Press Release: Task Force 5 T20 India 2023 Side Event
Long-term Development Investment Framework for LMICs

BALI, 10 JUNE 2022. On the heels of the T20 India, the Task Force 5 T20 India, the Institute for Economic and Social Research, Faculty of Economics and Business, Universitas Indonesia (LPEM FEB UI), and the Centre for Strategic and International Studies (CSIS) Indonesia hosted the Side Event titled “Building Bridges to Sustainable Finance: The Reform Agenda of International Financial Institutions” that held on 8-10 June 2023. Aligning to the main purpose of the Side Event that is discussing the need for reforms and action plans to implement the reform, the Side Event developed a Policy Brief Dissemination: Long-term Development Investment Framework for Low and Lower-middle-Income Countries as one of the agenda of the event. The dissemination aimed to discuss and provide extensive inputs to the T20 Policy Brief discussing the financing gap that is faced by developing countries in achieving the Sustainable Development Goals (SDGs) and recommendation to address the identified gaps.

The dissemination invited prominent speakers worldwide from renowned think tanks, international organizations, and government representatives. Key figures shared their time to deliver their opinions were Priyadarshi Dash (Associate Professor, Research and Information System for Developing Countries), Teuku Riefky (Researcher, LPEM FEB UI), Fukunari Kimura (Chief Economist, ERIA), and Alicia Garcia-Herrero (Chief Economist, Natixis).

In his opening statements, Priyadarshi Dash highlighted the necessity of reforming institutional financial institutions. He acknowledged the significant role played by international financial institutions in facilitating development finance and maintaining stable macroeconomic conditions across countries. However, it has become evident over time that reform is required, particularly in light of the shifting priorities in the aftermath of the COVID-19 recovery period, as the world faces numerous new challenges. To effectively address these emerging development challenges, innovative solutions are needed. One potential solution is the restructuring of international financial institutions to offer fresh and inventive financing mechanisms that are essential in the current landscape.

Teuku Riefky on behalf of the authors presented the policy brief. The policy brief focus on the increasing pressure of worldwide countries, particularly the developing one to achieve the SDGs due to the aftermath of the COVID-19 Pandemic. Moreover, several developing countries also went into the economic downturn with smaller fiscal buffers than during the 2008-09 crisis. Government debt also had risen due to expectations of rapid growth, particularly on low-income countries where it had risen by 20 percentage points on average. Acknowledging such conditions, raising funds on this scale necessitates global collaboration, particularly in light of the Addis Ababa Action Agenda’s commitment to "seeks to align financing flows and policies with economic, social, and environmental priorities" (United Nations 2015). Unfortunately, despite the pledged commitment, there remains a significant funding gap for the SDGs.
Mobilising funds from developed countries into developing for sustainable development at a low cost is therefore critical to achieving the common goal of SDGs on a global level.

The policy brief at least provide a set of recommendations as follows:

1. Reviewing the existing development financing scheme
2. Development of domestic credit markets in LMICs
3. Reform of the private capital market credit rating systems
4. Restructuring existing official debts for long-term low-interest finance
5. Integration of blended financing in development financing schemes involving philanthropies and private companies
6. Creation of a coordination and cooperation body involving global, regional and national development financial institutions

Alicia highlighted the need to broaden our focus beyond simply improving funding flow. She suggests that before we consider restructuring funding, countries should have some relief concerning their existing financial burdens, such as public debt. During the T20 Italy Presidency, a proposal was presented addressing the issue of mounting debt in developing economies and exploring ways to transform this debt into a more beneficial form that promotes economic growth. One possibility is to establish a fund where existing debt can be swapped for new debt, ultimately creating space for crucial funding that has a positive impact on the economy.

Fukunari Kimura stressed the significance of G20 reiterating the importance of a particular issue, as the discussions within T7 and G7 focused more on security matters rather than development issues. G20 plays a strategic role in representing the viewpoints of both low-income and middle-income countries. The recommendations outlined in this paper are also of great importance. Moreover, the dynamics of international financial flow have undergone significant changes compared to the past. Previously, public sources held a dominant position in lending, whereas nowadays, private and multinational funds play a more extensive role.

To see the full coverage of the summit, please watch our recorded live stream on YouTube: https://www.youtube.com/watch?v=yE0MV36gR04