighted balancing climate and development in developing countries, emphasizing common but differentiated responsibility. Accessing climate finance is a challenge, with costs exceeding available resources. Global economic governance evolution and just transitions are crucial.

He addressed domestic resource mobilization challenges, high indebtedness, and the role of private finance. Blended finance and regulation-focused private finance approaches were discussed. Paunovic recommended a new development model, global financial architecture reforms, climate crisis urgency, technology transfer, international cooperation, and various global reforms.

Neil Cabiles discussed the Philippines' climate finance challenges and efforts. Typhoon impacts on GDP and climate change threats prompted climate-focused recovery. The country promotes sustainable energy transition, utilizes multilateral and bilateral partners, issues green bonds, and fosters green investments.

Participants emphasized the importance of international agreements, country ownership, and platforms. Carbon markets, challenges in dollarized economies, and global cooperation were discussed as well.

SESSION 4: SOVEREIGN DEBT RESTRUCTURING AND RENEGOTIATION: REFORMING SOVEREIGN DEBT ARCHITECTURE TO PREVENT CRISES, SUPORT THE PREVITION OF AFFORDABLE LONG- AND SHORT-TERM FINANCING, AND IMPROVE PROSPECTS FOR EFFECTIVE AND FAIR RESTRUCTURIGS

Key presenter: *Sarah Jane Ahmed,* Finance Advisor to the V20 Ministers of Finance
Moderator: *Neil Adrian Cabiles,* Alternate Executive Director (Philippines), World Bank Group

Sara Jane Ahmed's presentation delved into the escalating sovereign debt of emerging markets and developing economies (EMDEs), which surged from $1.3 trillion to $3.6 trillion between 2008 and 2021. Simultaneously, there's a pressing need for financing exceeding $1 trillion annually in non-Chinese EMDEs to meet the targets of the Paris Climate Agreement and the UN 2030 Sustainable Development Goals (SDGs). The imperative for debt restructuring is striking, with over $812 billion required to be restructured across various creditor classes in 61 nations categorized as 'New Common Framework Countries'. Notably, climate-vulnerable countries are disproportionately affected by debt distress, and their susceptibility to climate impacts is inversely related to their borrowing space and high debt service payments relative to exports.

However, the G20 Common Framework's limitations came under scrutiny. Its exclusion of middle-income countries from relief, inadequate compulsion for all creditors to negotiate, and lack of alignment with climate and development objectives were highlighted. Ahmed's proposals included Common Framework reforms that encompass debt-distressed, climate-vulnerable developing economies in predictable and timely debt relief mechanisms. She suggested incentives such as debt service standstills and guarantees to encourage creditor participation, coupled with credit enhancement during debt restructuring. This would attract fresh investments towards climate-positive actions conducive to development while also ensuring the engagement of existing creditors. Crucially, a substantial reduction in Net Present Value (NPV) of debt for eligible countries was presented as a strategic step toward effective and comprehensive restructuring, along with legal safeguards to deter negotiation derailment by holdouts. Ahmed's presentation further indicated that the Global Sovereign Debt Roundtable (GSDR) is insufficient for countries ineligible for the Common Framework.

Amar Bhattachrya echoed the sentiment of debtor dissatisfaction, underscoring the urgency of solidarity in finding solutions. He emphasized transparency and comparability in treatment, extending these principles to encompass domestic debt. Addressing short-term financing challenges is pivotal, as the absence of such support exacerbates problems. Multilateral institutions like International Financial Institutions (IFIs) play a pivotal role in offering short-term liquidity assistance. While urging MDBs to contribute, he proposed that new funding rather than restructuring would be more effective. On the subject of state-contingent clauses, he acknowledged their potential but stressed that they might not lead to debt reduction. He noted that reaching agreements on debt reduction requires fundamental prior agreements and proposed the expert group within the Colombia proposal as a potentially balanced platform for finding solutions benefiting both creditors and debtors.

Frank Preah Ghana’s experience indicates that countries’ that have access to short term liquidity could solve a debt problem, obviating the possibility of full-blown debt crisis. According to the delegate, there are issues relating to the DSA, but the ratings agencies base their ratings largely on the DSA, often resulting in a negative assessment. Risky DSA assessment by IMF feeds into ratings which makes debt crisis materialize. Member countries should press IMF and WB to reform the DSA. In addition, climate risk is an important factor because it is a shock that when triggered prices a country out of the market.

Gert Marincowitz presented **t**he experience of South Africa in the CF is in the capacity as a Vice-Chair of the creditor committee for Zambia. The general experience is that certain developments improve debt resolution. These include bringing together creditors from Paris club and G20, comparability of debt treatment, real commitment from creditors to provide debt treatment, and obtaining financing assurances within one month after official creditor committee established. The key lesson for South Africa is that it is important to have agreement early in the process on whether contentious items should be included or excluded in the treatment. Furthermore, each party needs to have access to all information to feel comfortable with the process. The CF could be strengthened to provide certainty to debtor countries - provide debt service suspension during negotiations, ensure early engagement and coordination between debtors and all creditors.

Ying Yang presented a **c**omprehensive report of the experience of China as one of the largest creditors that also co-chairs the official creditor committee for Zambia, Ethiopia, and Ghana. She stated that the three significant points raised during negotiations within the Common Framework (CF) pertained to MDB participation, non-resident holding of domestic debt, and treatment of project financing. The prolonged resolution of these matters underscored their importance in the negotiation process.
• MDB Participation: The delegate stressed the need for meaningful involvement of MDBs in debt restructuring to alleviate challenges faced by developing nations. When MDBs decline participation, the burden shifts to other creditors. MDB financing, unless in grant form, increases a country's external debt, demanding deeper haircuts to align with IMF program

parameters. To resolve this, MDBs should contribute timely grants and highly concessional financing, while not precluding debt restructuring participation.

• Non-Resident Holding of Domestic Debt: Arguments against restructuring non-resident holdings are unconvincing, as demonstrated by Ghana's successful example. Excluding these holdings creates moral hazard and inequity, favoring Eurobond investors over domestic bond holders. Non-resident holdings' exclusion violates equitable treatment principles and weakens market discipline. Their exclusion imposes additional burdens on other creditors and contradicts their classification as external debt.

• Project Financing: The delegate contested the inclusion of project-financed loans with sovereign guarantees. Restructuring viable infrastructure project debts sets a damaging precedent and hampers future investments in strategic sectors, endangering growth prospects.

Regarding the Debt Sustainability Analysis (DSA), the delegate advocated for an approach that considers both assets and liabilities. A balanced-sheet DSA should differentiate between productive and less productive debt allocation, aiding a comprehensive understanding of debt composition and purpose.

In conclusion, the delegate emphasized the importance of fair burden sharing and equitable treatment for a successful debt restructuring. The international community must collaborate constructively, avoiding undue pressure on specific creditors. It's essential to foster dialogue and cooperation, acknowledging the complexities of debt restructuring and seeking mutually beneficial solutions through meaningful compromises.

Peru was of the view that countries should do tier homework in advance, especially on the DSA. Issues like incorporating climate change in new projections would mean spending more money, which could impact on sustainability ratings.

Saudi Arabia wondered why, after 20 years of HIPC initiative debt restructurings, countries are again in debt crisis. This could mean that debt restructuring is not the problem, but certain actions taken before reaching debt crisis. Key actions to mitigate the possibility of going into a debt crisis include developing comprehensive economic plans, strengthen national systems (planning, budgeting, evaluation), enhancing fiscal consolidation, and regular engagement with creditors- MDBs, bilateral, and even private sector. These will build resilience in economies in the event of debt crisis.

Fadhel Kaboub was of the view that countries need to press for more reciprocity of treatment. He noted that more than 70 years ago, the London debt accords canceled Germany's debt, at a time that it was sustainable. Furthermore, a Marshall plan worth 5 % of German GDP - about $1 trillion today - was initiated to help Germany. Global South countries should demand reciprocity.

Dr. Iyabo Masha, Director of G-24, delivered a wrap-up of the deliberations, highlighting the key takeaways from the two-day discussions.

Mr. Chalouho Coulibaly, National Director, BCEAO and G-24 Deputy for Cote D'Ivoire, delivered the closing remarks. He concluded that countries need to enhance the drive for economic transformation, enhance the role for MDBs, and demand increased access to long term concessional financing.