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Macroeconomic policy questions

Follow-up to and implementation of the outcomes of the International Conferences on Financing for Development

Report of the Secretary-General

Summary

The present report was prepared in response to General Assembly resolution [75/208](#), entitled “Follow-up to and implementation of the outcomes of the International Conferences on Financing for Development”. The report focuses on emerging challenges and key accelerators for a resilient and sustainable recovery from the economic shocks triggered by the COVID-19 pandemic, which is relevant for future discussion in the framework of the Economic and Social Council forum on financing for development follow-up.

* [A/76/150](#).



I. Introduction

1. The coronavirus disease (COVID-19) pandemic has set back progress on the Sustainable Development Goals dramatically and affected all aspects of financing for development. In 2020, the world economy experienced its sharpest contraction since the Great Depression. Lockdown measures triggered a sharp slowdown in economic activity, resulting in massive income losses and rising unemployment, with the most severe impact being borne by the most vulnerable segments of society.

2. This has occurred despite a large-scale, though highly uneven, policy response. Unprecedented fiscal and monetary measures have cushioned the socioeconomic impact of the pandemic in developed countries in particular, even when they could not prevent a heavy death toll. However, many developing countries lacked the resources to respond effectively. Amid unequal access to vaccines, the highly uneven progress on vaccination worldwide is contributing to a more fragile global recovery.

3. For most countries, the immediate priority remains to contain the spread of the pandemic and address its socioeconomic fallout. Indeed, there is a risk of a sharply diverging world – with one group of countries recovering on the back of strong stimulus measures, high vaccination rates and digital acceleration, and others sinking deeper into a cycle of poverty, hunger, lack of access to vaccines, unsustainable debt and austerity. Without intentional support, they risk a lost decade for development.

4. While the international community has taken steps to mitigate the severity of the crisis – for example, through debt payment suspension and strengthened development cooperation, including an increase in official development assistance (ODA) – much more needs to be done.

5. While the G20 Debt Service Suspension Initiative and the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative (Common Framework) constitute important measures for addressing the rise in debt sustainability risks, they are insufficient to address rising debt risks. In efforts to boost the reserves of the developing economies needed to fight the pandemic, the Executive Board of the International Monetary Fund (IMF) has approved a new allocation of special drawing rights (SDRs) equivalent to \$650 billion, with the final approval expected by the end of August 2021. However, additional efforts are needed to ensure that the allocation has the required developmental impact.

6. Efforts to support countries and rebuild better will need to navigate long-term trends and challenges, many of which were exacerbated by the crisis. First, against a backdrop of prolonged easy monetary conditions, debt and other financial stability risks have increased across countries. Even prior to the shock triggered by the COVID-19 pandemic, about half of the least developed and other low-income countries were at high risk of or already in debt distress. At the same time, financial markets have remained short term-oriented, as reflected by the continued disconnect between the performance of equity markets and that of the real economy.

7. Second, the pandemic has further clouded investment prospects in many countries. Since the 2009 global financial crisis, investment growth has been relatively subdued across the world. The pandemic has exposed significant investment gaps in health and social protection systems, as reflected in the lack of resilience to the current crisis.

8. Third, the pandemic has accelerated the shift towards automation and digitalization, leading to a further deepening of the digital divide between countries. While rapid technological progress presents immense growth opportunities, many developing countries lack digital connectivity and the resources to invest in digital infrastructure and will fall further behind. Moreover, as the pandemic had a

disproportionate impact on jobs that were susceptible to automation, many jobs that were eliminated are unlikely to return, possibly leading to employment gaps in the future.

9. Fourth, climate-related risks are compounding threats across all dimensions of sustainable development. Some of the world's most vulnerable economies are those that are the most exposed to climate shocks. As the effects of climate change intensify, policymakers need to urgently accelerate investments in climate mitigation, adaptation and resilience.

10. Importantly, the pandemic has highlighted the strong interlinkages among economic, environment, social and financial challenges. In designing policy strategies, there is a need for a cohesive response across all of the action areas of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development,¹ both nationally (with integrated national financing frameworks providing a framework for action) and through international cooperation.

11. The 2021 Economic and Social Council forum on financing for development follow-up adopted an outcome document (E/FFDF/2021/3) which lays out a series of ambitious yet concrete actions to support countries in overcoming the pandemic and making progress towards achieving the Addis Ababa Action Agenda and the 2030 Agenda for Sustainable Development.² The outcome document calls for prioritizing spending on essential health functions and social protection; strengthened tax cooperation; progress towards globally consistent and comparable international standards for sustainability-related disclosure; expanding concessional financing for countries most in need; addressing systemic debt vulnerabilities and providing long-term fixed rate financing to the most vulnerable countries; and new rule setting on the digital economy which promotes an open, fair and non-discriminatory business environment. Since the adoption of the outcome document, the global context has improved somewhat and actions in some other areas, too, which are captured in the following sections of this report.

12. Nonetheless, enormous challenges remain. Even as the global economy improves, many countries are being left behind. Immediate actions are needed not only to address the pandemic and its economic fallout, but also to combat climate change and strengthen resilience. Without sufficient investment in the Sustainable Development Goals, many countries are at risk of facing a lost decade for development.

II. Global economic context

13. The global economic outlook has improved in recent months, supported by the rapid vaccine roll-out in many developed economies and new policy stimulus. The "World Economic Situation and Prospects as of mid-2021" projects a global recovery of 5.4 per cent in 2021 and 4.1 per cent in 2022, following a sharp contraction of 3.6 per cent in 2020. However, the aggregate global figures mask a stark divergence in recovery prospects across countries and regions. For tourism-dependent countries, such as small island developing States, the path to recovery is highly challenging given the slow lifting of travel restrictions. Despite the recent strong rebound in global commodity prices, the growth outlook remains bleak in large parts of sub-Saharan Africa and South Asia, as well as Latin America and the Caribbean. For a large number of developing countries, economic output is projected to return to pre-pandemic levels only in 2022–2023.

¹ Resolution 69/313, annex.

² Resolution 70/1.

14. The strongest impact of the pandemic has been felt by the most vulnerable segments of society, leading to worsening poverty and within-country inequality. In 2020, 114.4 million people are estimated to have fallen below the poverty line: 57.8 million are women and girls³ and about 82 per cent of those 114.4 million people live in middle-income countries.⁴ A total of 255 million full-time jobs were lost globally in 2020,⁵ with employment losses disproportionately higher for low-skilled workers, women, youth and those in the informal economy.

15. For many developing countries, limited fiscal space and debt vulnerabilities have constrained their ability to effectively manage the health crisis and contain the pandemic's economic fallout. The collapse in revenues due to the pandemic has intensified fiscal pressures, exacerbating concerns over debt sustainability risks, particularly in least developed countries.

16. Policymakers will need to navigate trends and challenges in the global economy, as well as the interlinked nature of those challenges, in financing sustainable development. The Addis Ababa Action Agenda provides a blueprint for action across its seven action areas.

III. Action areas of the Addis Ababa Action Agenda

A. Domestic public resources

17. To rebuild better from the pandemic, Member States will need to mobilize domestic public resources for sustainable development through improving tax policy and tax administration and promoting financial integrity, as well as investing in social protection. Carbon taxes and other “solidarity” taxes can help raise domestic public resources while also aligning behaviour with sustainable development. Developing more inclusive multilateralism in tax norm setting can help ensure that developing country needs and capacities are of primary consideration in international agreements to strengthen tax transparency and address the tax consequences of the digitalization of the economy.

18. Domestic public finance is especially important in the midst of a global pandemic, when Governments are being called upon to increase public resources spent on health (for example, on procuring COVID-19 vaccines) as well as to provide livelihood support (such as through business support programmes and transfer payments). Yet, the pandemic has also had a negative impact on public revenue collection.

19. IMF projections show revenue declines in the period from 2019 to 2020 of under 3 per cent of gross domestic product (GDP) in advanced economies, of over 3 per cent in emerging market countries and of just over 1 per cent in low-income countries. In 2020, overall fiscal balances deteriorated by about 8.8 percentage points of GDP in advanced economies, while emerging market countries saw declines of 5.1 percentage points and low-income countries experienced a 1.4 percentage point decline. While revenues are expected to increase again in 2021 and 2022, as countries emerge from COVID-19 pandemic-related lockdowns, such broad expectations will vary based on the severity of outbreaks and countries' access to vaccines.

20. Social protection systems have been a critical component of pandemic response packages in countries with the fiscal space needed to increase transfer payments.

³ United Nations, “World Economic Situation and Prospects as of mid-2021” (New York, 2021).

⁴ World Bank, “Poverty: overview”, 15 April 2021. See www.worldbank.org/en/topic/poverty/overview.

⁵ International Labour Organization (ILO), *World Employment and Social Outlook: Trends 2021* (Geneva, International Labour Office, 2021).

Over 1,600 social protection responses were recorded in more than 200 jurisdictions in 2020.⁶ Many developed countries and middle-income countries expanded social safety net programmes and some are considering making more permanent changes to the design of the social protection system, including increasing the universality of transfer payments and strengthening the social protection floor. These non-contributory social protection expansions demonstrate the importance of budget-financed social protection for the leave-no-one-behind agenda. Countries can use the recent temporary measures as building blocks for permanent social protection floors ensuring financial and fiscal sustainability through a mix of taxes and social security contributions.⁷ Such systems can be designed to better include informal workers, as called for in the outcome document of the 2021 Economic and Social Council forum on financing for development follow-up, and ensure sufficient protection for women, who have often been excluded.

21. Tax policy and administration must also contribute towards achievement of the Sustainable Development Goals and response to and recovery from the COVID-19 pandemic. Fair, progressive tax systems can help rebuild more inclusive and resilient societies, through financing public goods and services. While wealth and solidarity taxes can help finance efforts directed towards pandemic recovery and building back better, they require strengthened measures against tax evasion by wealthy individuals. Tax policies that align with the Sustainable Development Goals, such as those including carbon taxes and tobacco taxes, should also be considered.

22. Strengthening international tax cooperation is necessary to support domestic efforts to improve domestic public resource mobilization. The Addis Ababa Action Agenda calls for such cooperation to be universal in approach and scope. While significant progress has been made to increase international cooperation and transparency in taxation and address cross-border taxation challenges, more remains to be done to curb tax avoidance and evasion. Developing countries, especially least developed countries, continue to have lower access to tax information exchange networks.

23. The COVID-19 pandemic has accelerated the digital transformation of economies and societies, raising the stakes in ongoing negotiations on how to adapt tax norms in light of the ease with which digital business models enable the shifting of profits. There is widespread agreement that tax norms need to be updated to allow States to exert taxing rights over economic activity in their jurisdiction regardless of physical presence, but there is disagreement regarding how best to do so. More inclusive multilateralism in tax norm setting would be welcome. A consensus-based global solution, if implemented by a critical mass of countries, remains the best approach to enable effective taxation of the digitalizing economy and avert the risks of tax uncertainty, double taxation and retaliatory measures which may accompany unilateral measures. However, there are challenges that arise in forging consensus and particularly in ensuring that developing country needs and capacities are central to global discussions. Solutions that are simple to administer will be easier for developing countries to put in place and more likely to result in significant revenue gain for them.

24. The Committee of Experts on International Cooperation in Tax Matters took a significant step forward in its guidance, geared towards creating fairer tax systems and taking into consideration the priorities of developing countries. In 2021, the Committee finalized and updated guidance on a range of issues including transfer

⁶ ILO, Social Protection Monitor, “Social protection responses to the COVID-19 crisis around the world” (31 December 2020), figure 2.

⁷ ILO, Social Protection Spotlight, “Towards solid social protection floors? the role of non-contributory provision during the COVID-19 crisis and beyond”, ILO brief (January 2021).

pricing, dispute avoidance and resolution, tax exemptions on government-to-government aid, carbon taxation and taxation of the extractive industries. One of the Committee's main achievements was the decision to add article 12B to the United Nations Model Double Taxation Convention between Developed and Developing Countries, expanding the taxing rights for States from which payments for automated digital services are made. The proposed provision will enable jurisdictions to levy taxes on income derived from digital business models by passing domestic legislation and thus potentially increase revenues while avoiding complex tax administration challenges. Countries will now need to determine if and how to incorporate this provision into existing treaty networks.

25. In parallel, the international community is discussing the adoption of global minimum corporate tax rates. This could help limit incentives for profit shifting, tax competition and the race to the bottom in corporate taxation. Consideration should be given to how the minimum corporate tax differentially affects developing countries (which tend to have higher statutory corporate tax rates) and how it can be designed to allow countries to appropriately incentivize sustainable development investment while retaining sufficiently high effective taxation.

26. Addressing illicit financial flows, which drain resources from sustainable development, can also help build fiscal space for investment in sustainable development. Corruption and money laundering risks rose because of emergency procurement undertaken in 2020 and 2021 to respond to the COVID-19 pandemic. Meanwhile, gains in wealth due to soaring values of some financial assets are ineffectively taxed, partially because of sophisticated tax avoidance strategies. As countries build back better from the pandemic, taking a more systematic approach to addressing illicit financial flows will improve revenue mobilization and reinforce the social contract.

27. The High-level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (FACTI Panel), which was launched by the presidents of the General Assembly and the Economic and Social Council in 2020, made recommendations for addressing illicit financial flows for consideration by Governments in February 2021. These recommendations include a global pact for financial integrity for sustainable development which aims towards reinforcing values for integrity and legitimacy, strengthening policy frameworks and redesigning institutions to foster and strengthen financial integrity for sustainable development. By strengthening financial integrity policies and institutions, Member States will be working to strengthen the social contract nationally and build on the global contract embodied in the 2030 Agenda and the Addis Ababa Action Agenda.

B. Domestic and international private business and finance

28. Private sources of finance have the potential to support a sustainable and resilient recovery from the COVID-19 pandemic but future investments need to be better aligned with the 2030 Agenda and to reach countries further behind in terms of development objectives. Governments can take actions at the national level to boost private investment and incentivize private sector transformation directed towards greater sustainability, but international support will be essential to enable less advanced economies to attract private investors and further develop their local private sector. Governments also need to collaborate on redirecting capital markets towards investment aligned with sustainable development objectives. Global norms in this area could reduce the cost for market participants while facilitating avoidance of confusion and market fragmentation.

29. The COVID-19 crisis has derailed business activities and led to a significant drop in investment, undermining countries' ability to achieve the Sustainable Development Goals. While government support has limited the number of bankruptcies and protected jobs in many developed economies, a sustainable and inclusive recovery will require stimulating investment and reimagining a business model that works better for people and the planet.

30. In 2020, global foreign direct investment (FDI) dropped by 35 per cent, to \$1 trillion from \$1.5 trillion in 2019.⁸ The impact has been considerable in areas critical for achieving the Sustainable Development Goals. For example, in 2020, private investment commitments in infrastructure projects were down by 52 per cent in developing countries from 2019.⁹ The decline was particularly sharp in the transport sector (-78 per cent), while the renewable energy sector was more resilient. Of the 129 electricity-generation projects, 117 were in renewables.¹⁰

31. Reviving investment will support recovery from the crisis, spur economic growth and create jobs. Sectors such as renewables and telecommunications have proved their capacity to attract private investors. Countries could consider prioritizing these sectors for private sector investment, while focusing public investment on areas that do not generate financial returns through which to repay the private investor. The international community should help developing countries in this endeavour, in particular least developed countries, small island developing States and landlocked developing countries, including by provision of support to improvement of project preparation and reduction of financing costs, for instance, through well-designed risk-sharing mechanisms.

32. An inclusive and sustainable recovery also requires the participation of micro-, small and medium-sized enterprises (MSMEs), which form the backbone of many developing economies. Yet, micro-, small and medium-sized enterprises have historically been underserved by the formal financial system. These enterprises have suffered disproportionately from the crisis. Women frequently have lower financial buffers and are overrepresented in sectors most affected by the crisis (e.g., retail trade, accommodation and food services). As government support measures are being phased out, policymakers need to ensure that viable small enterprises are not forced into bankruptcy owing to liquidity constraints. They also need to reduce the vulnerability of these enterprises to future crises by, for instance, streamlining business registrations policies, supporting digitalization of micro-, small and medium-sized enterprises and designing programmes that mitigate their financing challenges. International support, including capacity-building, can help countries in this regard.

33. Nevertheless, the recovery is not sustainable if the prevailing business model does not change more fundamentally. This requires changing the rules of the game to better align business with the Sustainable Development Goals. As long as it is profitable to run environmentally or socially unsustainable businesses, there will be a misalignment between the goals of society and those of business. Carbon pricing and other policies that seek to price externalities are necessary to correct this misalignment. Regulators should also increase the accountability of the private sector vis-à-vis its impact on sustainable development. This entails improving transparency and corporate sustainability disclosure. In the outcome document of the 2021 Economic and Social Council forum on financing for development follow-up,

⁸ United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2021: Investing in Sustainable Recovery* (United Nations publication, Sales No. E.21.II.D.13).

⁹ World Bank, *Private Participation in Infrastructure (PPI): 2020 Annual Report* (Washington, D.C., 2021).

¹⁰ Ibid.

Member States encouraged progress towards globally consistent and comparable international standards for sustainability-related disclosure, through leveraging of existing principles, frameworks and guidance.

34. Yet, the multiplication of approaches in the area of sustainable finance can create confusion and raise the cost for market participants. To mitigate this risk, areas where convergence is possible at the global and regional levels should be explored, such as further consolidating sustainability reporting frameworks and mandating a minimum level of disclosure. This could establish a global baseline which could be further developed by countries at the national level. The International Financial Reporting Standards (IFRS) Foundation is planning to set up an international sustainability standards board to work on a coherent set of global sustainability reporting standards. Since the Standards enjoy worldwide recognition in financial reporting, this could constitute a breakthrough in the area of sustainability reporting.

35. Similarly, there is a real risk of Sustainable Development Goals-washing, where investment products are marketed as sustainable despite making no meaningful contribution to the Goals. A globally shared understanding of what constitutes a sustainable investment (that is to say, an understanding of the main criteria that a sustainable investment must fulfil) will be a step forward in mitigating Sustainable Development Goals-washing risks. To address this issue, the Global Investors for Sustainable Development (GISD) Alliance, launched by the Secretary-General, has developed a common definition of sustainable development investing, which could serve, if widely adopted, as an effective norm for markets. In addition, the Alliance has developed a sustainable development investing navigator to guide investors through the multiple approaches to sustainable investment, as well as a set of sector-specific impact metrics, which can increase the quality of measurement of a company's contributions to the Sustainable Development Goals.

C. International development cooperation

36. ODA increased in response to the COVID-19 crisis. In 2020, ODA totalled \$161.2 billion, up by 3.5 per cent in real terms over 2019, as calculated by the new grant-equivalent measure. The increase was underpinned by COVID-19 pandemic-related activities and bilateral loans. Bilateral ODA to least developed countries and Africa, on a cash basis, increased in real terms by 1.8 per cent, to \$34 billion, and by 4.1 per cent, to \$39 billion, respectively.

37. ODA was higher as a share of donor country gross national income (GNI) on average – 0.32 per cent in 2020 compared with 0.30 per cent in 2019 – owing in part to a fall in GNI in most donor countries. However, ODA as a proportion of GNI remained below the United Nations target of 0.7 per cent. Only six donors met or exceeded the target: Denmark, Germany, Luxembourg, Norway, Sweden and the United Kingdom of Great Britain and Northern Ireland. Overall, while 16 donor countries increased their ODA, 13 countries' ODA declined. Some donors are also considering reallocating a part of the additional allocation of special drawings rights (SDRs) towards their ODA to GNI target, which may result in further aid cuts by volume.

38. IMF estimates that \$50 billion is needed to address the COVID-19 pandemic, including for vaccinating persons in at least 40 per cent of all countries by the end of 2021 and persons in at least 60 per cent of all countries by the first half of 2022; tracking and insuring against downside risks; and ensuring that widespread testing, tracing, and therapeutics are in place where there is low vaccine coverage. Indeed, about 44 per cent of doses of the COVID-19 vaccine have been administered in richer countries, compared with 0.4 per cent of doses in poorer nations. To bridge the equity

gap in COVID-19 prevention, diagnosis and treatment, development partners should support the investment road map proposed by IMF, the World Bank Group, the World Health Organization (WHO) and the World Trade Organization (WTO), aimed at boosting manufacturing, supply, trade and delivery of vaccines, oxygen and medical supplies. The proposal includes addressing the \$17 billion gap in financing of the Access to COVID-19 Tools (ACT) Accelerator, which ODA providers should fill as an immediate priority. Additional grant contributions are also needed.

39. ODA providers should scale up and meet their ODA commitments of 0.7 per cent of GNI. Grant finance rather than loans should be prioritized for vulnerable countries, such as least developed countries and small island developing States, and the pre-crisis trend of declining concessionality for least developed countries and the decline in ODA to health should be reversed.

40. The immediate response of multilateral development banks to the crisis has been unprecedented in scale and speed, outpacing the response from bilateral development partners. Multilateral development banks collectively announced over \$200 billion in support to developing countries, with particularly strong support for least developed countries. Financial capacity constraints, however, are limiting multilateral development banks' countercyclical support, particularly through non-concessional lending windows which offer long-term financing to middle-income countries.

41. Donors should bolster the financial capacity of multilateral development banks by providing additional funding or advance scheduled replenishments. A successful twentieth replenishment of the International Development Association (IDA) will be critical to sustaining support. In addition, official lenders should extend maturities of their lending, including non-concessional lending, and explore options for providing ultra-long-term (e.g., 50-year) financing to developing countries, which should be fixed-interest lending so that countries can take advantage of ultra-low global interest rates.

42. Innovative public finance instruments are successfully supporting the COVID-19 pandemic response. For example, advanced market commitments are an essential tool of the COVID-19 Vaccine Global Access (COVAX) facility. Blended finance can also support post-COVID-19 pandemic recovery efforts. Partners should be careful, however, not to divert grant finance from social needs for blending, based on country priorities.

43. An option for scaling up blended finance would be to pool bilateral and/or multilateral development bank official resources into a blended finance fund. Donors should also examine the possibility of using below market rate non-concessional loans for blending, including equity-like components, which allow the public partner to share in possible financial returns.

44. The pandemic has highlighted the escalation of climate-related risks, bringing to the fore the importance of financing global public goods. The COVID-19 crisis may have adversely affected both the demand and delivery of climate finance, likely derailing the achievement of the \$100 billion climate finance target in 2020. Political will is needed to scale up both climate finance and ODA to address the confluence of crises.

45. Developed countries should scale up climate finance flows, with \$100 billion per year as a floor. All providers should increase adaptation finance to make its level equal to that of mitigation finance, as well as prioritize grant finance for least developed countries and small island developing States. More work is needed to cultivate an understanding of how to best capture financing global public goods in the sustainable development finance landscape.

46. South-South and triangular cooperation have supported access to vaccines, medical supplies and personnel; resource mobilization; implementation of conjoined measures; and sharing of technologies and such cooperation should be further strengthened. Deepening South-South cooperation and triangular cooperation can enhance capacities and resources for risk-informed development cooperation, including through trade, industrial policy, regional integration and regional value chains and scaled-up financing. The global South has played a significant role in producing and catalysing knowledge on health and other risks, including through the establishment and strengthening of centres of excellence and think tanks where the exchange of experiences, skills and good practices are increasingly facilitated among national and local entities. The United Nations will continue to support these efforts and the building of the human and institutional capacities needed to enhance the contribution of South-South and triangular cooperation to national sustainable development.

47. Development cooperation ecosystems, in particular national development cooperation policies and other enablers of effective development cooperation, such as strong data and information systems, helped to deliver results in the pandemic response and should be further strengthened. Country-owned integrated national financing frameworks can provide a basis for translating country priorities into concrete asks for development partners.

48. Yet, despite contingencies in place, there was a lack of coordination among development partners in their responses to the COVID-19 crisis and many were not adequately prepared to respond. This underscores the need for development partners to develop strategies and contingencies for better international crisis coordination and risk reduction. It also highlights the need for all sources of international development cooperation to be aligned with sustainable development, with a focus on supporting countries' efforts and building their capacities to reduce risk and build resilience.

49. The 2021 Development Cooperation Forum called for development cooperation to become more risk-informed, given the increasingly complex risk landscape and the scope of resources and expertise required. The Development Cooperation Forum issued concrete recommendations to the financing for development follow-up process, as well as the high-level political forum on sustainable development.¹¹

D. International trade as an engine for development

50. The COVID-19 pandemic disrupted international trade to a lesser extent than initially anticipated, owing in particular to the resilience of East Asian economies. The COVID-19 pandemic also led to a boom in demand for pandemic-related products. According to the World Trade Organization, the volume of world merchandise trade declined by 5.3 per cent in 2020 and is expected to increase by 8 per cent in 2021 on the back of a strong economic rebound in some parts of the world.

51. The recovery has been uneven, with large sectoral and regional disparities. For instance, tourism has experienced an unprecedented fall which has drastically reduced external earnings of tourism-dependent countries, including many small island developing States and least developed countries. Travel services were down 63 per cent in 2020 and are unlikely to fully recover in the short run.¹² The COVID-19 pandemic also continues to be a major threat to economic recovery in the many countries lacking access to vaccines.

¹¹ Summary of the seventh high-level meeting of the Development Cooperation Forum ([E/2021/70](#)).

¹² World Trade Organization, "World trade primed for strong but uneven recovery after COVID-19 pandemic shock", press release, 31 March 2021.

52. The crisis may also have accelerated the reconfiguration of global value chains in favour of shorter and more flexible supply chains. Companies are expected to shift production to areas closer to consumers and reduce the segmentation of value chains in order to increase resiliency of supply chains to external shocks.¹³

53. To reignite global trade, the international community should continue efforts to keep markets open so as to ensure the equitable flows of goods and services needed to address the pandemic, while rejecting vaccine nationalism and protectionism. Vaccines require inputs from many different countries and trade-restrictive policies can make it harder to ramp up production. Trade-related intellectual property regimes also exert an impact on the supply of vaccines and calls for the waiving of intellectual property rights over the COVID-19 vaccine have grown louder.

54. Global trade flows also depend in part on alleviating trade tensions and reducing the accumulated stock of trade-restrictive measures. While these measures (e.g., export restrictions on essential medical supplies) initially increased in response to the crisis, they have since become less prevalent. A sustainable recovery of trade flows will also hinge on addressing the challenges faced by the multilateral trading system and reforming it. This calls for addressing, inter alia, the functioning of the dispute settlement system and reaching agreements on key issues under negotiation, such as fisheries subsidies. It is also key to make the multilateral trading system more responsive to sustainable development priorities. Governments will have opportunities to advance necessary reforms, with several high-level events planned for 2021 such as the Twelfth Ministerial Conference of the World Trade Organization and the fifteenth session of the United Nations Conference on Trade and Development.

55. To make trade more inclusive, a renewed focus should also be placed on countries less integrated into international trade. Target 17.11 under the Sustainable Development Goals, which is to double the share of least developed countries of world exports by 2020, has been missed and aid-for-trade programmes should be intensified in these countries. Aid for trade should also target supporting women's economic empowerment in the area of trade, especially as women have been disproportionately affected by the crisis. While the pandemic has highlighted the importance of digital technologies in general, and e-commerce in particular, the digital divide prevents equitable sharing of benefits. The international community should consider how to better support developing countries in benefiting from the digitalization of the economy in order to increase their participation in international trade.

56. Making trade more inclusive also requires addressing trade finance gaps which disproportionately affect small businesses and countries that are not fully integrated into global supply chains or the international financial system. The trade financing gap had already been in the order of \$1.5 trillion globally before the crisis but subsequently widened, with private financiers citing increased commercial risk and operational difficulties. Public sources of trade finance expanded to compensate. Since least developed countries cannot count on well-capitalized export-import banks to the same degree as other countries, multilateral development banks remain key sources of public trade finance. These institutions should respond to uneven recoveries by refocusing programmes on least developed countries as well as market segments such as that comprising small and medium-sized enterprises.

¹³ UNCTAD, "Global trade update", May 2021.

E. Debt and debt sustainability

57. The COVID-19 pandemic has triggered a sharp rise in debt vulnerabilities worldwide. Across developed and developing economies, large fiscal stimulus measures and a decline in revenues have pushed public debt levels to record highs. In 2020, global public debt was estimated to have increased to almost 100 per cent of GDP, up from 65 per cent in 2008. This has impeded economies' response to the crisis and exacerbated debt sustainability risks.

58. Many developing countries were already saddled with elevated debt burdens prior to the pandemic. Five sovereigns defaulted in 2020 and over half of the least developed and other low-income countries are assessed to be at a high risk of, or are already in, debt distress.

59. Policy responses from the international community helped avert a more widespread and systemic crisis. Central banks' actions eased financing conditions and reduced stress in debt markets in middle-income countries. Least developed and other low-income countries relied on emergency financing from IMF and multilateral development banks. The G20 Debt Service Suspension Initiative, available to 73 least developed and low-income countries, has allowed participating countries to redirect resources from debt service to crisis response. As of 18 June 2021, the Initiative had delivered about \$10.3 billion in relief to 47 eligible countries.¹⁴ The subsequent establishment of the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative extends the focus from providing liquidity support towards addressing solvency concerns of Debt Service Suspension Initiative-eligible countries. Thus far, three countries have put forth requests to join the Common Framework.

60. While measures taken by the international community have been crucial, they have not been sufficient. Risks of debt distress remain elevated in many countries. It is estimated that developing countries owe \$356 billion in debt service on public and publicly guaranteed debt due in 2021 and another \$329 billion in 2022.¹⁵ While the Debt Service Suspension Initiative has provided breathing space for 47 countries, the suspended debt service costs in 2020 and 2021 will need to be repaid in the future. This risks creating a situation of prohibitively high debt repayment over the coming years which could lead to new debt distress in some countries if additional debt relief measures are not introduced.

61. The involvement of private creditors in debt relief efforts has been particularly challenging. For example, Initiative-eligible countries collectively owe about one third of their total debt service obligations to private creditors. However, no private creditor participated in the Initiative, dampening its effectiveness. While the Common Framework aims at including private creditors on comparable terms, it is unclear how this arrangement would work in practice.

62. Indeed, the fear of sovereign rating downgrades deterred some debtor countries from joining the Debt Service Suspension Initiative. Under the Common Framework, credit rating downgrades are to be expected given that a goal of the Framework is comparable treatment of all creditors. This means that, if this is successful, private creditors would necessarily participate in the debt reduction, which could force a rating downgrade, to selective default, for example. However, such a development should be only temporary and a necessary step towards improving sovereign balance sheets and creditworthiness. Following a restructuring, a country's credit rating would

¹⁴ See www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative.

¹⁵ Homi Kharas and Meagan Dooley, "COVID-19's legacy of debt and debt service in developing countries", Brookings Institution Global Working Paper, No. 148 (Washington, D.C., Brookings Institution Center for Sustainable Development, December 2020).

be expected to rise, given that it should be in a better position to repay new financing. The Inter-agency Task Force on Financing for Development is conducting additional analyses on sovereign credit ratings for the 2022 *Financing for Sustainable Development Report*.

63. Middle-income countries facing high debt burdens remain ineligible to benefit from the Debt Service Suspension Initiative and the Common Framework. Many of these countries owe large proportions of debt to commercial creditors, in particular to many dispersed bond holders, so that debt restructuring, when needed, will be challenging.

64. In many countries where debt remains sustainable, deep economic and social scarring is still likely without access to fresh finance, particularly if authorities are forced to withdraw fiscal support prematurely. Weak fiscal positions are also severely constraining the ability of many economies to address growing climate challenges and manage a green transition.

65. Bolder actions are needed to create more fiscal space for countries to invest in a sustainable, inclusive and green recovery, as well as to address structural deficiencies in the international sovereign debt architecture. The March 2021 policy brief of the Secretary-General entitled “Liquidity and debt solutions to invest in the SDGs: the time to act is now” lays out a set of recommendations on creating space for investment in the pandemic response and in the Sustainable Development Goals, including climate action. Those recommendations include calls for the international community to consider debt relief initiatives.

66. A debt relief facility could build on and complement the Common Framework in helping countries in need and could offer legal and technical advice – including on debt swaps, debt buy-backs, credit enhancements, reprofiling or exchanging debt and/or cancellation – suited to a country’s specific circumstances and debt challenges. Debt swap initiatives have been or are being launched in several regions, an approach that could be further developed and expanded. A facility could also help develop standardized term sheets, as well as clauses for State-contingent debt instruments, which official bilateral creditors could systematically include in their own lending.

67. The current crisis also provides an opportunity to further strengthen the international debt architecture for the purpose of coping with the potential increase in debt restructurings in the aftermath of the pandemic amid a changing creditor landscape. This could include improving debt transparency; strengthening contractual clauses, including the use of State-contingent debt instruments such as hurricane clauses; and exploring legal options for more effective debt crisis resolution.

F. Addressing systemic issues

68. The COVID-19 crisis has lent new urgency to long-standing calls for a strengthening of the global financial safety net. Despite important efforts by IMF and other organizations to strengthen existing financing instruments and develop new ones, additional actions and deeper reforms will be needed to enable a better recovery from the COVID-19 pandemic and make the global financial safety net fit for future crises. Proposals include upgrading IMF financing instruments, including a new allocation and strengthening the role of special drawing rights for sustainable development; better coordination with strengthened regional financing arrangements; and a quota review, including to increase the resource envelope of IMF and strengthen the voice and participation of developing countries.¹⁶ Enhanced cooperation is needed

¹⁶ For details, see the report of the Secretary-General on the international financial system and development ([A/76/230](#)).

to mitigate global financial stability risks from non-economic factors, including climate change.

69. The COVID-19 crisis has exposed and exacerbated existing vulnerabilities and risks in the international financial system. While extraordinary policy support measures stabilized financial markets at the onset of the pandemic and supported the global economy, they may have also contributed to the build-up of future risks, including increased leverage and the potential for asset price bubbles. The current uneven economic recovery could lead to a rapid deterioration of financial conditions for developing countries, particularly those with high debt levels, if global interest rates rise. Emergency financing, along with debt relief for the poorest countries, helped address urgent liquidity and balance-of-payment needs during 2020, but financing needs remain elevated in many developing countries.

70. The global financial safety net comprises multiple institutions and instruments created in response to past economic and financial crises. With IMF at its centre, it includes regional financing arrangements, bilateral swap arrangements and, at the national level, countries' own foreign exchange reserves. While the safety net has expanded substantially since the 2008 global financial crisis, gaps still remain. For most developing countries, the main source of external liquidity support during the COVID-19 crisis came from IMF lending facilities. As at the end of May 2021, IMF had approved nearly \$110 billion for 84 countries under emergency loans, new financing arrangements and augmentations of existing arrangements and had granted \$726 million in debt relief for 29 of its poorest members.¹⁷

71. Some short-term measures have been implemented to enhance the concessional financing capacity of IMF, including through the replenishment of the IMF Poverty Reduction and Growth Trust (PRGT) and the Catastrophe Containment and Relief Trust (CCRT) and an increase of access limits. In April 2020, IMF established a new short-term liquidity line for member countries with very strong policies and fundamentals, though it has not yet been used.

72. In July 2021, the IMF Executive Board approved a new allocation of special drawing rights, equivalent to \$650 billion. Final approval by the Board of Governors is expected by August 2021. Discussions are also ongoing on how to increase the impact of SDRs by channelling them to countries most in need. There are ongoing debates on alternative uses of SDRs extending beyond their original purpose as international reserve assets, including for developmental objectives. This could include new mechanisms for leveraging SDRs to raise additional financing for development.

73. Since SDR allocations are distributed in proportion to IMF quota shares, just under two thirds (\$418 billion) would go to developed countries. Many countries with strong external positions have signalled their willingness to channel unused SDRs to countries in need on a voluntary basis. Several proposals for channelling SDRs are currently under discussion, with varying degrees of political support, as described directly below:

(a) One well-established option entails on-lending of SDRs to low-income countries through the Poverty Reduction and Growth Trust: some countries have already channelled their existing SDRs in this manner, which resulted in the tripling of IMF concessional lending capacity in 2020;

(b) There is growing interest at IMF in establishing a resilience and sustainability trust, particularly for lower-middle-income countries, in line with calls

¹⁷ A breakdown of IMF Covid-19 financial assistance and debt service relief is available at www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker.

from the Secretary-General and other stakeholders for the establishment of a new IMF trust fund to address the needs of vulnerable middle-income countries and especially small island developing States;

(c) Other suggestions include channelling SDRs through new trust funds at multilateral development banks and/or regional development banks (which, as they are already prescribed holders of SDRs, would thus not require changes in the IMF Articles of Agreement).¹⁸ Such funds could contribute to the financing of health needs and investment in the Sustainable Development Goals, supporting greener, more robust recoveries;

(d) Some proposals go further in rethinking the potential role of SDRs in supporting long-term sustainable development (which would require a change in the IMF Articles of Agreement). These include (i) the designation of new prescribed holders which could further leverage SDRs; (ii) a change in the distribution formula of SDRs; and (iii) a broader increase of the use of SDRs as a global currency or as an investment asset, including by private actors.

74. Through the COVID-19 crisis, the importance of managing the consequences of capital flow volatility was once again highlighted. Countries need to consider the full policy toolkit, including monetary, exchange rate, macroprudential and capital flow management policies, among others. This should be incorporated in coherent integrated national financing frameworks. International cooperation can help strengthen developing countries' capacities to employ the full policy toolkit, including through coherent guidance and technical assistance provided by international financial institutions and international organizations.

75. Enhanced global cooperation will also be needed to address the impact of increasing non-economic risks, including climate, social and environmental risks, on financial stability. The *Financing for Sustainable Development Report 2021*¹⁹ calls on financial standard-setting bodies and authorities to provide guidance to financial institutions on how to include climate and other Sustainable Development Goals-related factors in risk assessments and incorporate climate-related stress tests to assess their exposure. While central banks should continue to take protective measures to safeguard financial stability and protect their own balance sheets, they could also review the impact of "market-neutral" bond purchasing strategies on climate risk, as such strategies tend to reflect market bias towards heavy carbon emitters.²⁰

G. Science, technology, innovation and capacity-building

76. Science, technology and innovation (STI) has played an instrumental role in the global response to the COVID-19 crisis, and can help build more resilient, greener and more inclusive societies. While innovations, including vaccines and new treatment methods, are helping to overcome the medical emergency and pave the way towards recovery, additional efforts are needed to ensure equitable global access. New digital technologies have supported economic and social activity during the pandemic, accelerating digital trends with potentially lasting consequences for all areas of life. Inclusive digital policies, investment in digital infrastructure and regulatory frameworks will be needed to overcome growing digital divides and address other unintended consequences.

¹⁸ For a list of prescribed holders, see www.imf.org/en/About/FAQ/special-drawing-right.

¹⁹ Inter-agency Task Force on Financing for Development, *Financing for Sustainable Development Report 2021* (United Nations publication, Sales No. E.21.I.6), p. 148.

²⁰ *Ibid.*, p. 8.

77. The COVAX facility – the vaccine pillar of the ACT Accelerator – aims at speeding up the development and manufacture of COVID-19 vaccines and guaranteeing fair and equitable access for all countries. However, the production of vaccines has been limited to very few countries and access has been highly uneven so far, with (as indicated above) almost 44 per cent of the world’s doses administered in high-income countries, compared with only 0.4 per cent of the doses administered in low-income countries.²¹ Scarce production capacity and a lack of access to technology and critical inputs have hampered domestic vaccine production in many developing countries. To overcome this two-speed response and fight the COVID-19 pandemic around the globe, public and private stakeholders must work together to at least double manufacturing capacity by exploring all options, ranging from voluntary licences and technology transfers to patent pooling and flexibility with respect to intellectual property rights.

78. New digital technologies have supported economic and social activity in many areas, including through e-learning, e-health, telework, e-commerce, e-government and digital finance. Developments in the areas of digital assets and so-called stablecoins have accelerated, as has work on central bank digital currencies. However, in 2020, the average number of fixed broadband subscriptions per 100 inhabitants in least developed countries was only 1.3, compared with an average of 11.5 per 100 in developing countries and 33.6 per 100 in developed countries.²² Existing inequalities related to income, gender, age, education and health, among other factors, affect access to the benefits of new technologies and risk further exacerbating social divides. Other risks and unintended consequences associated with accelerating digital trends include the increasing spread of mis- and disinformation and the growing market dominance of large digital platforms.

79. The use of digital financial services has grown during lockdowns and social distancing, allowing many households and micro-, small and medium-sized enterprises to access financial resources and maintain some level of economic activity. Many Governments contributed to this increase, as part of their COVID-19 pandemic mitigation strategies. Regulatory measures such as the reduction or waiving of transaction fees and/or the increase of transaction limits made digital payments more attractive, while the temporary weakening of compliance rules related to know-your-customer and anti-money-laundering measures facilitated digital onboarding of new customers.²³ Many Governments also stepped up government-to-person (G2P) transfers through digital channels in providing social assistance during lockdowns. Despite its many benefits, the rapid scaling up of digital finance is also exacerbating risks, including with respect to consumer protection and digital exclusion; financial stability and integrity; and competition. Potential cyberattacks on systemically important financial institutions or their digital service providers also pose an increasing risk for financial stability.

80. To harness digital technology for a sustainable and resilient recovery which overcomes digital divides and mitigates other new and emerging risks, policymakers need to engage with all stakeholders to ensure affordable Internet access for all and increase digital literacy. The road map for digital cooperation lays out a vision for

²¹ World Health Organization, “Director-General’s opening remarks at the media briefing on COVID-19 – 7 June 2021”, 7 June 2021.

²² *Financing for Sustainable Development Report 2021*, p. 164.

²³ See, for example, World Bank and Cambridge Centre for Alternative Finance (CCAF), *The Global Covid-19 FinTech Regulatory Rapid Assessment Report* (Washington, D.C., World Bank; and Cambridge, United Kingdom, University of Cambridge, 2020), pp. 34 and 38.

connecting the remaining 4 billion people to the Internet by 2030.²⁴ Regulatory frameworks, including enhanced antitrust regulation, are needed to reduce the market power of large digital platforms, including in financial technology (fintech), and create a more level playing field. National financial inclusion strategies should build on the potential of fintech, while addressing inequalities and financial stability risks.

IV. Conclusion

81. The COVID-19 crisis has exposed significant vulnerabilities and inequalities in the global economy and in financial systems. It has highlighted the urgent need for investments in people and in a sustainable recovery, as well as for reforms to the global financial and policy architecture. As first steps, vaccine access of the developing countries needs to be significantly enhanced. At the same time, the crisis offers a unique opportunity to change course and place the world on a more sustainable, inclusive and risk-informed development trajectory.

82. Yet, many developing countries do not have the fiscal space for undertaking the investment necessary for an inclusive and sustainable recovery. Without additional support, these countries will be left behind. Productive investments in capital stock should also improve debt sustainability in the long run, even while raising debt levels in the near term. In this context, the international community needs to develop strategies with very long term lending and investment horizons.

83. On the national level, policymakers need to align their recovery packages with the Sustainable Development Goals and climate targets, including through integrated financing approaches. Country-owned integrated national financing frameworks can help countries design financing solutions for a sustainable recovery which take into account interlinkages across action areas of the Addis Ababa Action Agenda, as well as across environmental, social and economic dimensions of sustainable development.

84. However, national actions alone will not suffice. The COVID-19 crisis has underscored that our most intractable challenges – those posed by pandemics, climate, biodiversity, debt and other systemic risks – are global in nature and can be addressed only if all countries come together and work towards common objectives. Collective action is indispensable.

85. Strengthened multilateralism and new forms of global cooperation can bring different policy communities together and give voice to those most vulnerable to shocks and crises. The United Nations continues to offer a unique platform for enabling policy dialogues on financing issues across economic, social and environmental dimensions, including climate, of sustainable development at a global level.

²⁴ United Nations, General Assembly, “Road map for digital cooperation: implementation of the recommendations of the High-level Panel on Digital Cooperation”, report of the Secretary-General of 29 May 2020 (A/74/821).