L20 Statement to G20 Development Working Group

Thematic Group on Financing for Sustainable Development (FSD)

March 31, 2021

Session 1 on Integrated National Financing Frameworks (INFFs)

- We strongly support the **promotion of strengthening financing strategies and enhance their alignment with the SDGs through the INFFs**, which importantly also represent the link to the financing of Nationally Determined Contributions (NDCs) as part of the Paris Agreement on climate change.
- **INFF should be primarily based on supporting developing countries efforts in domestic resource mobilization, building progressive taxation systems that can guarantee comprehensive social protection and access to public services and goods**, tackling inequality and environmental sustainability.
- INFFs should be built on county ownership and inclusive processes **encompassing the full participation of social partners in developing policies, strategies and financing frameworks leading to sustainable solutions for recovery and resilience**. Both development partners and developing countries should support social dialogue.
- This is of crucial importance when addressing social protection policies and financial support. We highly **welcome the joint initiative of the OECD/WB/ILO on the scoping note** on financing social protection.
- **We very much appreciate that it looks at effective policies to promote the extension of social protection coverage – including to workers in the informal economy.** We moreover appreciate that it looks at how to provide **adequate protection for workers in all forms of employment, including self-employment**. In this regard, I would like to emphasise that non-standard and precarious forms of work has been on the rise in many countries; a key challenge that needs to be addressed.
- Moreover, it must be acknowledged that during the COVID-19 crisis, workers in non-standard, precarious and informal work have been disproportionately impacted by job loss, and these groups have been least likely to be covered by social protection; **in other words, those who need social protection the most, have been least likely to be covered.**
- We also very much welcome the note's attention to the importance of greater global coordination and solidarity to support extensions to social protection, including through:
    - **debt restructuring and cancellation.**

- ➢ **taxing of multinational corporations that currently avoid paying taxes through profit shifting.**
- ➢ **closing tax havens and stopping illicit financial flows;** and finally
- ➢ **international financial assistance to complement domestic resource mobilisation efforts for low-income countries.**

- With respect to this last point, we wish to reiterate unions' **call for a global social protection fund** – a proposal that has been put forward by the UN Special Rapporteur of Extreme Poverty and Human Rights.
- Annex 1 of this note showcases that **around 78 billion USD would be needed annually to fund social protection floors in the world's lowest income countries**. This amount represents a fraction of a percent of global GDP (0.25%), but it amounts to around 16% of the collective GDP of these countries – representing an unsurmountable financial burden for these countries in the short term unless they can be supported. **We believe that a global fund could help catalyse such financing for low-income countries.**
- **We** would like to highlight that in a forthcoming research report that the ITUC has undertaken with Development Pathways, we have simulated the economic benefits of social protection extensions in low- and middle-income economies. The **report shows how social spending increases are consistently accompanied with reductions of poverty and inequality**, **increased employment** (especially women's employment), **increased productivity**, increased **tax revenues** stemming from higher and better-quality labour force participation, and **overall higher GDP**. **Concretely, the study shows that investing an extra 1 percent of GDP can have strong multiplier effects, with a return in GDP up to 1.9 times the investment.**
- In short, **social protection must be recognised as a key factor for social and economic development** and is an **investment for robust and inclusive economies.**
- **Finally**, since the note refers to the **role of blended finance within the INFFs** and joint work with the private sector, the L20 would like to highlight the limitations of this approach, as the G20 note itself recognises, mainly related to risk management and additionality - ending up providing unnecessary incentives to business - and to doubtful development impact[1]. Therefore, promoting blended finance operations as a way forward to SDGs achievement will be a source of concern for the L20.

Session 2 on Sustainability-linked financial instruments

- The L20 calls for further deeper analysis **on the use of innovative financial markets products**, such as financial instruments like green bond, sustainability bond, social bond, and SDGs-bond.
- This is due mainly to various challenges:

[1] Only 6% or USD 13.8 billion of the private capital mobilised in 2012-2018 went to LDCs and USD 28.8 billion went to fragile states. Only 6% targeted social sectors (such as water and sanitation, education and health) with only 1.36% (USD 2.1 billion) targeting water and sanitation from 2012-2017. Effective blended finance instruments include guarantees and technical assistance. Most of the private finance (60%) was mobilised through multilateral organisations, while bilateral blending was mainly driven by a few donors. https://unctad.org/system/files/official-document/tdb_efd3d2_en.pdf

- **Instruments:** sustainability bond, social bonds, and SDGs-bond are often used interchangeably and criteria to define them are not uniformly adopted. Bonds issued in the framework of sustainable finance can be green or social (based on the promise that the proceeds will be used to enact green or social projects). When they mix green and social actions, they are called sustainability bonds. Recently a new category appeared that closely follows the SDG precepts. They are called sustainability-linked bonds/SDGs bonds and support a corporate purpose.
- **Definitions**: there is no consensus on what green and social means. International private standards are insufficient, and the Eu taxonomy is at embryonic stage. Social is controversial and mix of social and green should lead to more advanced generation of just transition finance that better respect the SDGs targets.
- **Viability:** although increasingly popular, sustainable finance market represents today less than 1% of the global financial market. If we consider the SDGs bonds, they occupy a tiny segment of the market with a value about 10 million USD in 2020. Therefore, if the objective is to scale up sustainability-linked bonds in developing countries/LDCs, the issue of mobilised capital is crucial. Moreover, the costs of activating SDGs-linked bonds would be very high, for accessing international markets as well as to support capacity building.
- **Impact**: what are the mechanisms to grant transparency and reporting.

- At this particular point in time, where resources must be channeled to key priorities such as public services and goods, in a context of the high level of debt, **the cost-effectiveness of these financial instruments should be carefully analyzed**, and we encourage G20 members to produce a stock taking analysis in this respect.
- The **L20 welcomes the call of the UNSG on more debt relief and concessional lending** through multilateral development banks.
- T**here are more than 400 Development Banks in the world, representing cumulative assets of more than USD 11.4 trillion**. With their capital provided by governments, DBs make commitments each year of USD 2 trillion, or 10 percent of the world gross fixed capital formation[2]. PDBs can live up to their significant potential if mandates, governance, and operations are oriented toward results for people and the planet. At the centre is SDG 8: sustainable growth with full and productive employment and decent work for all. This should be part of the mandate and daily work of every PDB.
- Moreover, as acknowledged by the G20 note, **official development finance remains the bedrock of international co-operation and is vital for poorer and fragile developing countries**. In 2019, figures of Official Development Assistance (ODA) totalled USD 153 billion, or a ratio of ODA to gross national income (GNI) of 0.31% and reaches hundreds of developing countries. Therefore, as recommended by the 2021 FSDR/Financing for Sustainable Development Report (FSDR) by the Inter-agency Task Force on Financing for Development we need **to scale up and meet ODA 0.7% commitment, and 0.15 to 0.20% of GNI to least developed countries**.

[2] ITUC https://www.ituc-csi.org/IMG/pdf/202010_-_fic_briefing.pdf

- Finally, we would like to have a better understanding on how to build stronger synergies with the **Sustainable Finance Study Group** for the future work to come.

Session 3 on Engagement with the Finance Track on FSD and the use of debt-related resources for the SDGs

- L20 welcomes the **SDG-oriented approach to monitoring debt relief outcomes, as well as efforts to use debt-related resources for the implementation of the SDGs**. In particular, the proposal of an SDG Fund being created in some countries - with diverted funds that otherwise would have gone to debt servicing - is worth to be further explored. A possible **SDG fund run by developing countries and operating in local currency should be used to support immediate budget needs** including scaling up health and social protection and sustainable fiscal stimulus for recovery, alongside patient investment for jobs, especially climate-friendly and care economy jobs. This approach is more sensible and effective compared to the issuance of additional bonds that would entail further indebtedness.
- However, the risk for undercapitalization of these potential funds, due to the insufficient scale of debt relief, can be a major challenge.
- **L20 calls for more debt relief for low- and middle-income countries.** The G20 Common Framework for debts treatments constitutes a step forward in the direction of a robust sovereign debt workout mechanism, however it should include cancellations and cover middle-income countries. Not doing so, will severely undermine overall debt sustainability.
- Furthermore, **we support the extension of debt service suspension initiative (DSSI) to April 2022** and the **new allocation of IMF Special Drawing Rights** commensurate with the needs of developing countries, alongside transfers by high-income countries to the CCRT (Catastrophe Containment and Relief Trust) and other trust funds. Expanded multilateral debt relief is needed, which can include the multilateral development banks adopting the CCRT model.
- Finally, once again, the **contribution of both social partners**, would grant a greater focus on SDG 8 including productive investment to create more and better jobs.

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