United Nations A/75/146

General Assembly

Distr.: General
24 July 2020

Original: English

Seventy-fifth session
Item 16 of the provisional agenda*
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 pursuant to General Assembly resolution 74/207, 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 achieving the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, within the context of the economic crisis triggered by the coronavirus disease pandemic. As mandated in the resolution, the report takes into account the discussion held as part of the High-level Dialogue on Financing for Development of the General Assembly.

* A/75/150.

20-10026 (E) 110820

I. Introduction and economic context

1. On the eve of the Decade of Action, the High-level Dialogue on Financing for Development (held on 26 September 2019) highlighted systemic vulnerabilities and impediments to the achievement of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, including debt sustainability and limited fiscal space, illicit financial flows and risks faced by countries in special situations. The coronavirus disease (COVID-19) pandemic has fully exposed and amplified these and other vulnerabilities. Pre-existing fault lines, such as high debt risks, have fractured and are jeopardizing countries' COVID-19 response and recovery efforts, as well as efforts to build back better and implement the Sustainable Development Goals.

2. The COVID-19 pandemic has triggered a profound economic crisis in countries across the globe. Early indicators suggest that the downside scenario – of a global economic contraction of about 5 per cent in 2020 – outlined in *World Economic Situation and Prospects as of mid-2020* is increasingly likely. Both developed and developing countries are expected to see large drops in gross domestic product (GDP), which are likely to be especially severe in countries that depend on commodity exports and tourism. Least developed countries and small island developing States are among the most vulnerable developing countries.

3. The pandemic and the related economic slowdown has also had a dramatic impact on labour markets. As at May 2020, 93 per cent of the world's workers were living in countries with some type of workplace closure measures in place. The International Labour Organization estimates that there was a 14 per cent drop in global working hours during the second quarter of 2020, equivalent to the loss of 400 million full-time jobs,[1] with the most vulnerable workers and women affected the most. In addition, women are suffering from an increase in unpaid care work, amid the closure of schools and childcare facilities and a shift of economic activity into the domestic sphere.[2] The crisis is likely to aggravate inequality more broadly, as poor communities are more exposed to health risks and the workers least likely to be able to work remotely tend to be those at the bottom of the earnings ladder.

4. Massive losses of employment and income owing to the crisis are also exacerbating global poverty, especially in developing countries with limited social protection. Between 71 million and 100 million people might be pushed into extreme poverty in 2020, wiping out any progress made since 2017.[3] Many of the newly poor would be located in countries with already high poverty rates, with around half living in South Asia and over one third in sub-Saharan Africa.

5. At the same time, the economic repercussions of the COVID-19 pandemic have strained the ability of many countries to respond, by limiting fiscal space and worsening debt distress.

6. In order to build back better and set the world on a path towards achievement of the Sustainable Development Goals by 2030, short-term COVID-19 response measures must be geared to supporting medium- and long-term sustainable development. Both domestic efforts and multilateral action will be necessary, and the most vulnerable countries will need international support.

7. In this regard, the Economic and Social Council held virtual meetings on financing for development in April and June 2020. On 28 May, the Secretary-General,

---

[1] International Labour Organization, *ILO Monitor: COVID-19 and the world of work*, fifth edition, 30 June 2020.

[2] United Nations, *Policy Brief: The World of Work and COVID-19*, 19 June 2020.

[3] World Bank, "Projected poverty impacts of COVID-19 (coronavirus)", 8 June 2020.

Canada and Jamaica co-convened a high-level event on financing for development in the era of COVID-19 and beyond, to help generate consensus and facilitate a rapid and comprehensive global response in times of crisis. Governments and international organizations agreed to deliver concrete proposals by September 2020 in six priority areas: external financial flows; recovering better for sustainability; global liquidity and financial stability; debt vulnerabilities; private sector creditors' engagement; and illicit financial flows.

II. High-level Dialogue on Financing for Development and other financing for development outcomes in the context of COVID-19

8. The first High-level Dialogue on Financing for Development since the adoption of the Addis Ababa Action Agenda, held in September 2019, generated a powerful call to action to accelerate the mobilization of financing from all sources in pursuit of the Sustainable Development Goals. The High-level Dialogue underlined that mobilization of resources and alignment of economic activity with the 2030 Agenda for Sustainable Development had already fallen short of the progress needed to achieve the Goals by 2030, prior to the outbreak of COVID-19.

9. The High-level Dialogue, as well as the report of the Economic and Social Council forum on financing for development follow-up (E/FFDF/2020/3), which held two virtual meetings in April and June 2020, delivered the overarching message that addressing the impediments to the achievement of the Addis Ababa Action Agenda is a necessary precondition for achieving the 2030 Agenda and building back better. The outcome document laid out a comprehensive response to tackle the devastating impact of the pandemic, including the increased risks to financial stability.

10. To mobilize the resources needed to enable all countries to implement the Sustainable Development Goals, the High-level Dialogue called for the scaling-up of both domestic resource mobilization and development assistance, along with a renewed partnership with the private sector in a new economic paradigm aligned with the 2030 Agenda. It also called for actions to unlock the vast potential of private finance and to mobilize resources for investments aligned with the 2030 Agenda.

11. Systemic approaches to achieving debt sustainability, particularly in the light of rising climate risks and structural vulnerabilities, resonated strongly during the discussions. Both multilateral cooperation and national efforts are also needed to tackle the challenge of illicit financial flows, which represent a major impediment to countries' efforts to achieve sustainable development.

12. To accelerate actions by all stakeholders, the High-level Dialogue featured the announcement of over 20 action-oriented initiatives and commitments by Governments, the private sector and civil society, including on remittances, innovative financial instruments and new partnerships for joint action on the Sustainable Development Goals and climate financing. Sixteen pioneer countries committed to implementing integrated national financing frameworks to enhance financing strategies in support of national sustainable development priorities. Country interest in such frameworks has continued to grow since the High-level Dialogue. Nearly 60 countries are now receiving support in designing and implementing integrated national financing frameworks from United Nations country teams through the Joint Policy Fund to Advance the 2030 Agenda through Integrated Policy.

III. Multilateral and national actions to build back better

13. Building back better and implementing sustainable development requires every actor – public, private, multilateral, national and subnational – to be on board. Both national actions and multilateral cooperation will be necessary to finance sustainable development and address global problems, including responding to the global recession, addressing global health challenges, fighting poverty, combating climate change and investing in resilience.

14. Financing is about not only the money, but also the policy frameworks. In this regard, the Addis Ababa Action Agenda put forward the idea of integrated national financing frameworks as a mechanism for countries to strengthen financing policies.

15. Integrated national financing frameworks are a planning and delivery tool that can support the implementation of the Addis Ababa Action Agenda at the national level, supported by multilateral actions. Such frameworks are country-led and can help to bring together the wide variety of tools and instruments offered by the international community to support national priorities. Designing and implementing an integrated national financing framework involves action across four building blocks: assessment and diagnostics (analysing financing gaps, risks and binding constraints); a financing strategy (bringing together financing policies and reforms and maximizing alignment with sustainable development outcomes); monitoring and review (supporting learning, transparency and accountability and enhancing the impact of financing instruments and policies on sustainable development); and governance and coordination (building broad-based national ownership and strengthening dialogue and coordination among relevant stakeholders).

16. In the context of the COVID-19 pandemic and the economic crisis, integrated national financing frameworks can help Member States to address the immediate crisis in a more integrated manner, while developing medium-term strategies for recovery. The current situation underlines the need to strengthen investment in crisis prevention, risk reduction and planning. Experience from responses to past disasters and other hazards underlines the need to create adequate crisis-responding financing instruments before the crisis arrives. Integrated national financing frameworks include a risk assessment and can facilitate a more forward-looking and risk-informed approach to sustainable development financing, as Member States seek to build back better and to strengthen preparedness for future shocks and crises. Strengthened country-owned financing frameworks can also be used as a basis of discussion with development partners.

17. However, just as multinational cooperation is not a substitute for national leadership, national efforts will not suffice on their own and are not a substitute for multilateral action. Many of the most pressing challenges facing the world – climate change, pandemics, trade tensions and systemic financial issues, to name a few – are global and require joint, integrated multilateral approaches. All seven action areas of the Addis Ababa Action Agenda require both national and multilateral efforts to finance sustainable development, combat the pandemic, build back better and achieve the Sustainable Development Goals.

IV. Action areas of the Addis Ababa Action Agenda

18. While the global context has changed radically since the High-level Dialogue in September 2019, underlying vulnerabilities across all seven action areas of the Addis Ababa Action Agenda continue to be at the core of the global financing challenge. Despite the significant changes to global economic realities, the systemic challenges that dominated the policy agenda at the High-level Dialogue continue to be priority

issues in the context of the COVID-19 pandemic. Debt challenges, illicit financial flows and a lack of fiscal space to invest in the Sustainable Development Goals predate the current crisis, but have been set in stark focus by the global economic downturn.

19. In the response and recovery from COVID-19, efforts to address systemic vulnerabilities must remain on top of the global policy agenda. Recovery efforts must be guided by the Addis Ababa Action Agenda, which should serve as a blueprint for achieving an economy that is inclusive, resilient and sustainable.

A. Domestic public resources

20. Domestic public finance is essential to financing the Sustainable Development Goals, providing public goods and services, increasing equity and helping to manage macroeconomic stability. As entire economies have shut down to help stop the COVID-19 pandemic, tax bases have shrunk almost overnight, hitting public revenues at a time when increased spending is needed to tackle both the immediate health crisis and the economic and social consequences. There is also a looming risk that the vast funds involved in the economic response to the pandemic will be an attractive target for misappropriation and the misallocation of funds.

21. Some developed countries have enacted large liquidity packages valued at over 10 per cent of GDP to fight the crisis. On average, fiscal support from the Group of 20 (G20) economies is valued at 3.5 per cent of GDP in just the first quarter of 2020. To date, the fiscal response in developing countries has been more modest, at 1.2 per cent of GDP on average, in part owing to tight financing constraints.

22. For most countries, building back better requires significant resources in a context of constrained fiscal space. Stimulus packages responding to COVID-19 will be most effective if they prioritize public investments that contribute to the achievement of the Sustainable Development Goals. Investments in green and resilient infrastructure, digital inclusion, health, education and strengthened social protection will increase countries' resilience and reduce future risks, while also helping to address immediate social needs and increase employment. Policymakers should also embed gender equality and women's economic empowerment in expenditure and strategic procurement across all sectors.

23. The current crisis has underscored the importance of sufficient resilience and flexibility in national fiscal systems to be able to face unexpected situations, such as the COVID-19 pandemic. As climate change intensifies, investment in resilience will be especially important in responding to disasters.

24. Including fiscal planning, covering both expenditure and revenue, in integrated national financing frameworks can enhance alignment with sustainable development and national priorities. Fiscal plans with medium-term horizons can be used to better incorporate disaster and other risk reduction strategies into fiscal planning. Multi-year national plans for tax policy and administration reform, such as through medium-term revenue strategies, can help countries to prepare for shocks. These should be country-owned, reflect development priorities, be prepared by the whole of government, be coherent with broader integrated national financing frameworks, and have the full backing of national political leaders.

25. Revenue plans can contribute to increasing revenue mobilization in a way that reduces inequality and supports public investment. This reinforces the social contract and accountability to citizens, who can demand better service delivery alongside more effective governance.

26. Despite the need for policymakers to focus on the short-term pandemic response and to avoid measures that may slow the economy, it is more important than ever for Governments to strengthen tax administration and medium-term planning. Least developed countries and other low-income countries have approximately one tenth of the administration staffing of high-income countries.[4] Revenue plans and fiscal packages can include prioritizing the adoption of technologies to strengthen tax administration and set a risk-based approach to combating illicit financial flows. As donors approach the end of their commitment under the Addis Tax Initiative to increase aid dedicated to enhancing domestic public resource mobilization, official development assistance (ODA) for this purpose was only 0.22 per cent of all ODA in 2018.

27. Given current low commodity prices, it may be a good moment to incorporate environmental taxation, such as carbon taxation, in fiscal plans to generate much-needed revenue and create incentives for sustainability, while having a lower impact on employment than payroll or income taxes.

28. Internationally, there are benefits and costs to unilateral, bilateral, regional and multilateral tax norms. To better address COVID-19 and the changing structure of economies, tax cooperation may need to draw on creative options based on the variety of international experiences. The commitment in the Addis Ababa Action Agenda for international tax cooperation to be universal in scope and to fully take into account the needs and capacities of all countries is especially relevant today, given the need for domestic resource mobilization to build back better across all countries.

29. The current environment has heightened the need for countries to tax business profits achieved in countries by highly digitalized companies, with the expectations of citizens that this should happen sooner rather than later. However, finding a widely acceptable alternative to the existing rules, that preserves taxing rights but avoids double taxation, has proven difficult. There is increasing acceptance that market jurisdictions, including developing countries, are entitled to more taxation rights, but agreement within the Organization for Economic Cooperation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting has not yet been achieved. Building on the agreement in the Addis Ababa Action Agenda that international tax cooperation should fully take into account the different needs and capacities of countries, international agreements need to consider the issue of administrability for developing countries. Realistic implementation timetables, given existing capacities, will be important, while countries should be prepared in the event that multilateral talks fall short.

30. The terms of the current members of the Committee of Experts on International Cooperation in Tax Matters will conclude during the seventy-fifth session of the General Assembly. The Committee is producing revisions to the United Nations Model Double Taxation Convention between Developed and Developing Countries and guidance on areas such as taxation of ODA projects and environmental taxation.

31. Illicit financial flows continue to result in huge losses in tax revenues, while corruption undermines the rule of law and the social contract. In March 2020, the President of the General Assembly and the President of the Economic and Social Council launched the High-level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda. The Panel will make recommendations in early 2021 on addressing gaps, vulnerabilities and impediments in international legal and institutional frameworks, to make them less vulnerable to tax avoidance, tax evasion, money-laundering and corruption. This likely requires

[4] United Nations, Inter-agency Task Force on Financing for Development, *Financing for Sustainable Development Report 2020* (New York, 2020).

better implementation of existing instruments, strengthened peer review, more concerted international cooperation, especially on asset recovery and return, and changes to the rules to close gaps, vulnerabilities and loopholes. The Panel's recommendations should be taken up and discussed in the inclusive intergovernmental mechanisms available at the United Nations.

B. Domestic and international private business and finance

32. Social distancing policies and lockdowns have abruptly stopped business activities, creating an unprecedented shock to economies across the world. The impact has been disproportionate on the most vulnerable people and women, who are overrepresented in sectors that have been hit the hardest.

33. The economic shock for many poor countries is compounded by the loss of remittances. The fall in migrant employment and wages is expected to reduce the global flows of remittances by about 20 per cent in 2020. This would represent a loss of about $109 billion for receiving families in low- and middle-income countries, who depend on these flows for their livelihood. While remittances traditionally play a countercyclical role, the global nature of the crisis means that migrant-source countries could experience both private capital flight and reduced flows of remittances at the same time.

34. The sharp economic slowdown and uncertain business prospects are also depressing private investments. Global foreign direct investment flows could decline by up to 40 per cent in 2020 and be lower than $1 trillion for the first time since 2005, with developing economies experiencing the biggest fall.[5] Low investments could seriously impede future economic growth. The crisis will likely also further deter access to finance for small- and medium-sized enterprises, owing to increasing pressures on financial systems.

35. The sudden drop in activity has affected the viability of companies and pushed many firms out of business or into precarious financial situations. The immediate public response has focused on keeping businesses afloat and providing support to people losing their jobs. Bailout programmes could also be leveraged to accelerate the transformation of the private sector and align it with sustainability. For instance, companies receiving financial assistance could be asked to commit to carbon reduction targets or improving social standards. Stimulus packages could be used to boost confidence and relaunch investment activities, in countries able to implement them.

36. These packages are also an opportunity to accelerate job creation and investments in areas key for sustainable development. If Governments coordinate their actions and agree to align spending with sustainable development objectives, this could create a breakthrough in areas such as clean physical infrastructure. To increase private investment in developing countries, when appropriate, fit-for-purpose financial instruments could be structured and leveraged by development partners.[6]

37. Developing countries, however, have less fiscal space to respond to the crisis. On average, fiscal support from G20 economies has been around 3.5 per cent of GDP, versus 1.2 per cent of GDP in developing countries. Countries with high debt burdens

[5] United Nations Conference on Trade and Development, *World Investment Report 2020: International production beyond the pandemic* (New York, 2020).

[6] United Nations, Inter-agency Task Force on Financing for Development, *Financing for Sustainable Development Report 2020* (New York, 2020).

are particularly fiscally constrained and many will need international support to respond to the health and economic impacts of the crisis.

38. Nonetheless, countries can also aim to use the current crisis as an opportunity to further strengthen domestic policy frameworks in support of sustainable development. For example, Governments can reduce costs and risks for investment by streamlining business requirements, strengthening effective legal and regulatory frameworks, or developing regulatory frameworks that promote financial technology and inclusion in a prudent manner. Integrated national financing frameworks provide tools to help policymakers identify the greatest binding constraints to investments, including associated costs of different policy choices.

39. The crisis has also highlighted major flaws in the international business model. A focus on short-term financial returns for shareholders has meant that companies came into the crisis ill-prepared and vulnerable. Over the past decade, many firms increased leverage, and used profits to buy back shares to pay dividends and boost return ratios. In 2019, it is estimated that companies in the Standard & Poor's 500 Index bought $729 billion of their own stock, instead of building reserves and investing. Regulatory frameworks could be used to discourage excessive private borrowing when debt is not intended for productive investments (versus increasing shareholder returns).

40. Governments and private companies need to collaborate to build a post-crisis economic model that is fairer, more inclusive and sustainable. This could be the basis of a new compact between the public and private sector. The increased role of Governments in the economy in response to the crisis has underscored the interconnectedness of public and private actions and goals. The crisis has created a window of opportunity to initiate a fundamental transformation in the way companies operate and people work.

41. Business models need to evolve and work for all stakeholders, not only shareholders. This transformation can start with the development of coherent policy and regulatory frameworks, including setting and enforcing high standards in the areas of the environment, health, labour practices and human rights. Business models could then become more people-centred and contribute to greater social cohesion. The private sector transformation can also be realized by penalizing unsustainable practices, for instance through meaningful carbon pricing. Building a more equal and low-carbon economy is critical to reducing future risks and vulnerabilities.

42. The financial systems and the investment community could be further leveraged as a force for sustainable development. This requires addressing the prevailing short-termism in financial markets and ensuring that long-term risks, such as climate-related ones, are effectively priced by financial markets. It also requires ensuring that investment products presented as sustainable are making a real contribution to the Sustainable Development Goals. In this respect, the Global Investors for Sustainable Development Alliance has developed a common definition of what constitutes sustainable development investing that could serve as an effective norm for the market, particularly if embraced by Governments and regulators.

43. Companies must be more transparent about their impact on society and the environment. Financial materiality should not be the only compass for deciding what companies should be disclosing. If corporations are to be accountable not only to their investors but also to a broader audience, they need to be disclosing the information required to understand the impact of their activity on issues that matter to the whole of society, such as the Sustainable Development Goals. The largely voluntary nature of sustainability reporting has been problematic, as companies are generally able to decide which indicators they choose to report on. The time has come to shift from voluntary to mandatory sustainability reporting.

C. International development cooperation

44. There is concern that international support for developing countries will be insufficient to address health needs and the expected increase in poverty and unemployment in vulnerable countries. The United Nations coordinated funding appeals are yet to be met: as at early July 2020, only 22 per cent of the $7.5 billion Global Humanitarian Response Plan for COVID-19 has been met,[7] while 47 per cent of the World Health Organization's COVID-19 appeal of $1.74 billion has been fulfilled.[8]

45. ODA increased to $152.8 billion in 2019, prior to the outbreak of the crisis, according to new grant-equivalent methodology. However, ODA fell slightly as a percentage of donor country gross national income (GNI) (from 0.31 to 0.30 per cent on average) using the new methodology. Based on the previous cash-flow methodology, total net ODA remained flat, with net ODA to least developed countries and Africa increasing by 2.6 per cent and 1.3 per cent, respectively. More detailed data, due to be published later this year, is needed to better understand the reasons behind the difference in estimates.

46. ODA providers should make every effort to meet the 0.7 per cent aid commitment, with a focus on least developed countries and the most vulnerable countries. However, given the impact of the pandemic on the national budgets of donors, there is a risk that the volume of ODA may decline (although the outcome as a percentage of GNI is unclear). The treatment of debt relief may also affect outcomes, although the methodology for its inclusion in the new ODA calculation is not yet resolved.

47. Nevertheless, the international community has stepped up efforts to provide resources to support the responses of developing countries to COVID-19. The World Bank Group is providing up to $160 billion in COVID-19 financing, including $50 billion on grant and highly concessional terms.[9] The International Monetary Fund (IMF) has doubled access to its emergency facilities to meet an expected $100 billion demand, increased capacity to provide concessional financing at zero interest under the Poverty Reduction and Growth Trust facility and offered immediate debt relief to 29 countries under its Catastrophe Containment and Relief Trust.[10]

48. Regionally, the European Investment Bank is providing up to €200 billion,[11] the Asian Development Bank $20 billion,[12] the African Development Bank $10 billion,[13] the Inter-American Development Bank $12 billion[14] and the Islamic Development Bank $2.3 billion.[15]

---

[7] Office for the Coordination of Humanitarian Affairs, "COVID-19 Global Humanitarian Response Plan: Appeal summary", 7 July 2020.

[8] World Health Organization, "Contributions to WHO for COVID-19 appeal", 3 July 2020.

[9] World Bank, "World Bank Group's Operational Response to COVID-19 – Projects List", 17 June 2020.

[10] International Monetary Fund, "The IMF's Response to COVID-19", 20 May 2020.

[11] European Investment Bank, "Coronavirus outbreak: EIB Group's response".

[12] Asian Development Bank, "ADB's $20 Billion COVID-19 Pandemic Response", 20 April 2020.

[13] African Development Bank, "African Development Bank Group unveils $10 billion Response Facility to curb COVID-19", 29 April 2020.

[14] Inter-American Development Bank, "IDB Group announces priority support areas for countries affected by COVID-19", 26 March 2020.

[15] Islamic Development Bank, "As part of the US$ 2.3 Billion Package, IsDB Provides US$ 1.86 Billion to 27 Member Countries to Contain COVID-19", 14 May 2020.

49. The Asian Infrastructure Investment Bank has made available $10 billion under its COVID-19 crisis recovery facility,[16] while the New Development Bank has provided $1 billion loans to member countries.[17] Regional, subregional and interregional organizations, through innovative approaches to South-South cooperation, have enhanced cooperation for the pandemic response. For example, the African Union has developed a joint continental strategy on COVID-19 to limit transmission and minimize its effects in the region.

50. A flexible approach to accessing funds that considers factors beyond per capita income may need to be considered, given the breadth of the crisis. In its 2020 report, the Inter-Agency Task Force on Financing for Development highlighted that multilateral development banks have increasingly considered vulnerability measures in their access criteria and in 2017, the OECD Development Assistance Committee agreed to rules for countries to become reinstated for ODA eligibility if their per capita income fell back below the World Bank's high-income threshold for one year. The Development Assistance Committee continues to negotiate an agreement on a process to allow temporary access to countries following a catastrophic humanitarian event, which COVID-19 qualifies as.

51. The crisis also underscores the importance of scaling up support for risk reduction financing. Experience from disasters and other hazards indicates the need for ex ante financing instruments that are efficient, predictable and quick-dispensing and build incentives for risk reduction into their design. This includes an increased focus on investing in disaster risk reduction, including climate adaptation, as well as epidemic and pandemic prevention and preparedness.

52. Innovative instruments can also help in addressing the pandemic and other crises. For example, in June 2020, Gavi, the Vaccine Alliance, launched an advance market commitment for COVID-19 vaccines with the aim of raising $2 billion to ensure equitable access to COVID-19 vaccines for all countries.[18]

53. Blended finance, including through both multilateral and national development banks, can play a role in building back better in the medium term. In its 2020 report, the Inter-Agency Task Force highlighted ways that concessional resources could be used to mobilize private investment, with the choice of instrument depending on the sector and type of transaction, as well as country circumstances and the underlying impediments to private sector investment that blending can help to overcome. The Inter-Agency Task Force highlights a six-pronged approach to blending that can be used in the post-pandemic recovery phase. To ensure the effectiveness of blended finance, countries should: develop a country blending strategy linked to integrated national financing frameworks; focus blending primarily on impact rather than financial returns; measure the cost of blending versus other financing structures; account for complementary investment; provide capacity development; and ensure transparency, impact reporting, participation and monitoring throughout the life of a project.

[16] Asian Infrastructure Investment Bank, "AIIB Doubles COVID-19 Crisis Response to USD10 Billion", 17 April 2020.

[17] New Development Bank, "NDB Board of Directors approves RMB 7 billion emergency assistance program loan to China to fight COVID-19 outbreak", 20 March 2020; "NDB fully disbursed emergency assistance program loan to India to fight COVID-19 outbreak", 12 May 2020; and "NDB Board of Directors approves USD 1 Billion COVID-19 emergency program loan to South Africa", 20 June 2020.

[18] Gavi, "Gavi launches innovative financing mechanism for access to COVID-19 vaccines", 4 June 2020.

54. As noted above, integrated national financing frameworks can also be a useful tool to improve the effectiveness of development cooperation by matching plans, strategies and resources.[19]

D. International trade as an engine for development

55. Slowing economic growth and rising trade tensions were already affecting trade volumes prior to the COVID-19 crisis. The crisis has added a tremendous shock to this negative trend. World merchandise trade is projected to decrease by 20 per cent in 2020. Some sectors are more affected than others. The automotive and energy sectors have suffered the most, with collapsing demand and disruptions in global value chains. In contrast, agri-food trade has remained stable, while exports of medical products have more than doubled.[20]

56. Tourism is another major victim of the crisis, which has forced international travel to a halt. The cost to the tourism industry is estimated at $1.2 trillion, but this figure could rise to $2.2 trillion, or 2.8 per cent of the world's GDP, if the situation does not improve in the rest of 2020. This has dramatic consequences for the economy and employment in countries where tourism is a large sector. For instance, Jamaica and Thailand could lose 11 and 9 per cent of GDP, respectively, in the most optimistic scenario, according to estimates by the United Nations Conference on Trade and Development (UNCTAD).[21]

57. Least developed countries are among those countries particularly affected by the crisis since they tend to depend on a limited range of export sectors, which have been hit hard by the crisis. The share of least developed countries in global trade was already well below international targets and the crisis is likely to heighten this issue. Export restrictions on medical goods and food could also hamper the recovery efforts of countries that are net importers of such products.

58. While the COVID-19 crisis has disrupted international trade in the short term, an important question is whether these changes could become more permanent. Prior to the crisis, rising protectionism and technological advancements were already transforming international production and trade. The crisis could be a tipping point in this transformation, with major impacts on countries relying on trade for their socioeconomic development. For instance, companies may shorten their value chains to make them more resilient to future shocks or accelerate automation to reduce dependence on human workers, as robots are immune to pandemics. However, economic resilience could also be achieved through greater diversification of supply sources and open international markets.

59. The rise of remote working and video conferencing could also open trade opportunities in the services sector that were traditionally out of reach. For instance, online supply has been rising during the crisis in sectors such as health and education. Employers are also realizing that they may not need to have their workforce located in the same place. The labour market could thus become more international. Similarly, online shopping has also become more widespread during the crisis and could open up opportunities for big and small businesses to reach a broader network of buyers.

---

[19] Department of Economic and Social Affairs, "DCF Survey Study 2020: Toward effective development cooperation in the COVID-19 period", July 2020.

[20] United Nations Conference on Trade and Development, "Global trade continues nosedive, UNCTAD forecasts 20% drop in 2020", 11 June 2020.

[21] United Nations Conference on Trade and Development, "Coronavirus will cost global tourism at least $1.2 trillion", 1 July 2020.

60. However, these trade opportunities rely on digital connectivity, which remains a major obstacle in many countries. In 2019, some 87 per cent of people in developed countries used the Internet, compared with just 19 per cent in the least developed countries.[22] There is also a risk that increased digitalization leads to market concentration, which needs to be properly managed to avoid abuses of market dominant positions.

61. The future of trade also depends on continued international collaboration to agree on common rules and a predictable trade policy environment. International collaboration has recently been under stress and the multilateral trading system, embodied by the World Trade Organization, is in jeopardy. It is critical to preserve and strengthen this system for trade to continue its critical role as an engine for development. The fifteenth session of the UNCTAD Ministerial Conference and the twelfth World Trade Organization Ministerial Conference, which have both been postponed to 2021, are key opportunities to turn words into action.

E. Debt and debt sustainability

62. The global recession induced by COVID-19 is having enormous consequences for the public balance sheets of developing countries and their debt sustainability. Debt risks were already high prior to the crisis: 44 per cent of low-income and least developed countries were already in or at high risk of external debt distress at the end of 2019. COVID-19 and related global economic and commodity price shocks will significantly increase this figure. Global public debt stocks are projected to increase by 13 percentage points to 96 per cent of gross world product in just one year. Rising debt-service costs limit the immediate fiscal space of developing countries to respond to COVID-19, and rule out investments in long-term structural transformation and the Sustainable Development Goals.

63. Rapidly rising financing needs owing to the pandemic are compounding growing refinancing risks due to changes in the composition of debt of developing countries in recent years. The long period of unusually low international interest rates (since the 2009 financial crisis) has changed the structure of the debt of borrowing countries, increasing the share of commercial debt. As a result, borrowing countries are more exposed to interest rate, exchange rate and rollover risks. Even before the current crisis, debt servicing costs for countries eligible for support from the International Development Association had more than doubled to 13 per cent of government revenue on average between 2000 and 2019. Downgrades of sovereign debt ratings could exacerbate this situation by increasing spreads or limiting access to funding. Since the start of 2020, ratings agencies have downgraded one quarter of the emerging markets they cover and one third of oil-exporting countries. Steep increases in private sector debt, in particular non-financial corporate debt in many middle-income countries, have raised countries' vulnerabilities to external shocks and capital flow reversals. Owing to the global recession, these risks have materialized.

64. Amid materializing debt distress risks, the global community has responded. To ease the debt burden of some vulnerable countries, the G20 debt service suspension initiative on official bilateral debt has been offered to 73 low-income developing countries eligible for support from the International Development Association, which includes all least developed countries and 13 small island developing States. To

[22] United Nations, Press release: "Digital Divide 'a Matter of Life and Death' amid COVID-19 Crisis, Secretary-General Warns Virtual Meeting, Stressing Universal Connectivity Key for Health, Development" (SG/SM/20118), 11 June 2020.

provide liquidity for additional countries, IMF has also offered further debt service relief to 27 of the poorest countries.

65. However, the actions taken so far will not suffice to avoid defaults. The debt service suspension initiative has created valuable breathing space, but with many countries facing solvency issues, a moratorium on debt service alone will not prevent widespread debt crises. In addition, multilateral and commercial debts are excluded from debt service suspension, yet the countries eligible for the debt service suspension initiative owe some $13 billion to private creditors by the end of 2020.

66. Furthermore, many vulnerable developing countries are entirely excluded from the initiative. Middle-income countries are a heterogenous group: some have low debt levels and should continue to have access to markets, others are in default and in negotiations with creditors, while others are at high risk of debt distress.

67. Several proposals have been put forward to support countries with low debt levels to continue to borrow, if market access becomes a binding constraint (more recently, however, countries have had market access). For example, a global asset purchasing programme could be used to support countries with sustainable debt to maintain access to financial markets. The African Union has suggested creating a special purpose vehicle to subsidize private sector investment in African sovereign dollar debt. Such programmes would lower borrowing costs for countries and could help to maintain or create market access for some countries. The necessary funding could be supported by Special Drawing Rights issuances or partial public guarantees. However, this does not address countries' solvency problems. Indeed, as it could add to the debt burden of countries, it would not be a solution for highly indebted countries. In addition, the structure of the programme would need to be designed so as to avoid being seen as bailing out private creditors.

68. Highly indebted middle-income countries may find it impossible to service or roll over debt. For example, six small island developing States that are middle-income countries and not eligible for the debt service suspension initiative have especially high public debt and debt service burdens, at over 40 per cent of revenue on average.

69. Addressing sovereign debt distress is a long-standing challenge. While there is no shortage of policy ideas, progress in addressing the challenge has remained piecemeal, with little appetite among key actors for designing a comprehensive approach. This has left the world ill-prepared for the current crisis.

70. The United Nations report entitled "Debt and COVID-19: A Global Response in Solidarity" proposes a three-phase approach to addressing the immediate challenges posed by the COVID-19 pandemic and making progress on issues relating to the international sovereign debt architecture: first, a full standstill on all debt service (bilateral, multilateral and commercial) for all developing countries that request it, while ensuring that developing countries without high debt burdens still have access to credit needed to finance COVID-19 responses; second, additional debt relief for highly indebted developing countries to avoid defaults and create space for investments in the Sustainable Development Goals; and third, improvements in the international financial architecture, through fairer and more effective mechanisms for debt crisis resolution and more responsible borrowing and lending.

71. This comprehensive approach fulfils long-standing commitments made by Member States in the outcomes of the International Conferences on Financing for Development. It builds on the call contained in the Addis Ababa Action Agenda for debt restructuring to be fair, orderly, timely and efficient and for the creation of the necessary fiscal space for countries to invest in the Sustainable Development Goals. During the 2019 High-level dialogue on Financing for Development, Member States agreed that debtors and creditors must take a systematic and coordinated approach to

prevent and address repeated debt crises, and suggested that the United Nations could play an important role as the convener of discussions on debt.

F. Addressing systemic issues

72. After intense market volatility, and a record capital outflow from developing countries of around $100 billion between late January and the end of March 2020, international financial markets have recovered somewhat, and several developing countries have been able to issue new debt. However, most developing countries – especially the poorest and most vulnerable – do not have this option. Countries that need to refinance their debt in the current environment may not be able to do so, or only at much higher costs. For some countries, the shortage in dollar liquidity and higher debt servicing and refinancing costs of foreign currency-denominated debt is undermining debt sustainability.

73. At the forum on financing for development follow-up, Member States expressed their intention to address systemic challenges, including increased risks to financial stability, and to consider all appropriate policies to manage excess leverage and financial volatility and to maintain the stability of global financial markets.

74. The international community has taken steps to respond to the crisis. IMF is responding to emergency funding requests from over 100 countries and is temporarily raising access limits for its emergency financing facilities, the Rapid Credit Facility and the Rapid Financing Instrument. It is providing debt service relief to 27 of its poorest members, through its Catastrophe Containment and Relief Trust, for an initial phase of six months.[23] In April 2020, IMF established a new short-term liquidity line for short-term moderate balance of payments support.

75. However, the financing needs of developing countries are expected to surpass the $250 billion IMF is currently making available for pandemic-related financial assistance and debt service relief. In April, IMF estimated that the financing needs of developing countries could reach $2.5 trillion. There may be a need to activate agreed New Arrangements to Borrow and a new round of Bilateral Borrowing Arrangements to support the lending capacity of IMF, in addition to ongoing efforts to increase the funding of the Rapid Credit Facility and the Catastrophe Containment and Relief Trust.

76. IMF can also use its Special Drawing Rights to supplement member countries' official reserves. Several options for the use of Special Drawing Rights have been put forward, with varying degrees of political support. Options currently under discussion include:

(a) A reallocation of existing Special Drawing Rights from countries with sufficient international reserves to countries most in need, although the amounts would likely be insufficient to meet current needs; this could be done by setting up a redistributive mechanism within IMF, which would require a vote of the IMF Executive Board;

(b) A new issuance of Special Drawing Rights, of which around one third would be allocated to low- and middle-income countries, in line with their IMF quotas (e.g. an issuance of $1 trillion would provide developing countries with around $330 billion of additional international reserves); this would require a Board vote but

[23] For an updated overview of the COVID-19 response of IMF, see the IMF web page on COVID-19 financial assistance and debt service relief, available at: www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker.

not a change to the IMF Articles of Agreement, as long as it is established that there is a global need for additional reserve assets;

(c) A new issuance of Special Drawing Rights, together with a mechanism for their subsequent reallocation to countries most in need; this would also require the agreement of the IMF Board;

(d) A more ambitious role for Special Drawing Rights would be to increase their use as a global currency or an investment asset by actors beyond central banks, although this would require political support for institutional changes.

77. Regional financing arrangements form an additional layer of the global financial safety net by providing regional reserve pooling arrangements, swap lines, lending facilities and technical support. During the current crisis, regional financing arrangements have intensified their cooperation with IMF to support member countries on the ground. Going forward, cooperation among regional financing arrangements and between regional financing arrangements and IMF can be strengthened further, including through enhanced exchange of information, coordination of assistance to member countries and the provision of co-financing arrangements, where appropriate.

78. Given the challenges that volatile international capital flows pose for macroeconomic and financial stability in developing economies, there is also renewed attention on capital account management. As Member States recognized in the Addis Ababa Action Agenda, when dealing with risks from large and volatile capital flows, necessary macroeconomic policy adjustment could be supported by macroprudential and, as appropriate, capital flow management measures.

79. A number of countries have taken targeted measures to address capital flow volatility caused by the COVID-19 crisis. Several, especially larger emerging economies, have relaxed existing limits on capital inflows or put in place restrictions on capital outflows, and tightened restrictions on international payments and transactions and on the purchase of foreign currency for transfers abroad.[24]

80. Building capital management frameworks into integrated national financing frameworks would allow countries to strengthen the coherence between capital account management and other policies. IMF has put forward the concept of an integrated policy framework, which draws alternatives to formulate the best policy set – including monetary, exchange rate, macroprudential and capital flow management policies – to meet different countries' needs, and can be seen as a component of a country-owned integrated national financing framework. There is also scope to increase cooperation and explore avenues for multilateral support for capital account management, including through technical assistance. It could also be helpful to develop a better understanding of how source countries of capital flows can meet domestic objectives while avoiding large international spillovers in the form of volatility.

G. Science, technology, innovation and capacity-building

81. Science, technology and innovation, including digital technologies, could be transformative for the sustainable development agenda. The COVID-19 pandemic has brought to the fore how technologies can raise living standards, for example through increased access to health care, education and e-commerce. Digital communication

[24] Organization for Economic Cooperation and Development, "COVID-19 and Global Capital Flows. OECD Report to G20 International Financial Architecture Working Group", June 2020; International Monetary Fund, "Policy responses to COVID-19".

tools are helping to sustain human interaction and continuity in some vital economic and health-related activities. Open government data is helping some countries to map the outbreak and contain transmission. Nonetheless, access to and use of technologies is not equally distributed, and the persistence of a digital divide prevents many from benefiting from technological change, which risks increasing inequalities.

82. The COVID-19 crisis is accelerating ongoing trends in digital financial service provision. Digitally enabled financial innovation can support strong growth in financial inclusion. Mobile money can help to contain the spread of the virus by providing an effective and contactless payment option. Digital financial accounts enable government-to-people payments and help Governments to quickly scale up cash transfers to people in need.

83. Mobile money accounts also provide a basis for more sophisticated financial services, such as digital lending and insurance, that permit many previously underserved individuals and enterprises to access formal financial intermediation and risk-sharing services. For example, microinsurance schemes can avoid the need for physical claims assessments by using satellite and other data, combined with artificial intelligence, to improve risk assessments and determine whether an insured event has occurred. However, technological innovations do not necessarily translate into greater financial inclusion. As increasing evidence shows, algorithmic lending decisions based on historical data often codify inequalities and biases and thereby perpetuate existing inequalities. The *Financing for Sustainable Development Report 2020* points out that authorities need to ensure the provision of a broad range of enabling factors, including infrastructure, complementary technology, digital and financial education and an appropriate regulatory framework.

84. The COVID-19 crisis threatens to set back progress in gender equality, as the digital divide prevents women from participating in technological solutions for mitigating the impacts of the pandemic. In general, most science, technology and innovation indicators show important progress since the adoption of the Addis Ababa Action Agenda. Nevertheless, large gaps remain within and between developed and developing countries, particularly in least developed countries. For example, in most regions, the gap in research and development spending between developed and developing countries has increased. Moreover, while the number of people using the Internet continues to grow, growth was slowest in least developed countries, causing them to fall further behind in terms of connectivity. Although the gender gap has shrunk in most countries with respect to tertiary education, it remains large in terms of Internet access and has increased in least developed countries overall.

85. The Addis Ababa Action Agenda encourages knowledge-sharing and the promotion of cooperation and partnerships among stakeholders, including among Governments, firms, academia and civil society, in sectors contributing to the achievement of the Sustainable Development Goals. ODA for science, technology and innovation has outpaced total ODA growth since 2014, indicating increased donor commitment to this area. This is also reflected in ODA for science, technology and innovation to least developed countries, which doubled between 2016 and 2018, albeit from low levels. In particular, medical research is one of the areas receiving increased ODA in the past few years. At the forum on financing for development follow-up, Member States committed to work together to seize the opportunities offered by technology to address the COVID-19 crisis and underlined their determination to scale up research and collaboration for the detection, prevention, treatment and control of pandemics, including vaccines and medicines, and innovations in health systems.

86. Various United Nations entities are contributing to ongoing efforts to enhance the capacity of Member States in the area of science, technology and innovation, with

a view to intensifying the fight against the pandemic and making progress in achieving the Sustainable Development Goals. The United Nations has joined forces with Governments, scientists, businesses, civil society, philanthropists and global health organizations to collaborate in the Access to COVID-19 Tools Accelerator. This partnership aims to develop vaccines, therapeutics and diagnostics to contain and treat diseases such as COVID-19 and to strengthen global health systems. In addition, the World Health Organization has launched the COVID-19 Technology Access Pool, which aims to increase access to life-saving health technologies by making treatments and other technologies to fight the pandemic available to people everywhere.

V. The way forward

87. As highlighted during the 2019 High-level Dialogue on Financing for Development, the implementation of the Addis Ababa Action Agenda and the 2030 Agenda were already off track prior to the outbreak of COVID-19. The pandemic has further derailed progress and caused a profound economic crisis in countries across the globe.

88. Despite ongoing challenges and fiscal pressures in many countries, the COVID-19 crisis provides an opportunity to build back better. Short-term crisis responses have long-term impacts. Governments can use economic stimulus packages to prioritize public investment in sectors aligned with the Sustainable Development Goals, such as green and resilient infrastructure, health and education. Building back better also includes investing in risk reduction, resilience and preparedness, as well as strengthening social protection.

89. Implementing carbon pricing and other forms of environmental taxation can raise resources and change incentives. They can generate much-needed revenue and do not have the same negative impact on employment as labour taxes could have. The low price of oil makes this a particularly attractive moment for introducing carbon taxes.

90. Governments and private companies can use the current crisis to build a post-crisis economic model that is fairer, more inclusive and sustainable. The increased role of Governments in the economy in response to the crisis creates a window of opportunity to initiate fundamental changes to the economy.

91. At the national level, developing countries will need to use the full policy toolbox. Integrated national financing frameworks can facilitate a more long-term and risk-informed approach to financing, which can enhance the ability of countries to build back better.

92. The international community has come together to respond to the crisis, but it needs to do more to support the countries that are most in need, including through sufficient development assistance, providing adequate liquidity and resources, and preventing a debt crisis. The United Nations continues to offer a unique platform for inclusive dialogue on these issues, one that gives a voice to all countries, to address global challenges creatively and leave no one behind.