United Nations E/FFDF/2022/2

Economic and Social Council

Distr.: General
15 March 2022

Original: English

Economic and Social Council forum on financing for development follow-up
25–28 April 2022
Follow-up and review of the financing for development outcomes and the means of implementation of the 2030 Agenda for Sustainable Development

Financing for sustainable development

Note by the Secretary-General

Summary

The present note, which highlights the main findings of the *Financing for Sustainable Development Report 2022* of the Inter-Agency Task Force on Financing for Development, provides an assessment of progress in implementing the financing for development outcomes. In its report, the Task Force draws on the expertise, analysis and data collected by over 60 of its members. It analyses the global economic context and its implications for sustainable development, risk-informed sustainable finance and development, and progress in the seven action areas of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development and relevant data issues.

I. Overview and key messages

1. In March 2021, the Inter-Agency Task Force on Financing for Development warned of the risk of a diverging world, which could lead to a lost decade of sustainable development. Now, at the halfway mark in the implementation of the 2030 Agenda for Sustainable Development, divergence has become reality. Gross domestic product (GDP) per capita will remain below 2019 levels in one in five developing countries. This constitutes a severe setback to the achievement of the Sustainable Development Goals, with an additional 77 million people living in extreme poverty in 2021 and a dramatic increase in inequality.

2. Divergence between countries may widen further in the coming months and years. Global geopolitical tensions are fuelling greater uncertainty, with conflict situations affecting commodity prices, causing financial market volatility and increasing downside economic risks. The tightening of global financing conditions in the face of rising inflation will put more countries at risk of debt distress. Vaccine inequity also remains high: the number of vaccine doses administered per 100 people in the least developed countries stood at just 23.9, compared with 147.4 in developed countries. Climate change will continue to exacerbate financing challenges, particularly in vulnerable countries.

3. The "great financing divide" has been a key driver of divergence. Developed countries borrowed record sums at ultra-low interest rates to support their economies and people through the coronavirus disease (COVID-19) pandemic and to invest in the recovery. Despite support from the international community, the pandemic response of poor countries has been limited by fiscal constraints. Tax revenues declined, reflecting downward trends in overall economic activity, and many countries were forced to reprioritize expenditure and cut spending in areas critical to the achievement of the Sustainable Development Goals, such as education and public investment.

4. Unless the international community reverses course, the divergence will persist. In its *Financing for Sustainable Development Report 2022*, the Inter-Agency Task Force set out its recommendations to improve access by developing countries to financing for responding to the crisis, as well as for productive investments in recovery, climate action and the Sustainable Development Goals. Three key messages emerged from the Inter-Agency Task Force's analysis and formed the basis of recommendations linked to all areas of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, as summarized below:

(a) First, financing gaps and rising debt risks must be addressed urgently, including by raising resources from all sources of finance and ensuring that those resources are well spent. In the light of the limited options for raising additional domestic resources at the current time, the international community must step up its efforts to meet its official development assistance (ODA) commitments and support access to long-term sustainable finance. That includes strengthening the system of development banks and taking measures to address the historically elevated sovereign borrowing costs faced by developing countries in the international markets (e.g. through partial guarantees and improving the information ecosystem, along with reducing risks at the national level). Rising debt risks must be addressed by: (i) ensuring the more timely implementation and expansion of the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative; (ii) exploring mechanisms to increase fiscal space, such as debt swaps; and (iii) working towards a more comprehensive solution;

(b) Second, all financing flows must be aligned with sustainable development. The pandemic once again highlighted the interlinkages between the social, environmental and economic dimensions of development. It underscored the need to tackle climate change and inequalities head-on in order to preserve economic prospects. Economic growth can, in turn, help to finance environmental and social action. This implies, for example, adjusting fiscal policies, addressing greenwashing, increasing climate finance and rethinking incentives in the international financial system;

(c) Third, enhanced transparency and information will strengthen the ability of countries to manage risks and make better investments. Better quality data are needed not only to enable monitoring and ensure accountability, but also to support public sector planning and private-sector decision-making. However, gaps remain in terms of data coverage and quality, and stark divides persist between developed and developing countries. New technologies and digitization present opportunities to close gaps across the Addis Ababa Action Agenda. While enormous efforts and progress have been made, as summarized in the present note, some sectors of public and private finance have not yet taken full advantage of advances in technology, including in areas covered in the present note, such as in the sharing of international tax information, transparency in debt financing, the role of credit-rating agencies and developing measures and data indicators beyond GDP.

II. The global economic context and its implications for sustainable development

5. As the pandemic drags on and new risks emerge, the global economic outlook remains highly fragile. In early 2022, the United Nations projected global growth to moderate to 4.0 per cent in 2022, following a rebound of 5.5 per cent in 2021. The baseline outlook is clouded by the military conflict in Ukraine and heightened geopolitical risks, as well as prolonged supply bottlenecks, elevated inflationary pressures and a potential tightening of global financial conditions. A pandemic resurgence also remains a risk to the growth outlook of many countries.

6. Monetary authorities are facing difficult policy choices amid a challenging environment. Even before the latest sharp increase in global oil and food prices driven by geopolitical events, rising inflationary pressures had prompted many central banks to tighten monetary policy stances. However, an abrupt tightening of global financial conditions – which may be compounded by a renewed "flight to safety" – could trigger both a slowdown in growth and sharp market corrections, leading to large capital outflows from developing countries and a surge in debt servicing costs. Such a development would likely increase debt sustainability concerns and debt distress risks, except possibly for some commodity exporters, and could prompt Governments to further tighten fiscal policies, which would further derail growth.

7. Growing downside risks to the global economy are compounding the risk of a lost decade for sustainable development, as was highlighted in the *Financing for Sustainable Development Report 2021*. The recovery from the pandemic has been weaker in the developing economies, as reflected in larger output losses in comparison with pre-pandemic projections. Slower vaccination progress, a sluggish labour market recovery, limited fiscal space and a tightening of monetary conditions are among the factors weighing down growth in developing countries.

8. In many of the world's poorest countries, the pandemic has reversed several years of income gains. The number of extreme poor is expected to remain above pre-pandemic levels. Many countries are at risk of sinking deeper into a cycle of unsustainable debt, austerity and growing poverty and hunger. The increasingly challenging environment for policymakers is further compounded by growing interlinkages between economic, social and environmental factors. The increased

frequency and intensity of climate-related shocks are having a disproportionate effect on some of the world's most vulnerable economies, leaving those economies even further behind. Ongoing structural shifts in the global landscape, in particular the accelerated pace of automation and digitization and the changing nature of jobs, could also disproportionately harm certain segments of the population, exacerbating inequalities.

9. Macroeconomic and financing policies can play a more effective role in promoting a more resilient, inclusive and sustainable recovery. Sustainable development considerations, including the impact of climate change, should be integrated into fiscal, monetary and financial policy frameworks. Decisive support from the international community is also needed to create the fiscal space necessary for countries to get back on track towards achieving the Sustainable Development Goals, as well as to share the burden of tackling climate change and other common challenges.

III. Overcoming the "great financing divide"

10. Fiscal constraints in developing countries are driving a widening pandemic recovery gap. Developed countries have been financing a large-scale response to the COVID-19 pandemic at historically low interest rates. In many developing countries, such a response has been hamstrung by significantly higher borrowing costs in, and intermittent access to, international financial markets. The so-called great financing divide has contributed to the diminished ability of developing countries to finance an appropriate response to a historic shock. If left unaddressed, it will further exacerbate the divergence in development prospects, and the scars left by the pandemic will fatally undermine the achievement of the Sustainable Development Goals.

11. Debt financing enables countries to respond to emergencies, such as the pandemic, and to fund long-term investments in climate action and the Sustainable Development Goals. If not used well, however, it can constrain policy space down the line and jeopardize financial stability. Sovereign borrowing allows Governments to ramp up spending and provide assistance during a crisis, when private actors may be unable to do so. It allows countries to invest in the future when productive investment opportunities, which support the public good, arise. Such investments can help to achieve public policy objectives and, over time, increase the tax base and the capacity to service debt. However, benefits can be sustained only if risks are managed carefully and resources are used effectively. The rapid build-up of debt often results in a financial crisis. The challenge is to increase access to long-term, affordable and stable financing, and to use proceeds productively so that public policy goals are achieved and fiscal capacity is enhanced.

12. Unless they address financing gaps, countries may forgo productive investments to meet economic, social and environmental needs, which is undesirable for reasons of both equity and efficiency. Debt financing is most appropriate for investments (e.g. infrastructure investments) that generate direct returns or enhance a country's fiscal capacity over relevant time-horizons. Such investments in sustainable development should attract funding from investors with sufficiently long time-horizons, such as pension funds or public development banks, but for a variety of reasons that is not currently the case. Other forms of public spending may not directly enhance fiscal capacity and are unlikely to be funded by commercial investors, even in the long run, but may be indispensable in averting large costs (climate action), eradicating poverty and achieving gender equality or other Sustainable Development Goals. The foregoing are priorities that the international community has committed to supporting and that should attract funding from concessional sources.

13. To reverse the divergence in recovery and achieve the Sustainable Development Goals, countries will need reliable access to affordable financing from concessional and non-concessional (i.e. public, private, domestic and international) sources. The introduction of a package of measures could help developing countries to mobilize affordable, long-term financing and spend it effectively to achieve policy objectives, including by taking the following actions:

(a) Spending mobilized resources effectively, which is a precondition for translating additional financing into development impact and enhancing fiscal capacity to service debt. This can be achieved by strengthening public investment efficiency and good governance, and linking investment and development partner support to country-owned medium-term plans (e.g. through an integrated national financing framework);

(b) Mobilizing additional public financing for investment in the Sustainable Development Goals, such as by raising domestic resources. Public development banks can play an important role in that regard, given their ability to lend over the long term and countercyclically at affordable rates;

(c) Reducing borrowing costs and the procyclical volatility of borrowing from commercial sources through domestic actions to reduce risks and strengthen the enabling environment, international efforts to reduce volatility in global markets, improvements in the information ecosystem, including longer-term credit ratings and debt sustainability assessments, and exploiting the growing interest in sustainability issues to reduce borrowing costs;

(d) Addressing debt overhangs to reduce debt burdens and free up resources for investment in climate action and the Sustainable Development Goals.

14. The actions outlined above cut across the action areas of the Addis Ababa Action Agenda. Some of the detailed analysis and recommendations, as well as key complementary actions, are covered in the chapters of the *Financing for Sustainable Development Report 2022* and are outlined below.

IV. Key messages and recommendations of the *Financing for Sustainable Development Report 2022*

Domestic public resources

15. The COVID-19 pandemic has had a significant impact on fiscal balances. Tax revenues have fallen, particularly in the poorest countries, while expenditure needs have increased. Lessons learned include the importance of long-term planning to facilitate countercyclical fiscal policy, especially in a world characterized by fast-paced technological change and the increasing variability of climatic patterns.

16. Countries benefit greatly from strong fiscal systems, including through the diversification of revenue sources, which can give Governments more space to implement effective countercyclical fiscal policies. Countries with weak fiscal policies and low buffers are likely to become more fragile during a crisis. Governments can prepare contingency plans in advance of shocks and in the context of medium-term revenue strategies and broader integrated national financing frameworks. Building longer-term forecasts into policymaking, such as for tax reforms and public investment, enables Governments to respond better to shocks and to align plans with wider sustainable development objectives.

17. Robust fiscal systems, including both tax and expenditure, can contribute to poverty alleviation and reduced inequalities, while supporting economic growth,

industrial transformation and environmental sustainability. Given the ambition of the 2030 Agenda and the challenges posed by the COVID-19 recovery, improving the structure of the tax system so that it is aligned with financing strategies for achieving the Sustainable Development Goals is an increasing priority. Wider tax bases can help countries to withstand shocks. Country-owned medium-term revenue strategies should guide revenue reforms to widen the tax base and reduce tax avoidance and tax evasion, especially by the wealthy. Such strategies can also help to steer tax administration reforms. Strong public financial management can improve spending efficiency, including through better procurement systems to prevent corruption, even for emergency spending programmes. Such efforts should be reflected in country-owned integrated national financing frameworks.

18. Fiscal policy creates incentives that influence economic activity and social and environmental outcomes. Governments should align all aspects of public finance with sustainable development.

19. First, countries should make effective use of the fiscal system to reduce inequalities, in line with their commitments under the 2030 Agenda. A number of fiscal policies can help to address inequalities, as summarized below:

(a) Progressive income taxes on a broad tax base, with appropriate allowances for the poor, are a key tool for addressing income inequality;

(b) Policies that raise capital income tax rates closer to the tax rates on labour income can help to ensure that wealthy people, who usually have high levels of capital income, pay appropriate taxes. Wealth or inheritance taxes can strengthen those efforts;

(c) Universal social protection systems, which have a direct impact on inequality, also create an infrastructure that can be used for emergency and crisis response and can be designed to incentivize business formalization and reduce tax avoidance and evasion.

20. Second, countries should make more effective use of the fiscal system to achieve gender equality and women’s empowerment. To do so, it is recommended that:

(a) Countries design policies based on a systematic analysis of the gender implications of their tax system and budgets;

(b) Public spending respond to identified needs, including greater investment in the care economy, which will produce a “triple dividend” of women’s labour force participation, enhanced human capabilities and decent jobs in the paid care sector.

21. Third, all countries should better align their fiscal systems with climate change mitigation and adaptation, as well as with other environmental goals. Action on climate change may require the use of a combination of instruments (including taxes, carbon markets, regulations and subsidies) in order to be politically feasible, administratively practical and effective. Specific policies that could be explored include:

(a) Eliminating explicit fossil fuel subsidies and pricing carbon emissions through taxes, emissions trading schemes or both;

(b) Making public investments in clean alternatives and increasing social transfers to mitigate any regressive effects of ending fossil fuel subsidies or of taxes on energy.

22. To honour the commitments made in the Addis Ababa Action Agenda, countries should strengthen international tax cooperation, in particular on information exchange and usage, to ensure that no countries are left behind. Digitization, along with the progress made on the sharing of tax information between countries and new

international standards on beneficial ownership registration for legal vehicles, is increasing the size and depth of the information ecosystem available for enforcement of tax and financial integrity. However, many countries are not able to see or benefit from such information. To address those challenges, the authorities should:

(a) Put more information in the public domain to better inform policymaking across government, including by publishing information on the potential impacts of new international tax norms and opening up access to beneficial ownership registries for the public;

(b) Make better use of information at the national level, including by sharing and verifying information across government;

(c) Improve international tax information-sharing, especially for the least developed countries, by ensuring that more countries are able to receive needed information and providing assistance with improving systems and building capacity to utilize such information.

23. Lastly, the digitization of money brings with it new risks of tax avoidance, tax evasion and illicit financial flows, as well as new enforcement possibilities. Further research and guidance is needed on how tax policies and administration, especially in developing countries, can be adapted to and have an influence on the development and usage of digital assets, including cryptoassets, stablecoins and central bank digital currencies.

Domestic and international private business and finance

24. To meet developmental goals, the private sector needs to invest in the future, notably in productive capacity and infrastructure development. Investment by private companies significantly rebounded in 2021, albeit not with the same intensity everywhere, while future investment trends are uncertain. The pandemic has changed the investment landscape by putting a heightened focus on the resilience of global value chains, increased risk management and greater use of digital technologies. Climate change is also transforming many sectors of activity, such as energy and agriculture. Policymakers need to review priorities for investment promotion in the light of structural changes to international productions systems, the digitization of the economy and the impact of climate change.

25. Long-term affordable finance is a prerequisite for the private sector to scale up long-term investment. Access to long-term finance is lacking in many developing countries where capital markets and the local banking sector remain underdeveloped, while the cost of external borrowing is high. To address those challenges, the following is recommended:

(a) Developing local financial systems should remain a focus of the international community, which should also analyse ways to further encourage lending that has a positive impact on sustainable development;

(b) Governments and development partners should also seek to better tap into private markets, such as private equity and venture capital funds, which now account for trillions of dollars, as a greater source of long-term finance for developing countries.

26. While private investment cannot replace public investment in infrastructure, there are opportunities for scaling up its role in certain areas. That would require addressing the obstacles to greater private investment and moving away from a project-by-project approach to a more systematic one. To achieve that goal, the following is recommended:

(a) Governments need to develop strategies for sustainable, inclusive and resilient infrastructure in which appropriate areas for public and private investments are identified, as are the policy and institutional reforms needed to implement such strategies;

(b) Development partners should explore ways to improve the effectiveness of technical support for infrastructure development, for example by creating a marketplace for technical assistance and further leveraging technology in that area.

27. Countries would also benefit from having a more inclusive private sector. If the private sector fails to provide economic opportunities to all population segments, not only will the economy be less productive, but exclusions will also create instability in the long run. Governments can foster inclusion by removing obstacles that create economic exclusions, such as laws discriminating against women, and by creating incentives and policies targeting excluded groups.

28. To achieve a more inclusive private sector, the financial services provided to those who are underserved must also be improved. As things stand, financial constraints hinder the development and resilience of small companies, reducing their job-creation potential. At the same time, the excessive costs of some financial services create a burden for those in need. To address those challenges, the following is recommended:

(a) Policymakers should continue to assess whether the measures that they appropriately put in place to prevent a credit crunch for private companies during the COVID-19 crisis are reaching small and micro-businesses or whether additional actions are needed;

(b) International cooperation could help countries to learn from one another how best to address structural issues limiting access to finance, for instance by combining traditional measures (e.g. credit infrastructure) with support for innovative solutions (e.g. technologies for credit assessment);

(c) Attention should also be devoted to regulatory barriers that could unintentionally hinder financial inclusion for the poor, including migrants, and increase costs, such as those for transferring remittances.

29. The private sector not only needs to be more inclusive but also more sustainable. Capital markets must be used as an engine to achieve a sustainable shift. Investors are increasingly incorporating sustainability issues into their investment decisions, in particular through risk management. However, that is not likely to create enough of a change in the sustainability behaviour of companies without policymakers taking further actions, such as by:

(a) Adopting policy measures that make unsustainable businesses less profitable, such as carbon pricing, while also supporting businesses that have a positive sustainability impact;

(b) Improving the quality and comparability of corporate sustainability reports in order to provide investors and other stakeholders with the information they need to assess companies when it comes to sustainability matters;

(c) Strengthening market integrity by establishing common norms and criteria for investment products to be marketed or labelled as sustainable;

(d) Increasing demand for sustainable investments by requiring pension funds and financial advisers to ask their beneficiaries and clients about their sustainability preferences (the Inter-Agency Task Force could reflect on what questions should be asked of beneficiaries and clients);

(e) Requesting institutional investors to disclose the environmental and social footprint of their portfolios;

(f) Designing standards and norms on approaches to sustainable finance in capital markets to incentivize financing flows towards developing countries with large Sustainable Development Goal gaps.

International development cooperation

30. In 2020, development providers increased ODA to its highest level despite the economic recession, thus demonstrating the role of ODA as a countercyclical resource in times of crisis. Nonetheless, ODA volumes are currently insufficient to meet growing needs in addressing the impact of the pandemic. Collectively, donors continue to fail to meet their commitment to providing 0.7 per cent of gross national income to ODA and allocating 0.15–0.20 per cent of gross national income to the least developed countries. The terms of concessional finance have also worsened, with the least developed countries receiving fewer grants. In addition, the distribution of COVID-19 vaccines, especially to the poorest countries, has been grossly inequitable. To address those challenges, the following is recommended:

(a) ODA providers must scale up and meet their ODA commitments by providing new and additional resources, including for the least developed countries. Grant finance rather than loans should be prioritized for vulnerable countries, such as the least developed countries and small island developing States;

(b) ODA providers should give immediate priority to bridging the financing gap faced by the Access to COVID-19 Tools (ACT) Accelerator initiative and rally behind the efficient and equitable distribution of vaccines for all countries;

(c) Donors should use vulnerability criteria as a complement to the use of GDP for granting access to ODA in a consistent and systematic way;

(d) Countries should aim to better connect financing and related policies with the longer-term objectives expressed in their national plans, while development partners should make more effort to align their interventions with a country’s priorities. Integrated national financing frameworks can be a useful tool for improving the effectiveness of development cooperation by matching plans, strategies and resources.

31. The development of an initial conceptual framework for South-South cooperation marks a breakthrough in its measurement. South-South cooperation initiatives have helped with combating the pandemic, complementing North-South efforts. It also continues to expand in scope, volume and geographical reach, and southern providers should continue to work on measuring South-South cooperation.

32. A revitalized and more effective form of international cooperation is needed. In his report entitled “Our Common Agenda” (A/75/982), the Secretary-General called for a new global deal to achieve a more networked, inclusive and effective form of multilateralism, with a focus on strategic foresight to address major global risks. To that end, the following is recommended:

(a) Developed countries urgently need to fulfil their commitment to mobilizing $100 billion annually for climate action in developing countries;

(b) Providers should meet the new commitment to double adaptation finance by 2025 and prioritize grant finance for the least developed countries and small island developing States;

(c) Development partners should integrate disaster risk reduction measures into development cooperation across all sectors to build resilience against current and future shocks and hazards;

(d) Development partners should also translate aid and climate commitments or pledges into gains for the least developed countries and small island developing States, including by considering multidimensional vulnerabilities as criteria for gaining access to ODA.

33. Scaling up the resources of multilateral development banks can help to meet elevated demands. Lending by such banks increased significantly in 2020, with further growth expected to be reported for 2021. While their concessional resources benefit the least developed countries, their non-concessional windows provide a vital channel through which middle-income countries can gain access to long-term finance at below-market rates. It is recommended that donors:

(a) Provide multilateral development banks, in particular the African Development Bank and the African Development Fund, with additional capital funding and consider rechannelling special drawing rights through them;

(b) Reform capital adequacy requirements and advance balance sheet optimization approaches.

34. The use of blended finance, which leverages public funds to crowd in private finance, could be an option to support national development priorities, especially in areas with the potential to provide positive financial returns to repay private partners, but the use of concessional funds and subsidies must be kept to a minimum. Mobilizing private finance may prove more challenging amid the ongoing COVID-19 crisis, but could be an option for funding post-COVID-19 recovery efforts. The following is recommended:

(a) Adopting a differentiated approach based on need and impact could increase the scale and effectiveness of blended finance, given the limited concessional resources;

(b) (b) Using various instruments , such as guarantees and risk transfer mechanisms, could be considered as a means to scale up blended finance;

(c) Introducing integrated national financing frameworks could help policymakers to consider blended finance for investments in projects with a high sustainable development impact.

International trade as an engine for development

35. Global trade rebounded strongly from the unprecedented trade slump in 2020. Global trade in goods and services is expected to have reached an all-time high of $28 trillion in 2021, surpassing its pre-pandemic level by 11 per cent. There is, nevertheless, no place for complacency. The pace of recovery is uneven across countries, with the poorest countries faring the worst, mainly as a result of their structural vulnerabilities and lack of productive diversification.

36. Disruption in trade logistics that hampered global value chains is being corrected, albeit slowly. The cost of international maritime trade, which represents over 80 per cent of world trade, remains significantly higher than before the COVID-19 pandemic, adversely affecting global value chains operations. A surge in container freight rates would hurt those operations, increase global import prices and fuel inflationary pressure. This would impose an extra financial burden on countries that rely on the import of essential goods, including medicines and foodstuffs. The global trade disruption during the pandemic constrained the fiscal capacity of

developing countries with a high dependency on tariff revenues as a source of public revenue. The implementation of trade facilitation reforms and of the World Trade Organization (WTO) Trade Facilitation Agreement is important to facilitate the movement of goods, including medicines and foodstuffs, and reduce trade costs.

37. During the pandemic, the trade finance gap widened from $1.5 trillion to $1.7 trillion. As private financial institutions grew more risk-averse during the COVID-19 crisis, they became more inclined to reject the demand from micro-, small and medium-sized enterprises, with a bigger impact on women-owned businesses, inhibiting them from participating in international trade. Streamlining company risks assessment and anti-money-laundering regulations at the global level can help to reduce trade finance costs and narrow the trade finance gap.

38. The multilateral trading system has played an instrumental role in encouraging restraint in using trade-restrictive measures, but progress in multilateral trade negotiations remains insufficient. WTO members have demonstrated restraint in the imposition of new trade-restrictive measures related to the pandemic. They have supported the recovery by continuing to roll back restrictions adopted earlier in the crisis. Further efforts are needed to advance multilateral policy coordination on such issues as disciplining harmful fisheries subsidies, addressing food security through continuous agricultural market reforms, reenergizing discussions on special and differential treatment and addressing the digital divide in view of opportunities provided by electronic commerce.

39. Trade and investment policy actions are needed to address vaccine inequality and improve the access of all countries to medical products and technologies vital for combating the pandemic. Policy actions can help to address supply chain barriers and enable trade in much-needed medical supplies. They are also central to increasing the manufacturing capacity of developing countries and the transfer of technology and know-how. WTO members are encouraged to agree on ways to improve the WTO response to the COVID-19 pandemic, including in terms of trade policy.

40. Trade and investment policy actions are intricately connected to climate action. Carbon border price adjustments can disincentivize shifting production to countries with more carbon intensive production methods but can penalize producers from developing economies with limited green technology. The majority of the international investment agreements currently in force fail to address environmental concerns that may arise from increased investment flows. Multilateral discussions remain best placed to address coherently the transfer of green technology to developing countries, and a framework that enhances trade in environmental goods and services in a manner beneficial to developing countries. The international community should continue to help developing countries to reduce the carbon content of their exports.

Debt and debt sustainability

41. Global public debt surged further in 2021, from already elevated levels, reaching around 99 per cent of GDP. The scale and dynamics of the rise in public debt varied across country groups, depending on initial conditions and fiscal space. Debt levels are expected to remain elevated in many countries, sustained by high gross and external financing needs and the lingering impact of the pandemic on growth and revenues.

42. The recent surge in debt compounds debt vulnerabilities that predated the pandemic. Debt vulnerabilities, which had risen over the past decade, driven by widening fiscal deficits and lagging growth, increased sharply under the impact of the pandemic. About 60 per cent of the least developed countries and other low-income

countries are now assessed at a high risk of debt distress or in debt distress by the International Monetary Fund (IMF)-World Bank Debt Sustainability Framework, a substantial increase from about 30 per cent in 2015. While short-term risks of fiscal crises moderated in early 2022 in most middle-income countries, about a quarter of those countries remain at high risk. The share of domestic borrowing has also increased. The development of domestic bond markets should contribute to fiscal and financial resilience, but excessive sovereign borrowing from the domestic banking systems can also exacerbate vulnerabilities through the sovereign-bank nexus.

43. Interest costs are rising in the poorest countries and remain elevated in small island developing States, as they grapple with higher interest rates, slower recoveries and persistent revenue shortfalls. Gross external financing needs are also rising in many least developed countries and other low-income countries, driven by higher external debt service, including deferred payments from the Debt Service Suspension Initiative, and widening current account deficits, although some oil exporters are benefiting from rising global oil prices. Their greater reliance on debt on commercial terms or near-commercial terms was associated with higher interest costs. As global uncertainty and inflationary pressures increase and financial conditions tighten, some countries' ability to refinance outstanding debt is coming into question.

44. A combination of monetary policy support, pre-existing buffers, in some countries, and concerted support provided a liquidity cushion to combat the effects of the pandemic. Monetary policy support in developed economies enhanced global liquidity, which also benefited some middle-income countries, least developed countries and other low-income countries in the form of continued fund flows and bond purchases. Official lending, the Debt Service Suspension Initiative led by the Group of 20 and the Paris Club, and the more recent IMF special drawing rights allocation have helped to provide liquidity support. Some countries have been able to tap into pre-existing buffers and domestic financing sources, including central bank financing. Nonetheless, most least developed countries and low-income countries have been forced to curtail other Sustainable Development Goal spending and investment. Domestic buffers and financing options may be running low, while external financing conditions are tightening. Against this backdrop of high debt and debt vulnerabilities, with the expiration of the Debt Service Suspension Initiative and limited availability of affordable financing for most least developed countries and other low-income countries, improvements in debt crisis prevention and resolution have acquired added urgency.

45. Supporting the recovery and investing in sustainable development while managing debt vulnerabilities will require comprehensive actions. Countries face a compound challenge of maintaining spending to cope with the immediate consequences of the pandemic, sustaining the recovery, restoring buffers and expanding investment in the Sustainable Development Goals. This will require national actions and international support across the action areas of the Addis Ababa Action Agenda, including by addressing debt challenges.

46. With debt challenges likely to rise further with the tightening of global financing conditions, the debt resolution architecture needs to be further improved. Seeking early debt resolutions when it is needed can help countries to avoid doing "too little, too late". This includes stepping up the implementation of the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative and further progress on contractual approaches.

47. Stepping up the implementation of the Common Framework is essential to enable fast action when countries are under financial stress. This will require greater clarity on the processes and timelines, early engagement with all stakeholders, greater clarity on how the comparability of treatment of private sector creditors will be

implemented, and expanding the Common Framework to other heavily indebted vulnerable countries not eligible for the Debt Service Suspension Initiative. A standstill on debt service payments during the negotiation under the Common Framework can help to provide relief to the debtor at a time when it is under stress, as well as incentivize faster procedures for the actual restructuring of the debt.

48. Private creditor participation in debt restructuring can be further improved by:

(a) Continued strengthening of collective action clauses in bond contracts;

(b) Model majority restructuring clauses for payment terms in syndicated loans, which official and private sector creditors are currently developing under facilitation by the Group of Seven, as they could close an important gap in private sector debt resolution;

(c) Resorting to legislative solutions, in case of a systemic crisis and should the existing contractual resolution toolkit be inadequate to address such a crisis effectively, and as a last resort.

49. Debt swap initiatives are advancing in several regions. Debt swaps can free resources for investments in key priorities, although they are not a means to restore debt sustainability in countries with solvency challenges. More standardization and country ownership could help to increase the uptake of debt swaps.

50. At the national level, the following elements are critical:

(a) Credible medium-term fiscal frameworks, which balance the needs for short-term support with medium-term fiscal sustainability. Fiscal policies should be aimed at boosting revenues and improve expenditure transparency and efficiency;

(b) Financing should be calibrated to reduce costs and rollover risks, including through the development of domestic debt markets;

(c) Debt management policies should enhance transparency and proactively address deeper vulnerabilities.

51. Debt management and debt transparency must be strengthened to prevent debt crises. Even before the pandemic, debt management capacities were not keeping up with the rising complexity of the debt landscape, despite progress that countries had made. The pandemic, associated revenue losses and increased financing needs have further increased those pressures. Strengthening respective capacities should remain a key focus of the international community.

52. Effective debt management depends on comprehensive data on debt. The international community should continue to coordinate data collection processes, while working to close data gaps. The continued implementation of the World Bank Sustainable Development Financing Policy, the new IMF Debt Limits Policy, the Group of 20 operational guidelines for sustainable financing and the Organisation for Economic Co-operation and Development Debt Transparency Initiative should enhance debt transparency and encourage improvements in debt management capacity.

53. Vulnerability to climate shocks has exacerbated debt challenges, in particular in small island developing States. A multidimensional vulnerability index for small island developing States is being developed by the United Nations. Vulnerability informs the allocation of concessional finance (e.g. through small State exceptions and small economy terms in the concessional windows of development banks), to an extent, and is taken into account in debt sustainability assessments by reflecting environmental risks. The multidimensional vulnerability index could contribute to a holistic assessment of vulnerabilities and complement existing tools.

Addressing systemic issues

54. The COVID-19 pandemic has brought to the fore the strong and growing linkages between the economic, social and environmental pillars of sustainable development. Amid growing systemic and interlinked risks, improved policy coherence and consistency, as called for under the financing for development process and reiterated in the Addis Ababa Action Agenda, is more important than ever. Decisive multilateral efforts are needed to overcome the current crisis, support countries most in need and build a more sustainable, resilient and inclusive international system.

55. The COVID-19 crisis continues to put stress on the international financial system amid an uneven economic recovery and tightening global financial conditions. The tightening of monetary policies in major developed economies is already causing a reversal in international capital flows, posing additional challenges for national policymakers and with the potential to put the global financial safety net to another test.

56. Countries have drawn on all the layers of the global financial safety net, but access has been uneven and gaps remain. A record new allocation of special drawing rights and IMF emergency lending have been the main global financial safety net instruments accessible to most countries. Bilateral currency swaps have been limited to a smaller number of countries and regional financing arrangements have not lived up to their potential. The following is recommended:

(a) Countries with strong external positions should implement, in a timely manner, the voluntary channelling of special drawing rights to countries in need, considering all mechanisms under discussion;

(b) IMF members should replenish the IMF concessional financing and debt relief instruments and use the sixteenth general review of quotas to expand the lending capacity of IMF;

(c) The role of regional financing arrangements could be strengthened by expanding their member bases and increasing their resource envelopes. Greater cooperation, including with IMF, can help, although such arrangements should maintain sufficient autonomy to best serve the needs of their member countries.

57. Policymakers need to have the full policy toolkit at their disposal to address the impacts of capital flow volatility. This includes monetary, exchange rate, macroprudential, capital flow management and other policies. The following is recommended:

(a) The international community can support policymakers through coherent guidance that explicitly considers the effects of leakages, spillovers and interactions of different policies. An integrated policy framework could help countries to determine the best policy mix that could be implemented as part of a broader integrated national financing framework;

(b) Clear and transparent communication of monetary policy shifts in source countries can help to reduce negative spillovers. Source countries' efforts to strengthen domestic financial stability and enhance incentives for long-term sustainable investment could also reduce capital flow volatility.

58. The pandemic has highlighted new risks to financial and macroeconomic stability, including growing non-economic risks. While the banking sector broadly withstood the market turmoil of March 2020, less regulated non-bank financial intermediaries amplified market stresses and exacerbated liquidity shortages. Going forward, this risk is likely to be compounded by the growth of financial technology

intermediaries. Economic and financial stability risks associated with climate change also call for regulatory and supervisory action, in particular:

(a) Policymakers should follow the principle of "same activity, same risk, same rules". Specific proposals include enhanced reporting requirements, measures to reduce leverage and increased shock-absorption capacity;

(b) As climate-related risks increase, policymakers should consider mandatory reporting requirements for financial institutions on climate-risk exposures and mitigation strategies. Climate-related scenarios in stress tests could help to assess whether additional liquidity and capital buffers may be required to safeguard financial stability;

(c) Central banks should continue to address climate-related risks as part of their mandates for price stability and financial stability. Some central banks could consider going further and use monetary policy to support the transition to a low-carbon economy, for example, by tilting corporate bond purchases towards less polluting companies;

(d) As greater coordination among national authorities and with international standard-setting bodies can help to improve the understanding of the systemic risks and international spillovers from non-bank financial intermediaries and from non-economic risks, such as climate change, comparable regulatory standards could help to prevent regulatory arbitrage and ensure a level playing field.

59. Rapid developments in financial technology create new opportunities and risks, including for financial stability and integrity. During the COVID-19 crisis, big tech platforms continued to expand their activities in the financial sector. The crisis has also accelerated the development of a new ecosystem of digital assets, currencies and financial services, with growing linkages to traditional financial institutions, which could increase systemic risks. The following is recommended:

(a) Entity-specific regulations can complement the principle of "same activity, same risk, same rules" to address emerging risks from big tech platforms in finance, for example, by preventing anticompetitive practices;

(b) Enhanced international cooperation is needed to create a comprehensive, coordinated regulatory framework for cryptoassets and so-called "stablecoins" that can also address spillover risks to the global financial system;

(c) Discussions on standards for central bank digital currencies should include the voice of developing countries, as they may be most affected by unintended consequences, such as increased capital flow volatility and currency substitution.

60. A strong, inclusive and coherent multilateral system is needed to overcome the COVID-19 crisis and get back on track to achieve the Sustainable Development Goals. The United Nations provides a universal platform to join together discussions on financial, economic, environmental (including climate) and social issues that are being held in various multilateral forums and institutions. Additional efforts can strengthen coherence and global governance, in particular:

(a) A biennial summit between the Group of 20, the Economic and Social Council and international financial institutions, as proposed by the Secretary-General in his report entitled "Our Common Agenda", could help to strengthen coherence and move the needle on joint policy action;

(b) The ongoing IMF sixteenth general review of quotas is an opportunity to move forward on governance reform and strengthen the voice and representation of developing countries.

Science, technology, innovation and capacity-building

61. Two major technological transitions currently under way will, together, shape a post-COVID-19 world: (a) the digitization of the economy; and (b) the progress in science, technology and innovation that can support a sustainable energy transition. Both trends are creating new opportunities for more resource-efficient, resilient and sustainable development, underpinning transitions in all other areas of the 2030 Agenda and the Addis Ababa Action Agenda. Both trends are also closely interlinked, as digital technology can help to accelerate the energy transition while also being a potential source of growing energy demand. Both technological transitions may also create new risks and worsen inequalities, which is already visible in the digital economy, and could possibly be expected as a result of the energy transition, if not carefully managed. More efforts are needed, at the national and international levels, to harness those technologies and mobilize the financing and capacity-building needed for just and inclusive transitions.

62. Increased digitization helped to mitigate the COVID-19 crisis for some, but exacerbated the cost of digital exclusion and created new risks. Affordable and universal access to the Internet and digital skills have become a precondition for participating in the digitized economy. This has exposed and exacerbated digital gaps between countries – with least developed countries continuing to lag behind – between men and women, companies, workers and vulnerable groups, with different capacities to benefit from the digital transition. The growth of digital financial services provided an opportunity to strengthen financial inclusion, but also exposed persistent gender gaps and created new risks, including new forms of exclusion, cyberincidents and digital fraud. The growing role of big tech platforms has raised concerns about market power and data governance. The following is recommended:

(a) To close digital divides, policymakers need to ensure universal and affordable Internet access, digital skills training and targeted policies for specific groups, including women and girls;

(b) Regulators and supervisors can build on financial technology to support financial inclusion while addressing growing risks from cyberincidents and digital fraud – by strengthening consumer protection and holding financial service providers accountable for safeguarding data;

(c) Well-managed and transparent universal service and access funds can help to mobilize the resources necessary to achieve universal broadband Internet access, based on private sector contributions, which can be pooled with public funds where necessary;

(d) Regulatory frameworks should be reviewed and strengthened, where appropriate, to address issues of data governance (including to avoid the concentration of market power), content accountability, discrimination and human rights. International coordination will be needed to ensure coherent global standards.

63. As a sustainable energy transition becomes more and more urgent, science, technology and innovation solutions are opening up new opportunities. While political commitments to cutting greenhouse gas emissions have strengthened, investments in sustainable energy sources are still insufficient. Energy investments have fallen in developing countries (excluding China), and there has been a reduction in clean technology transfer. Recent technology innovations, however, have made the energy transition achievable, with improvements in sustainable energy production and end use, including through digital consumer technologies. The following is recommended:

(a) Policymakers must further increase climate ambitions and support their pledges, including by building on fiscal stimulus measures for a sustainable recovery from the COVID-19 crisis;

(b) Private investment can be a large source of funding for energy infrastructure, while the public sector can set incentives and help to ensure universal and affordable energy access for remote and underserved communities. International cooperation will be needed to support the transition in many developing countries, including through capacity-building and technology transfer;

(c) Efforts to increase energy efficiency, including through digital technologies, can lower overall investment needs and help to reduce reliance on unproven technological solutions for the reduction and abatement of greenhouse gas emissions.

64. The United Nations system is working to strengthen countries' capacity in science, technology and innovation, complementing bilateral and other multilateral efforts. The Technology Facilitation Mechanism and the Technology Bank for the Least Developed Countries are facilitating policy dialogue and technology transfer, including to harness digital technologies. United Nations entities joined forces with other partners through the Access to COVID-19 Tools (ACT) Accelerator, which has delivered over 1 billion vaccine doses to developing countries but remains underfunded. Collaboration at various levels also aims to support national efforts to align finance, investment and technology to recover better from the current crisis. The following is recommended:

(a) Member States are called upon to step up their contributions to the ACT-Accelerator and consider sharing know-how and intellectual property to support the fight against COVID-19 and strengthen resilience to future pandemics;

(b) Continued support for the Technology Facilitation Mechanism and the Technology Bank is needed to help them to deliver on their mandates and further strengthen developing countries' capacity to harness science, technology and innovation – for example, through science, technology and innovation for Sustainable Development Goals road maps.

Data, monitoring and follow-up

65. The COVID-19 crisis has emphasized the value of robust and timely data, providing a stark reminder of the prevailing divide in statistical capacity between developed and developing countries. The pandemic caused a sudden spike in demand for timely and accurate data on population, health and the economy across the globe, but many national data systems were not prepared to address unexpected data needs and withstand shocks, in particular in poorer countries. This has highlighted the global data inequalities that prevailed before the pandemic, with least developed countries and small island developing States having less data capacity and scoring much lower than developed countries against statistical performance indicators.

66. Despite the importance of data and statistics for monitoring progress towards the Sustainable Development Goals, as well as for policymaking, data and statistical systems have long been underfunded, while costs and demands have risen. Current donor commitments and support for data and statistics meet a fraction of the needs. The financing landscape has also become more diffuse, fragmented and complex. In response, three new global instruments – the Global Data Facility, the Clearing House for Financing Development Data of the Bern Network and the Complex Risk Analytics Fund – were launched in 2021 to strengthen coordination and mobilize

finance for data and statistics. It is critical that those initiatives benefit from broad participation and be adequately resourced.

67. The international community should:

(a) Increase the share of official development assistance for data and statistics, especially to strengthen national statistical systems of least developed countries and small island developing States, as well as support the development of national data strategies;

(b) Enhance coordination and greater integration of efforts, including through the new global funds and instruments (the Global Data Facility, the Clearing House for Financing Development Data and the Complex Risk Analytics Fund);

(c) Ensure that country ownership and development effectiveness principles are at the centre of increased efforts and investments.

68. A national data strategy in the context of an integrated national financing framework can help to implement an integrated data system to realize the full value of data for achieving national sustainable development strategies. The data ecosystem, if properly harnessed, can foster sustainable development by: (a) helping Governments and international organizations with evidence-based policymaking; (b) enabling individuals, civil society and academia to hold policymakers accountable; and (c) transforming the private sector through data-driven innovations and accountability. Better data and information also help to make markets more efficient. Improving data accessibility and interoperability can foster an integrated system, while better data literacy can enhance participation in the system. However, an integrated national data system that goes beyond official statistics to encompass the data produced, exchanged and used by all participants requires appropriate infrastructure policies, laws and regulations, economic policies and institutions, as well as a rights-based perspective to effectively, and safely, govern data and mitigate the risk of misuse. Governments need a national data strategy to implement an integrated national data system that considers those requirements. This can be done in the context of an integrated national financing framework, which can help to ensure that there is sufficient funding for the national data strategy, as well as benefit from an integrated data system.

69. Governments should:

(a) Develop a national data strategy in accordance with their level of data maturity that outlines responsibilities and institutional arrangements to enhance effective data use throughout government, the private sector and civil society, including through improved data access and data integration initiatives to improve data literacy;

(b) Establish data stewards to promote issues of data access, interoperability and governance;

(c) Prioritize national resources for data and statistics and clearly convey priorities for external support to implement the data strategy – an integrated national financing framework can help in this regard.

70. Progress continues to be made on improving data frameworks, measurements and collection, despite some challenges. There are only a few remaining gaps in the global Sustainable Development Goals indicator framework where global reporting has not yet started, while the monitoring of gender-specific Goal indicators has improved, even though more remains to be done, and the Statistical Commission adopted a new indicator for target 17.3 (Mobilize additional financial resources for developing countries from multiple sources), underpinned by an initial framework for the measurement of South-South cooperation. However, significant data gaps remain

on Goal reporting. With regard to monitoring the economic and financial sector, a new international cooperation initiative to succeed the Group of 20 Data Gaps Initiative is under development.

71. The pandemic and climate crises have revived discussions on measures of sustainable development beyond GDP. The forthcoming update of the 2008 System of National Accounts, the international standard for measuring GDP, will include the issues of well-being and sustainability, as well as the nexus of the System of National Accounts and the System of Environmental-Economic Accounts that measures the contribution of the environment to the economy and the impact of the economy on the environment. To complement GDP as a criterion for access to concessional finance, a multidimensional vulnerability index is being developed.

72. All stakeholders should:

(a) Work together to close the Sustainable Development Goals data gaps, including by advancing gender statistics and measuring the new indicator on development support;

(b) Support the implementation of the System of Environmental-Economic Accounts, the update of the System of National Accounts and the development of a multidimensional vulnerability index, as well as the use of measures beyond GDP;

(c) Call upon the Inter-Agency Task Force on Financing for Development to map the use and effectiveness of GDP metrics in the analysis of sustainable development and climate change, including for the allocation of finance.