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The time for development financing[1]

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Global geopolitical and economic transformations, accelerated by the COVID-19 pandemic, and linked to increasing international and domestic inequalities and the need for urgent solutions to the global climate crisis, have had heterogeneous effects.

These effects, in addition to an increase in global indebtedness to deal with the extraordinary context of recent years, have hit poor and developing nations particularly hard. The meteoric rise of public debt over the last five years has led to fiscal stress, with major social, economic, and environmental impacts on these economies. The cost of debt ranges from 22 to 97 per cent of the tax revenue among the twenty most indebted economies in 2022.

The role of public financing in productive transformation and economic development is well known in economic literature. The source of structural change-led growth that is able to improve citizens' lives lies in the ability to mobilise and efficiently use financial resources that connect the present with the future, either through fiscal stimulus or international leverage mechanisms, such as development banks and multilateral funds, to enable long-term projects.

The major social and environmental challenges worldwide call for international cooperation and can only be effectively addressed with a substantive expansion of development financing linked to the Sustainable Development Goals (SDGs) and to tackling the effects of climate change, improving global governance. To achieve these goals in the coming decades, 'impact finance' will be the main tool of global governance.

The 27th Conference of the Parties (COP27) to the United Nations Framework Convention on Climate Change (UNFCCC), held in November 2022 in Egypt, focused on the implementation of what had been agreed in Scotland the previous year, reinforcing the centrality of the financing agenda for mitigation, adaptation or compensation projects for losses and damage linked to climate change. It aimed to advance cooperation on effective deliveries that help achieve the commitments of the Paris Agreement. The conference also exposed the blatant contradictions of developed countries, particularly regarding their willingness to allocate resources to new financial instruments in support of poorer and more climate-vulnerable countries.

It is also worth mentioning the G20 initiative to assess the capital adequacy of multilateral development banks, which points to a need to increase available capital and review risk tolerance levels. This issue, together with debt renegotiation of heavily indebted countries, will be prominent on the agenda of India's Presidency of the G20, in 2023.

This is the context in which Brazil begins its new journey of global repositioning. The reconstruction of an internationally-integrated, modern economy, capable of leveraging its environmental capital and reducing social and regional inequalities is a goal that mobilises and inspires the nation. Financing for development will be key in a national reconstruction roadmap towards a richer and more productive country, with more and better jobs and a socially and environmentally equitable society.

A new fiscal agenda that creates space for investments in Brazil must be partnered with an active foreign policy on economic issues that is based on the expansion of the country's operations in multilateral banks and development funds. This policy must seek to increase the investment amounts in long-term projects in the country, as well as linkages between the priority of these institutions and Brazil's interests abroad. The country should also seek to mobilise resources from other international funding agencies and new funds, especially those focusing on challenges related to climate change.

This agenda encompasses both domestic and international issues and emphasises the role of public financing for sustainable development. It should also be central to Brazil's presidency of the G20 in 2024 and of the BRICS in 2025. Brazil can mobilise shared interests with poor and developing countries and seek to review global financial governance to enable a much more developed and more equitable world.

Regional integration in South America will be a priority under Brazil's new foreign policy. Financing cross-country infrastructure, such as the Bi-oceanic Corridor that will connect the state of Mato Grasso do Sul in Brazil's Centre-West to the ports of northern Chile, crossing the Paraguayan Chaco region and provinces in north-western Argentina, is part of a long-term strategy to facilitate trade and investment, deepening relations with neighbours and leveraging business opportunities based on existing comparative advantages and new productive value chains. Regional integration becomes even more relevant in light of the challenges regarding the development of the Amazon. Enabling adequate financing by combining domestic and international sources to ensure the economic and social progress of the region, based on green economy principles, should be a priority.

The latest issue of *Revista Tempo do Mundo* (RTM), a journal published by the Institute for Applied Economic Research (Ipea), features 14 articles that will be summarised in the coming months in a series of One Pagers by the International Policy Centre for Inclusive Development (IPCid). The articles address important issues for Brazil and the global agenda on development financing, from the need for Brazil to develop a strategy for its participation in multilateral banks to evaluations of institutions and national and international initiatives linked to the 2030 Agenda for Sustainable Development, including the analysis of specific aspects of infrastructure funding.

Reference:

Oliveira, I., Pincemin, C., and Barros, P. S. (2022). "O Tempo do Mundo para o Financiamento ao Desenvolvimento". *Revista Tempo do Mundo*, No. 29, 5-14. Brasília: Institute for Applied Economic Research. <https://www.ipea.gov.br/revistas/index.php/rtm/article/view/426> (in Portuguese). Accessed 9 January 2023.

Note:

1. This One Pager is an abridged version of Oliveira, Pincemin, and Barros (2022).

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