Financing for Sustainable Development Report 2021

Inter-agency Task Force on Financing for Development

United Nations

This report is a joint product of the members of the Inter-agency Task Force on Financing for Development. The Financing for Sustainable Development Office of the United Nations Department of Economic and Social Affairs serves as the coordinator and substantive editor of the Financing for Sustainable Development Report.

The online annex of the Task Force (http://developmentfinance.un.org) provides additional data and analysis on progress in implementation of the Financing for Development outcomes, including the Addis Ababa Action Agenda and relevant means of implementation targets of the Sustainable Development Goals.

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for Economic Cooperation
and Development

The production of this report and the online annex of the Inter-agency Task Force are generously supported by the Federal Ministry for Economic Cooperation and Development of Germany.

How to cite this report:

United Nations, Inter-agency Task Force on Financing for Development, *Financing for Sustainable Development Report 2021*. (New York: United Nations, 2021), available from: https://developmentfinance.un.org/fsdr2021.

United Nations publication

Sales No. E.21.I.6
ISBN: 978-92-1-101442-6

The global economic context and its implications for sustainable development



Chapter I

The global economic context and its implications for sustainable development[1]

1. Introduction

As the COVID-19 pandemic continues to spread and mutate across countries, the global economic outlook remains bleak. The United Nations projects a modest recovery of 4.7 per cent for the global economy in 2021, which will barely offset the contraction of -4.3 per cent in 2020. The baseline outlook is also highly susceptible to downside risks amidst a high degree of uncertainty – including on access to vaccines, the spread of the virus and its more infectious variants, the impact of policy support measures, and debt sustainability. Against this backdrop, the global recovery is expected to be fragile and uneven.

The deep economic downturn caused by the pandemic has exacerbated existing inequalities and is threatening the achievement of the Sustainable Development Goals. The pandemic and economic crisis have aggravated debt and other vulnerabilities, and disproportionately affected those at the lower end of the skills and income distribution, causing sharp increases in unemployment, poverty, hunger and inequality, disproportionately affecting women, the young, and marginalized segments of society. It has also accelerated the pace of automation and digitalization, meaning that many jobs lost during the economic downturn may not come back. These challenges are posing a significant threat to achieving the Sustainable Development Goals (SDGs) by 2030.

Unprecedented policy action avoided worse outcomes, but there is still a risk of a "lost decade" for many developing countries. Large fiscal and monetary stimuli were critical to addressing the immediate health crisis, support economies and jobs, and avert a financial crisis. Yet, 114 million full-time jobs were lost in 2020[2] and the crisis risks leaving long-term economic scars and reducing potential output of the global economy. The magnitude of these effects across economies depends on several factors – including the extent of corporate bankruptcies and permanent business closures, number of discouraged workers, and permanent changes in consumer behaviour – but the impact is likely to be greatest in developing countries which lack the resources to effectively combat the crisis. Indeed, without international support, they risk a "lost decade" for sustainable development.

Macroeconomic policies require careful balancing to ensure an equitable and sustainable recovery. The global economic and financial crisis and its aftermath provide valuable lessons for macro-policy makers. Premature withdrawal of monetary and fiscal stimuli can derail a fragile economic recovery. And while unprecedented monetary easing by central banks – together with large-scale fiscal interventions – was crucial in averting a financial meltdown in early 2020, prolonged easy liquidity conditions can raise concerns about financial market stability, debt vulnerability, and inflation. Already high and growing public and private debt levels in many economies can become unsustainable once interest rates pick up again. Even where public debt levels may be considered "sustainable", high debt service payments will constrain fiscal policy space to respond to future shocks. Policymakers will have to manage these risks carefully to support a sustained recovery. And they will also need to manage the impact of climate risks, inequality, and other risks on economic outcomes, and consider the impacts of policies on these factors. For example, ad-hoc emergency measures can reinforce unsustainable economic models characterized by high emissions and inequality.[3]

Policies that address the economic fallout from the pandemic provide a historic opportunity to lay the ground for a sustainable, equitable and resilient economic model. The massive fiscal interventions currently underway are an unprecedented opportunity to put the world on track to meet

climate targets and the SDGs, including through tackling long-standing gender inequalities.

Investments in low-carbon technologies and sustainable and resilient infrastructure can spur growth and economic recovery, address inequalities, and at the same time accelerate the transformation towards climate-resilient economies. Yet, such investment alone will not suffice and successful climate mitigation and adaptation require a combination of policies: carbon pricing, elimination of fossil fuel subsidies, a sustainable investment push, and support for green energy research and innovation. National and international policy environments must be strengthened to maximise the synergies of economic, environmental and social policies. And international support for countries in need will be necessary to ensure an equitable and just transition for all and avoid a "lost decade".

2. Outlook and risks for the global economy

2.1 Global and regional growth trends

World gross product contracted by 4.3 per cent in 2020, marking the sharpest decline in global output since the Great Depression. Social distancing and lockdown measures across many countries brought economic activities to a halt, particularly in the second quarter of the year. This depressed demand, particularly in contact-intensive sectors, and caused disruptions to supply chains that weakened international trade (chapter III.D). With the easing of mobility restrictions in most countries, the release of pent-up demand and inventory restocking led to a rebound of economic activity. Financial market volatility, which had spiked during the early stages of the pandemic, stabilized on the back of massive policy support, as did global commodity prices. Aggregate international capital flows to developing economies also recovered (see box I.1). However, not all countries have been able to access international capital markets and take advantage of ultra-low interest rates. While recent estimates point to stronger-than-expected economic activity in the second half of 2020[4], the recovery is still tenuous. Second and third waves of infections have led to renewed lockdowns and a slowdown in reopening in many countries.

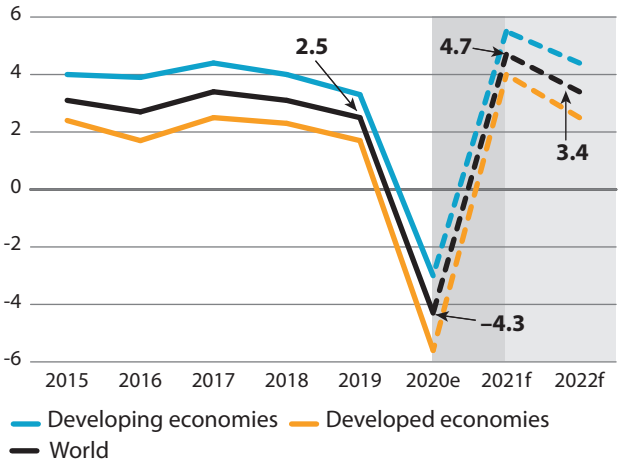
Global output is expected to recover from a low base in 2021, but will remain well below pre-pandemic trends. The *United Nations World Economic Situation and Prospects 2021* projects that the global economy will expand by 4.7 per cent in 2021 and 3.4 per cent in 2022 (see figure I.1). In developed economies, average growth is projected to recover to 4.0 per cent in 2021, following a sharp contraction of 5.6 per cent in 2020. In developing economies, growth is expected to reach 5.6 per cent in 2021, following a contraction of 2.5 per cent in 2020. If these projections hold, the economic loss induced by the pandemic would be equivalent to roughly 36 per cent of the world's 2019 output.[5]

Aggregate growth figures mask stark differences in prospects across regions and countries. Economies in the Eastern Asia and South-Eastern Asia regions have fared relatively well compared to other developing regions, on the back of a quick and robust recovery in China. Many economies in both these regions have been relatively successful in containing the spread of the virus, flattening the curve quickly and enduring shorter lockdowns. In contrast, the pandemic has exacted a heavy human toll and inflicted significant economic damage on many countries in the Southern Asia as well as the Latin America and the Caribbean regions. South Asian economies faced the worst economic declines, with GDP per capita growth contracting by nearly 10 per cent in 2020. Small Island Developing States (SIDS), including Pacific Island countries that have largely been spared by the spread of the virus, face particularly bleak recovery prospects due to their reliance on global tourism and travel.[6] While at the time of writing Africa continues to be the continent least affected by the virus, it experienced its first contraction in 27 years.[7]

Output and per capita income losses have reversed many years of income gains in developing countries. Per capita GDP growth has declined across all regions; almost a third of developing countries have experienced per capita income losses that reverse a decade or more of gains. Income losses have been highest in Africa and in Latin America and the Caribbean (figure I.2). The most vulnerable segments of societies have been disproportionately affected, with the total number of people living in extreme poverty expected to increase by 80-90 million people, particularly affecting women and girls[8]. In the baseline scenario, almost 800 million people may still be living in extreme poverty in 2030, posing a significant threat to the achievement of Sustainable Development Goal (SDG) 1.

The pandemic has disrupted labour markets around the world on a historically unprecedented scale. This has disproportionately harmed labour-intensive service sectors that typically employ large shares of low-skilled workers, disproportionately affecting women. Labour markets around the world were disrupted on a historically unprecedented scale. 114 million jobs were lost relative to 2019 – approximately four times more than during the global financial crisis in 2009. This translates into an estimated decline of global labour income by US$3.7 trillion, or 4.4 per cent of global GDP, with women and young workers disproportionally affected. Evidence from Eastern Europe and Central Asia shows that more women

Figure I.1
Growth of world gross product
(Percentage)



Source: UN DESA
Note: e = estimate, f = forecast.

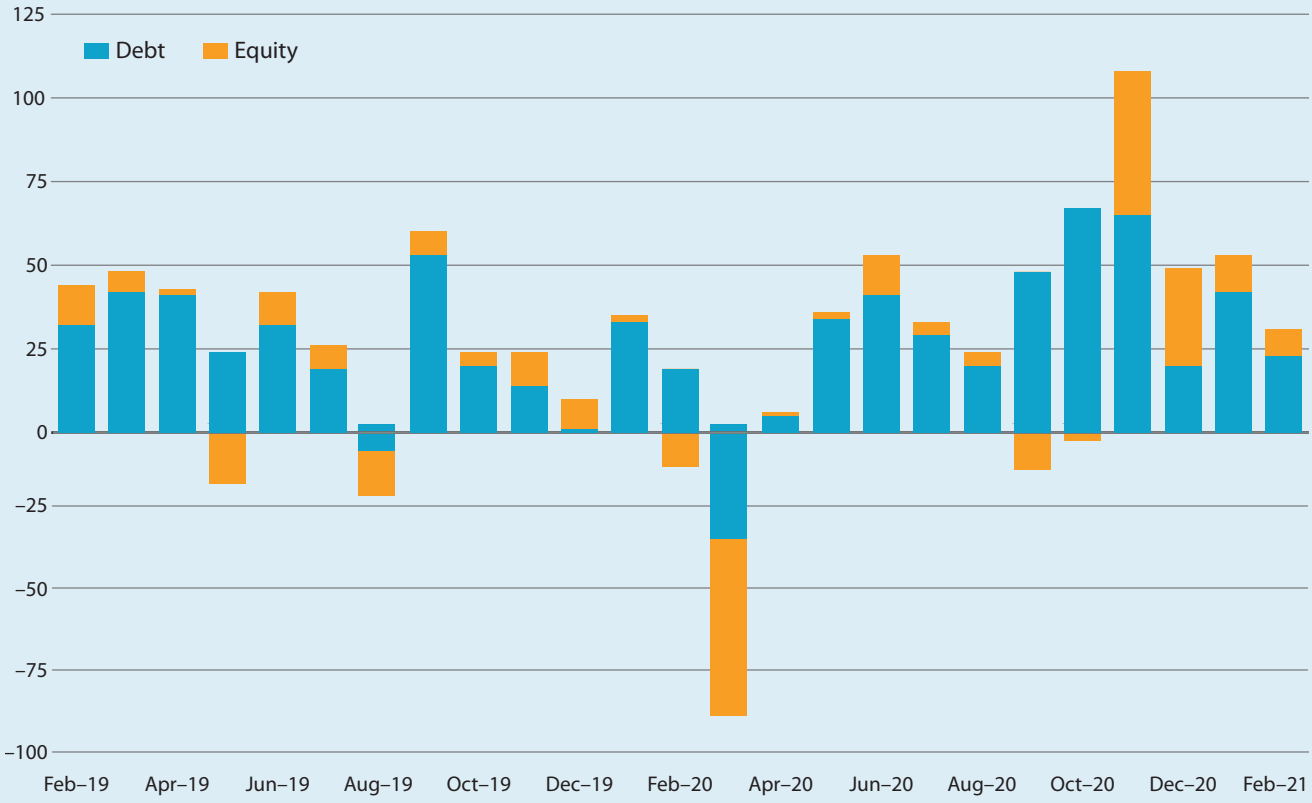
Box I.1
International capital flows

Record capital outflows from developing countries in the first quarter of 2020 shone a spotlight on vulnerabilities in the international monetary system. The onset of the COVID-19 pandemic triggered non-resident portfolio outflows of almost $100 billion between late January and the end of March, with credit spreads (i.e. the interest cost borrowers pay above a benchmark, such as US Treasuries) on emerging market sovereign bonds widening significantly, and exchange rates plummeting. Since then, international financial markets have stabilized and portfolio flows have returned to more advanced developing economies, thanks mainly to unprecedented stimulus by the US Federal Reserve and other major central banks. Nonetheless, recovery was uneven, and many countries still face severe liquidity shortages.

Portfolio flows to developing countries as a group have picked up since April 2020. Between April 2020 and February 2021, non-resident portfolio inflows to 63 emerging economies tracked by the Institute of International Finance reached over $485 billion (see figure 1). This was initially driven by bond issuances in major international reserve currencies, with equity flows picking up only in late 2020. While net flows turned positive in the third quarter of 2020, the recovery in portfolio flows has been uneven across countries. Some countries, such as Chile, Colombia and Thailand, have also been able to issue sovereign bonds in local currency to cover large parts of their projected funding needs for 2020-21. But overall, local currency funding has lagged behind financing in major international reserve currencies, as portfolio flows into local currency bond funds have remained weak,[a] and many developing countries' external funding needs will continue to exceed their access to market finance. Furthermore, heightened uncertainty about the pace of the global recovery elevates the risks of capital flight, as indicated by the most recent episode of portfolio outflows from emerging economies in late January and February 2021.

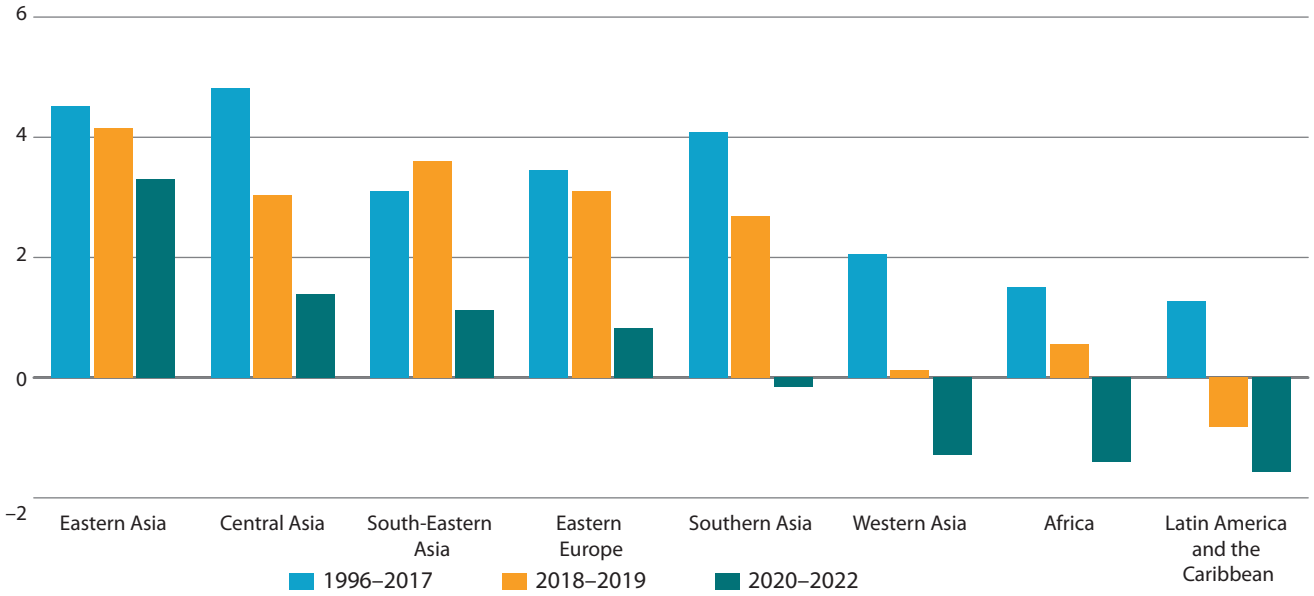
a IMF. 2020. Global Financial Stability Report: Bridge to Recovery. Washington, D.C.: IMF.

Figure I.1.1
Non-resident portfolio flows to selected emerging markets, 2019–2021
(Billions of United States dollars)



Source: UN DESA based on data from the Capital Flows Tracker - February 2021 of the Institute of International Finance, Inc.

Figure I.2
Average annual GDP per capita growth by region
(Percentage)



Source: UN DESA

have lost their jobs or businesses as a result of COVID-19 (25 per cent of women vs. 21 per cent of men).[9] Furthermore, lockdown measures to prevent the further spread of COVID-19 have taken a disproportionate toll on sectors with high rates of female employment, with school closures further magnifying the outsized impact of the pandemic on working mothers.[10] Employment in contact intensive sectors, such as accommodation and food service activities, experienced a year-on-year decline of 20.3 per cent.[11] Women are over-represented in these sectors in most countries.[12] In other sectors, such as manufacturing or wholesale and retail trade, accelerating automation and digitalization – coupled with a protracted decline in investment in manufacturing – threaten to make many job losses permanent. Lower productivity growth as a result of low investment could also translate into lower wage growth, further exacerbating inequalities.

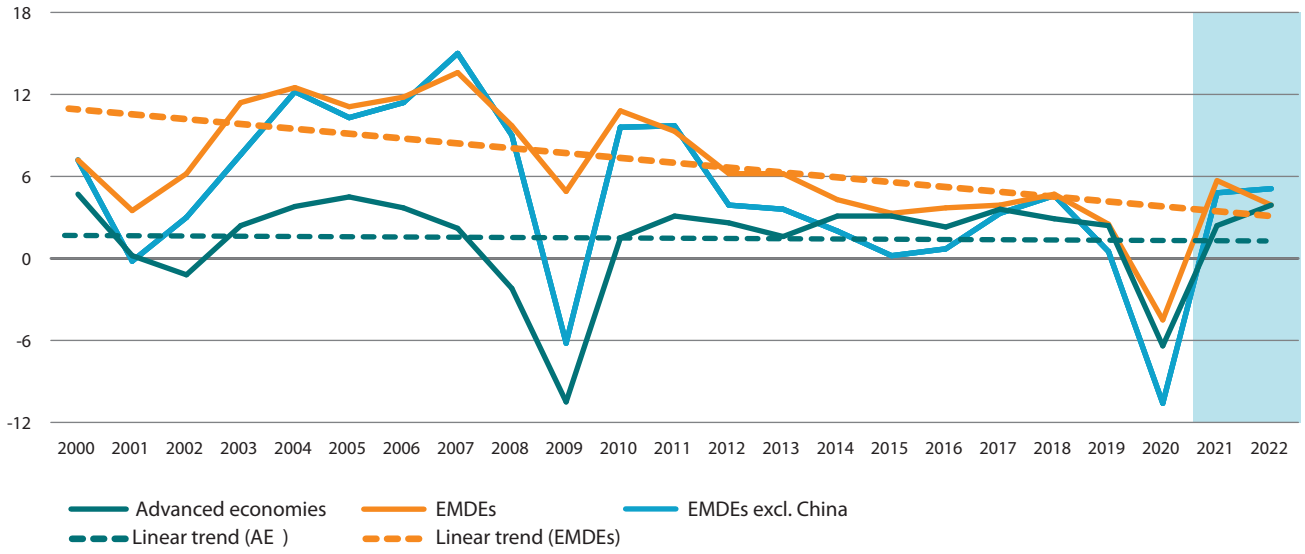
2.2. Weak investment growth

The pandemic dealt a massive blow to global investment in 2020, exacerbating the slowdown in overall productivity growth and raising the spectre of a "lost decade" for some. In 2020, gross fixed capital formation declined by 6.4 per cent of GDP in advanced economies, and 4.5 per cent in developing economies (see figure I.2), with declines experienced across all regions – though to varying degrees (see figure 1.4). Excluding China, the investment contraction in developing countries reached a record 10.6 per cent, much larger than during the global financial crisis.[13] This decline follows a decade of historically weak global investment and slow productivity growth, as private investment in fixed capital never fully recovered from the global financial crisis (see figure I.2).[14] After the pandemic recedes, history suggests that investment losses related to epidemics may be longlasting, as heightened risk aversion and uncertainty about the future prospects constrain private risk taking, even after the pandemic recedes. (see figure I.3). While a rebound in investment is expected in 2021, the collapse in 2020 bodes particularly ill for developing countries that saw the largest declines in investment. Furthermore, foreign direct investment (FDI) to developing economies fell by 16 per cent, exerting additional drag on investment growth. Flows were 28 per cent lower in Africa, 25 per cent in Latin America and the Caribbean, and 12 per cent lower in Asia, mainly due to resilient investment in China.[15]

The fall in investment was broad-based across sectors, with the exception of investments in intellectual property products. In developed countries, the decline in overall gross fixed capital formation was broad-based across sectors (figure I.4). Intellectual property products, which include investmentsin research and development, was the only sector that outperformed – even recording growth in the United States, though down from earlier years. This is likely since many US based digital companies that have defied the economic downturn are among the biggest R&D spenders globally. At the same time, the weakness in international trade activity weighed on export-oriented capital expenditure. The initial decline in global commodity prices dampened commodity-related investment and had a visible impact on many countries in Africa, Western Asia and Latin America. In several developing countries, a rise in political uncertainty and social unrest also negatively affected investment activity.

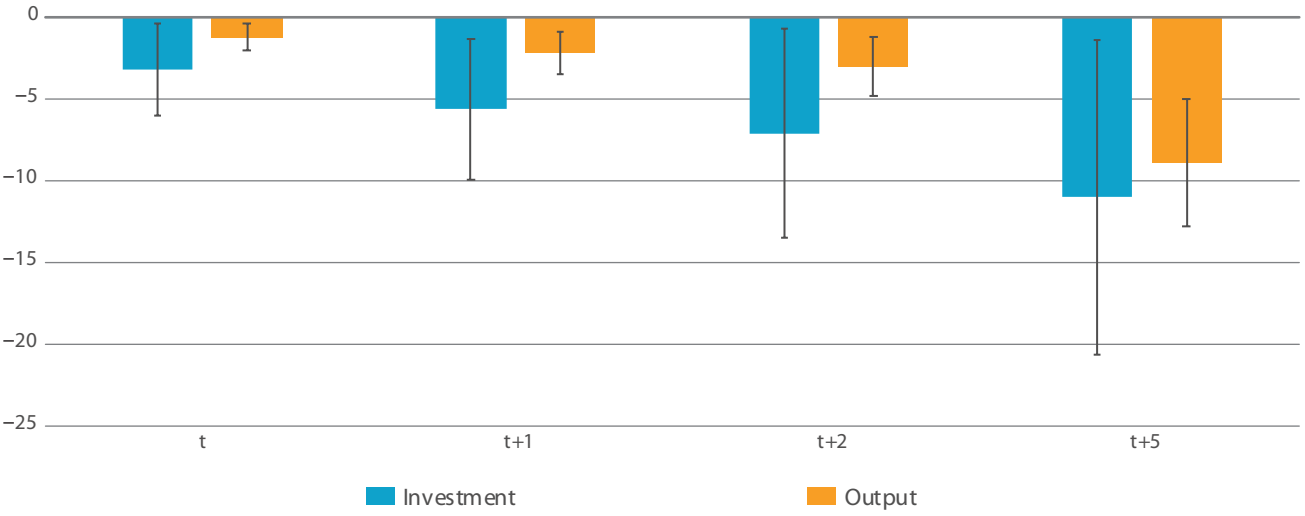
The pandemic may also accelerate structural shifts in global supply chains. While it is unclear how COVID-19 will change global value chains, anecdotal evidence suggests that the pandemic might reinforce and accelerate relocation and reshoring trends, particularly in strategic sectors such as medical equipment and drugs, or the production of technologically advanced inputs.[16] A reconfiguration of global value chains could potentially undermine foreign investment in developing countries, thus weakening an important driver of economic transformation and the achievement of the SDGs.

Figure I.3
Global Investment trends
(Percentage)



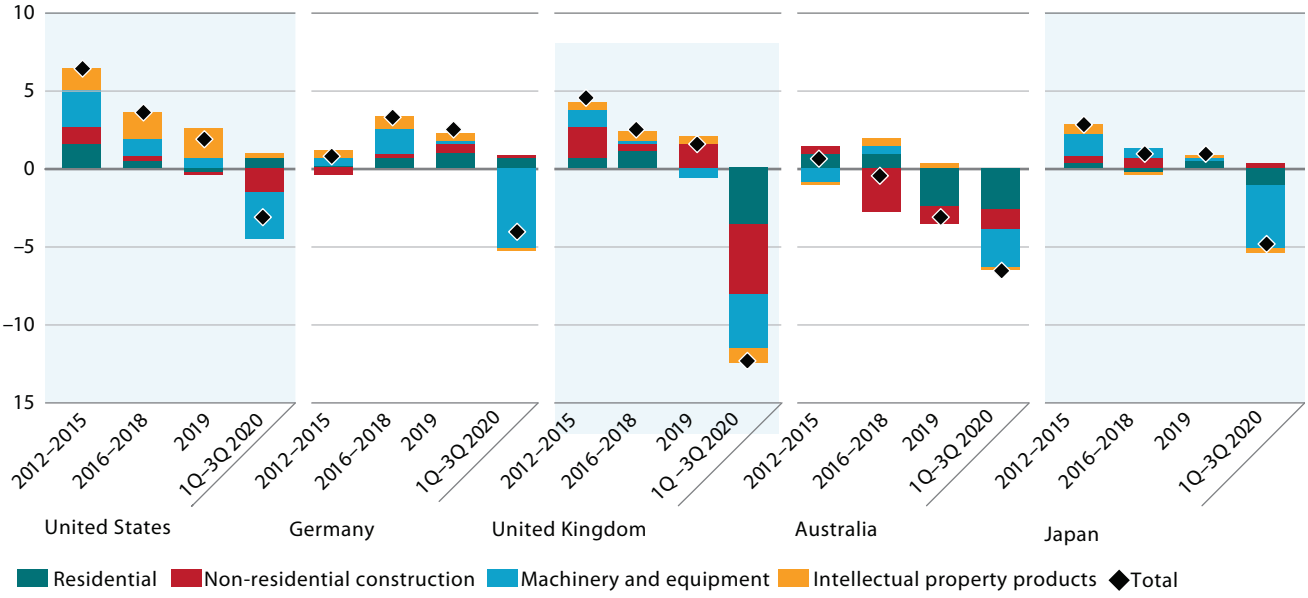
Source: Haver Analytics; World Bank.
Note: EMDEs = emerging market and developing economies. Data for 2020 are estimates and for 2021-22 are forecasts (shaded area).
Investment refers to gross fixed capital formation. Aggregate growth is calculated with investment at 2010 prices and market exchange rates as weights.
Sample includes 97 countries, consisting of 34 advanced economies and 63 EMDEs.

Figure I.4
Decline in investment and GDP after pandemics
(Percentage)



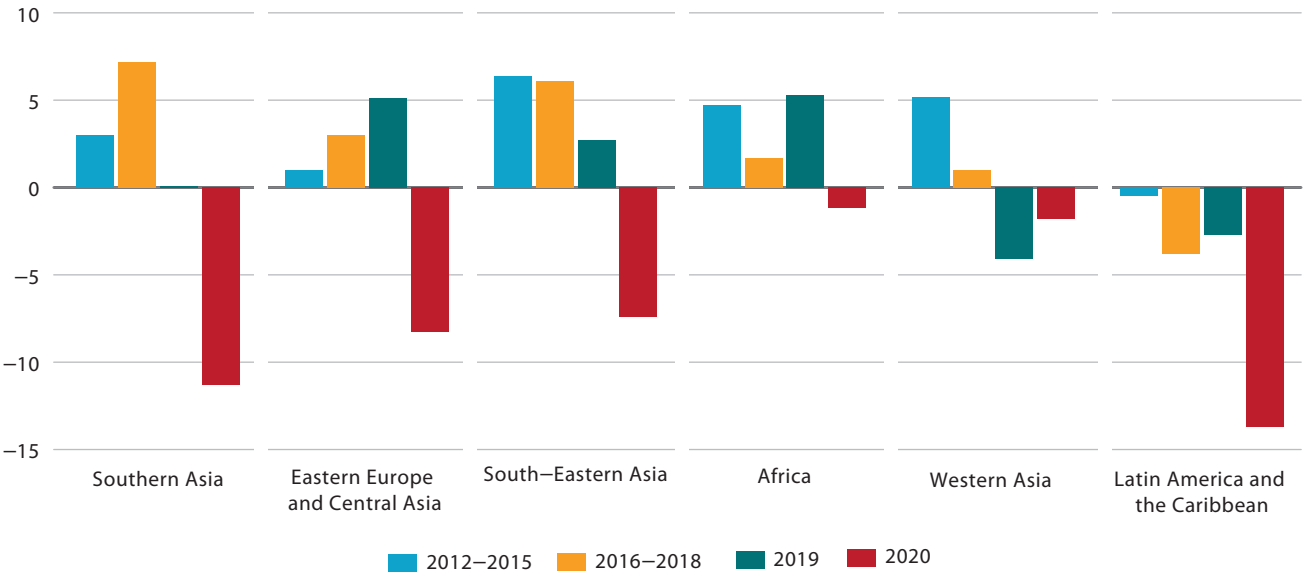
Source: World Bank.
Note: Bars show the cumulative estimated impacts of the four most severe biological epidemics on investment and output levels relative to non-affected EMDEs. Orange lines display the range of the estimates with 90th percentile significance. The four epidemics considered are SARS (2002-03), MERS (2012), Ebola (2014-15), and Zika (2015-16). Swine flu (2009), which coincided with the 2008-09 global financial crisis, is excluded to limit possible confounding effects. Sample includes 116 economies, including 30 advanced economies and 86 EMDEs.

Figure I.5
Investment growth in developed economies



Source: UN DESA, based on data from national authorities.
Note: Data for Germany, Japan and the United Kingdom are total investment, data for Australia and the United States are private investment.

Figure I.6
Growth of gross fixed capital formation in developing regions
(Percentage)



Source: UN DESA
Note: 2020 figures are estimates.

2.3 Fiscal pressures and policy responses

Governments responded to the crisis with historic stimulus packages. Fiscal stimulus measures have been vital in addressing the immediate health crisis and enhancing the and capacity of public health systems, supporting workers and businesses, and preventing deeper economic downturns.

However, faced with historic drops in revenues and high pre-existing debt burdens, many developing countries lacked the fiscal space to implement large recovery packages.[17] As a result, the size and composition of the global fiscal response has been highly uneven. Developed country measures accounted for nearly 80 per cent of the global fiscal stimulus, while developing country measures in general have been modest. Least developed countries (LDCs) as a group have collectively increased direct and indirect fiscal support by only 2.6 per cent of GDP, compared to 15.8 per cent of GDP for developed countries.

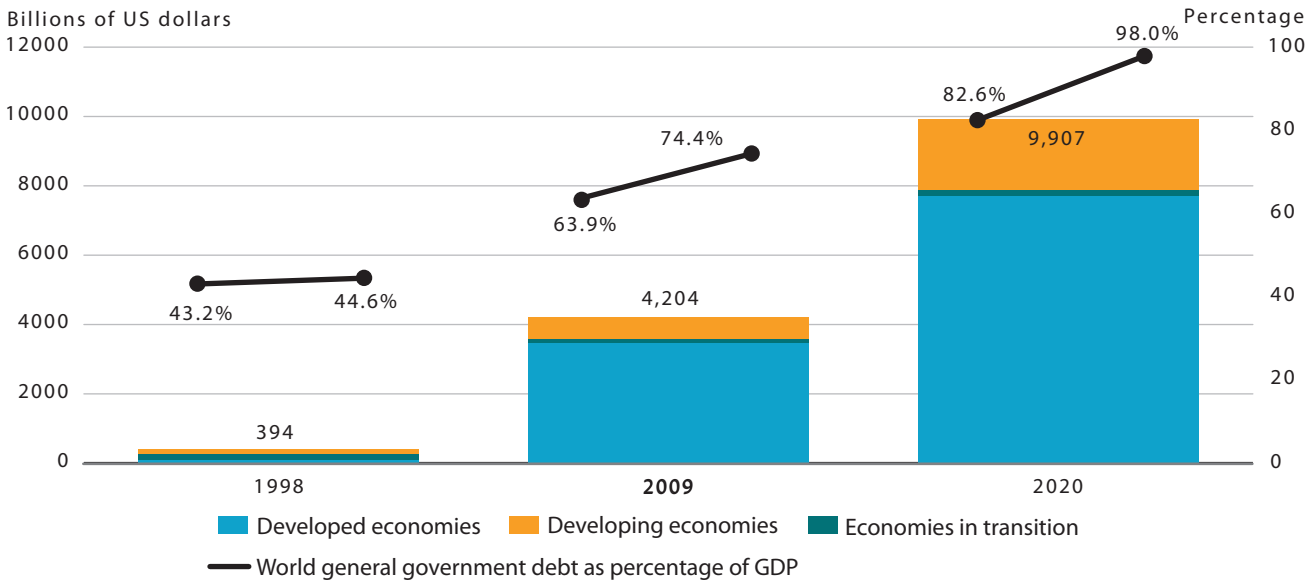
Fiscal measures, along with falling revenues, have had a dramatic impact on debt levels, exacerbating debt risks. On a GDP-weighted basis, the global public debt-to-GDP ratio increased 15 percentage points, to 98 per cent, and is now much higher than after the Global Financial Crisis of 2009 (figure I.6). While the rise in debt levels has impacted both developed and developing countries, vulnerabilities in developing countries, some of whom were already facing debt sustainability risks issues prior to the pandemic, risk limiting their ability to sustain the crisis response, and have also raised concerns over more widespread sovereign debt distress (see chapter III.E).

Fiscal support will need to be maintained to achieve a more self-sustained economic recovery. As the experience of the 2009 global financial crisis has shown, premature fiscal consolidation will inevitably weaken the speed and quality of the recovery. Premature withdrawal of policy support in the current environment could lead to widespread bankruptcies of viable but illiquid firms and further exacerbate employment and income losses.[18] Furthermore, austerity measures often entail significant cuts to social sector spending, such as spending on health, education and public services, and disproportionately hurt segments of the society that have been most hit by the economic fallout from the pandemic. Developing countries that are fiscally constrained can only avoid this scenario with additional international support, through fresh financing and debt relief and a redirection of spending to productivity-enhancing areas. The IMF and MDBs have provided additional resources, and the Debt Service Suspension Initiative (DSSI) has provided breathing space to the poorest countries. But the DSSI alone is insufficient to deal with the scale of the challenge, and excludes most middle-income countries. Moreover, the Common Framework for Debt Treatments beyond the DSSI agreed by the G20 will require deeper cooperation and collaboration among all creditors to provide meaningful relief to the poorest debt-stricken countries (see chapter III.E).

2.4 Monetary policy and financial stability risks

Alongside fiscal packages, emergency measures by central banks helped avoid widespread financial contagion and averted a global financial crisis. In response to the turbulence in financial markets in March 2020, central banks across the world introduced monetary easing

Figure I.7
Increase in general government debt during past crisis
(Billions of US dollars and Percentage)



Source: UN DESA, based on IMF World Economic Outlook, October 2020.

measures on an unprecedented scale. By the end of 2020, 94 central banks reduced policy rates by a total of 256 times, often at emergency meetings. With interest rates near the zero bound, central banks of major developed economies, including the United States Federal Reserve (Fed), the European Central Bank (ECB), and the Bank of Japan introduced or expanded quantitative easing measures. As a result of these measures, central bank balance sheets have grown significantly (figure I.8).

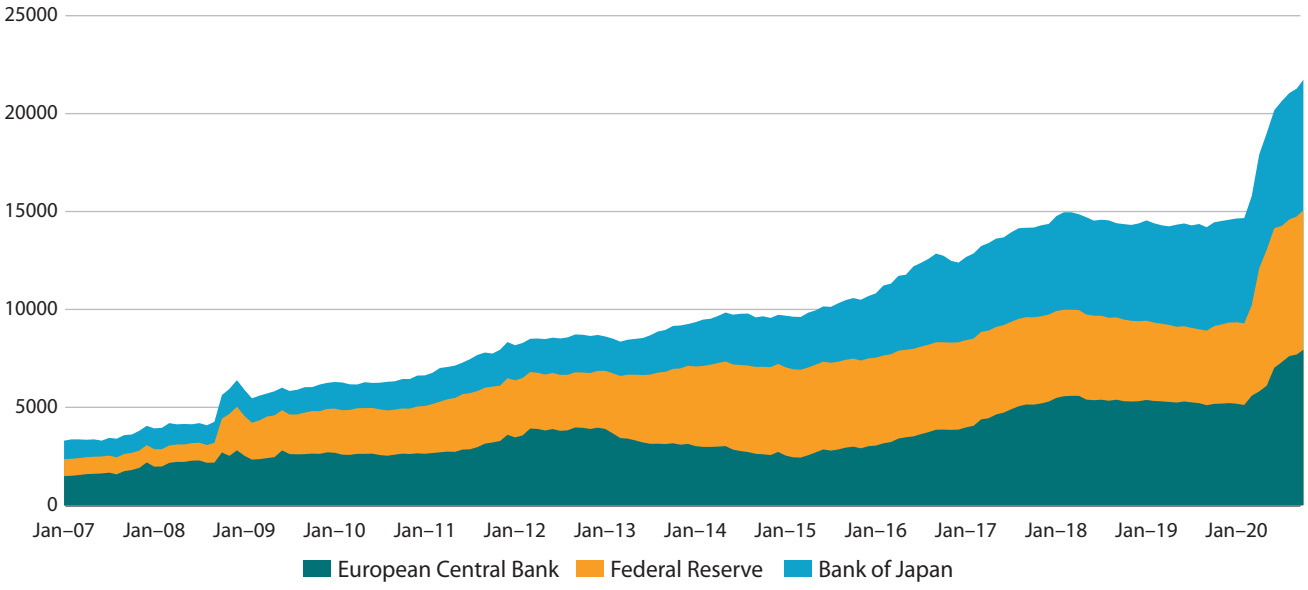
For the first time, some developing economies also launched quantitative easing programmes, to ease financial market strains and preserve financial stability. In a bid to stabilize local currency markets at the onset of the crisis (when non-resident portfolio outflows from emerging market countries reached almost $100 billion), several developing country central banks assumed the role of buyer of last resort and launched local currency bond purchase programmes. In some countries, market interventions seemed to have helped stabilize currencies and bond yields, cushion the impact of the crisis, and support recovery.[19] Unconventional monetary policies also carry risks that need to be considered – they could undermine central bank credibility, and raise risk premiums and depreciation pressures.[20]

Central banks across the world are facing a difficult balancing act of stabilizing financial conditions and preventing future fragility, while also supporting economic activity. Given the unprecedented scale of monetary easing, most central banks have entered uncharted territory. Quantitative easing measures included asset purchases, longer-term refinancing operations to support bank lending to businesses and households, and targeted credit programs. Furthermore, central bank swap lines and repo facilities by the Fed helped support international dollar liquidity and address dollar shortages in some countries. While these interventions have stabilized financial markets and triggered a market rally[21], evidence over their effectiveness in boosting economic activity and bringing inflation closer to target is mixed. .

Central banks need to continue to monitor risks to medium-term financial stability. While aggressive monetary policy easing by major developed economies' central banks was effective in addressing the turmoil in bond and equity markets, it has also increased systemwide leverage with possible implications for future financial stability. The significant decline in borrowing costs has contributed to the rise of financial asset prices to record levels.[22] Indeed, while real economic activity plummeted, major equity indices registered record increases between March and December 2020, reflecting the rising disconnect between financial markets and the real economy. The increase in global liquidity also facilitated a return of capital flows to some (though not all) developing economies (see box I.1); yet a tightening in financial conditions could trigger renewed volatility in capital flows and disorderly financial market corrections (see chapter III.F). With emerging economies' corporate debt-to-GDP ratio at historical highs (see figure I.9), tightening financial conditions could lead to unnecessary and preventable bankruptcies, as viable but illiquid firms struggle to roll over their debt.[23]

Central banks also need to monitor the interaction between monetary policy, climate risks and inequality. On the one hand, rising climate and other systemic risks threaten financial stability (see chapter II). At the same time, quantitative easing measures, even where considered "market neutral", may reflect market bias towards heavy carbon emitters, given that sectors like oil and gas companies, utilities and airlines issue more bonds than others (see chapter III.F). Rising asset prices as a consequence of loose monetary policy may also exacerbate inequalities since stock ownership is typically concentrated in wealthier households.

Figure I.8
Total assets of major central banks
(Billion dollars)



Source: UN DESA, based on IMF World Economic Outlook, October 2020.

3. Non-economic risks take centre stage

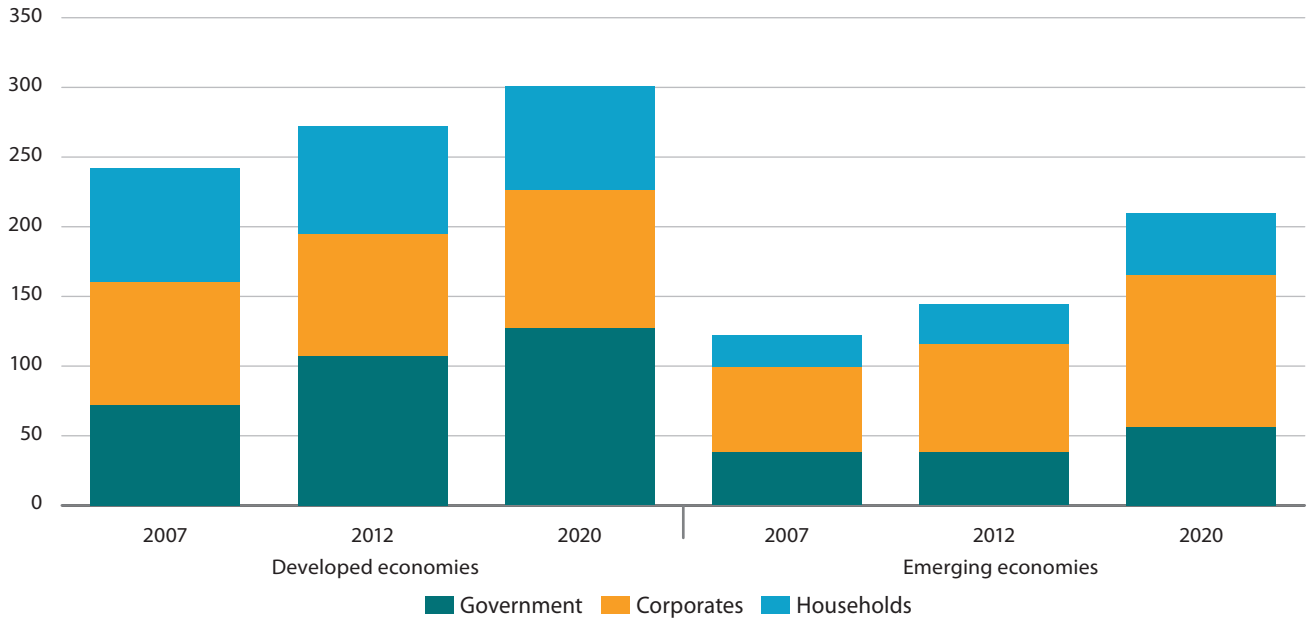
The COVID-19 pandemic has highlighted the widespread and cascading effects of non-economic risks on economies and societies. These risks present fundamental and unpredictable challenges to the prevailing economic model. The pandemic creates an opportunity for policy makers to tackle these interdependencies and align emergency response measures and fiscal policies with a structural transformation that enables sustainable and equitable economic development. Indeed, investments in the SDGs can reduce vulnerabilities and are a major driver of resilience (see chapter II).

Pre-existing inequalities have worsened the impact of the pandemic. Societies with greater pre-existing inequalities are more vulnerable to crises, creating a vicious circle. Exposure to health risks is higher for low-income households in urban areas.[24] Many low-skilled workers, with no benefits or social security coverage, such as the approximately two billion informal workers in the world (many of whom are from marginalized groups), were unable to work from home and were thus more exposed to contraction of the virus. Many of these workers come from marginalized segments of society. Additionally, digital divides are likely to perpetuate existing inequalities into the future (see chapter III.G), as are growing climate risks. To break this vicious circle, crisis responses, including macroeconomic policies, should take such equity implications into account more explicitly, not least because of the impact rising inequalities may have on future economic growth and development. Indeed, there is empirical evidence that income inequality has a negative effect on medium-term growth prospects.[25]

Unmitigated climate change will further decrease economic growth and increase global inequality, with disastrous consequences for the SDGs. Despite a decline in carbon dioxide emissions, 2020 ranks as the hottest year in recorded history. Scientists warn that under unchanged policies, global temperatures could increase by an additional 2-5°C by the end of the century, with possibly catastrophic economic damages across countries. Unmitigated warming could lead to average global income losses of over 20 per cent of GDP by 2100. Regions in the Southern Hemisphere and poorer countries are projected to experience the most significant impacts on economic growth (see figure I.10).[26] Already today, the gap between the economic output per capita of the world's richest and poorest countries is estimated to be 25 per cent larger than it would have been without climate change.[27] Within-country inequality will also increase, due to the disproportionate impact of climate change on the lives and livelihoods of disadvantaged groups.[28] To avoid substantial income losses and make progress in achieving equitable economic development, sizeable and drastic reductions in carbon emissions are needed.

The COVID-19 pandemic, emergency response measures and investments in recovery create an opportunity to accelerate the transition towards carbon neutral and more equitable economies – while stimulating long-term economic growth and development. The window to keep temperature increases below catastrophic levels is closing rapidly. Stopping climate change requires significant and near-term reductions in carbon emissions that create challenges and opportunities for sustainable development.

Figure I.9
Breakdown of non-financial sector debt of developed and emerging economies
(Percentage of GDP)



Source: Bank for International Settlements, Total Credit Statistics.
Note: 2020 refers to outstanding debt data as of 2Q 2020. Developed economies comprise Australia, Canada, Denmark, the euro area, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States. Emerging market economies comprise Argentina, Brazil, Chile, China, Colombia, the Czech Republic, Hong Kong SAR, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, Thailand and Turkey.

Climate mitigation and adaption requires a combination of policies: carbon pricing, a green investment push, and support for green energy research and innovation. Pricing climate risks and ending fossil fuel subsidies is a first step. To date, such subsidies remain large and contribute to the massive under-pricing of the true production and environmental costs of fossil fuels – leading to higher global carbon emissions, more fossil fuel air pollution deaths and decreased government revenues. Estimates suggest that the true cost of energy subsidies could amount to about USD 4.7 trillion, or 6.5 per cent of global GDP. [29] Environmental policies can help redirect energy subsidies to low-carbon energy production and raise the relative price of carbon, for example through carbon taxes and improved carbon emission trading programs. Where higher prices are politically untenable, implementing stricter regulations on emissions can be an alternative. Historical evidence shows that a combination of such policies can help to reallocate economic activity and employment towards low-carbon activities and increase the supply of low-carbon alternatives (see chapter III.A).[30]

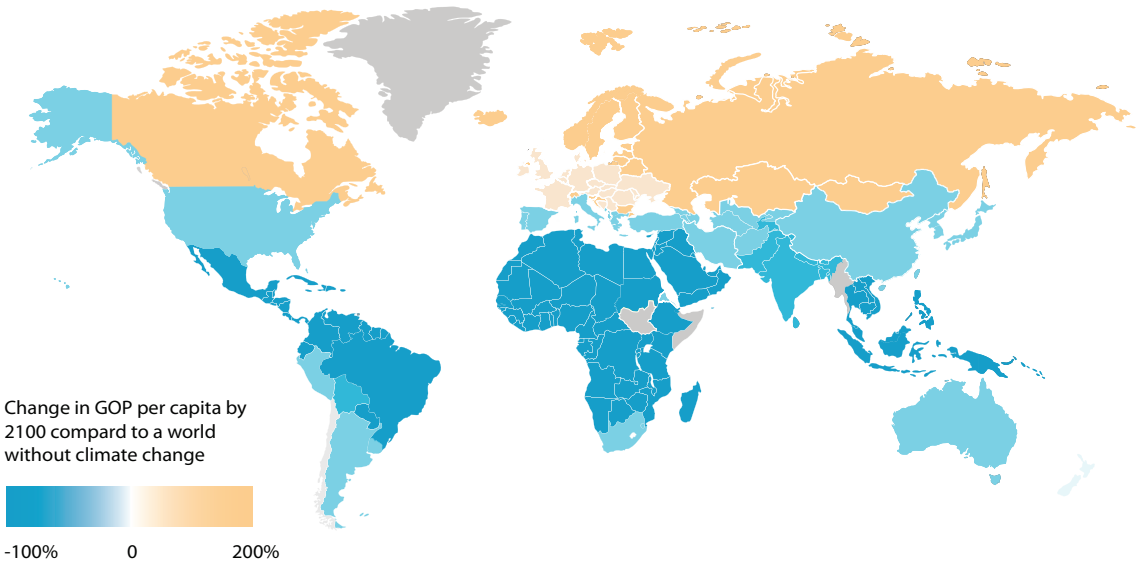
Green investments lay the ground for a structural transformation towards a carbon neutral and resilient economic model, and can also support the economic recovery from the COVID-19 pandemic. A well-targeted public investment initiative could spur the economic recovery from COVID-19, while also incentivizing sizeable private investments. The IMF estimates that increasing public investments by 1 per cent of GDP in the current environment could boost GDP by 2.7 per cent, private investment by 10 per cent, and employment by 1.2 per cent. If targeted strategically in areas such as low-carbon technologies and sustainable infrastructure, education and training, and R&D, these measures will not only increase the supply of low-carbon energy and accelerate the transition towards carbon neutral and resilient economic development – they will have multiple economic, social, and environmental co-benefits that are often outsize initial investment amounts (see chapter II).

4. Risk-informed financing policies in times of COVID-19

Support measures can trigger a swift economic recovery while also building back better. Given that interest rates are likely to stay low for a long time in many countries, the next decade provides a window for Governments to borrow and invest in the transition towards climate-neutral economies. Updated risk frameworks can help Governments navigate the wide landscape of risk management issues and identify policies best suited to respond to the challenges posed by growing systemic risks and uncertainties, including from climate change (see chapter II). Financing policies can help to reallocate spending and enhance domestic revenue mobilization to reduce the impact of the COVID-19 pandemic and make progress towards achieving the SDGs. At the same time, strengthened international cooperation will be necessary to support some developing countries, particularly those that are highly indebted and lack access to capital markets (see chapters III.C/D/E).

The Addis Ababa Action Agenda—which provides a comprehensive framework to promote investments that are long-term oriented, and growth that is inclusive and sustainable—speaks to the challenges described in this chapter. The remainder of this report (chapters III and IV) will highlight progress and implementation gaps in each of the Addis Agenda's action areas, and put forward risk-informed policy recommendations for addressing the immediate crisis and setting the post-COVID-19 economy on a more sustained, sustainable and inclusive growth path to achieving the SDGs.

Figure I.10
The projected impact of climate change on GDP



Source: Burke and others (2015).

Endnotes

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