Highlights of the Financing for Sustainable Development Report 2022

Bridging the Finance Divide

DESA
Financing
Financing for Development

About the Inter-agency Task Force on Financing for Development

The Inter-agency Task Force is made up of more than 60 United Nations agencies, programmes and offices, the regional economic commissions and other relevant international institutions. The report and its online annex draw on their combined expertise, analysis and data. The major institutional stakeholders of the financing for development process—the World Bank Group, the International Monetary Fund, the World Trade Organization, the United Nations Conference on Trade and Development and the United Nations Development Programme—play a central role, jointly with the Financing for Sustainable Development Office of the United Nations Department of Economic and Social Affairs, which also serves as the coordinator of the Inter-agency Task Force and substantive editor of the report.

About the 2022 Financing for Sustainable Development Report

The 2022 *Financing for Sustainable Development Report* of the Inter-agency Task Force begins with an assessment of the global macroeconomic context (chapter I). The thematic chapter (chapter II) explores the "great finance divide", the impacts of high borrowing costs for developing countries as well as recommended remedies. The remainder of the report (chapters III.A to III.G and IV) discusses progress in the seven action areas of the Addis Agenda, and advances in data. Each chapter gives updates on implementation and lays out the challenges and policy options at both the national and international levels—including in response to the current crisis and pandemic and climate risks.

The full report is available from: https://developmentfinance.un.org/fsdr2022

Report of the Inter-agency Task Force on Financing for Development

Highlights of the Financing for Sustainable Development Report 2022

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Main messages from the 2022 FSDR

1. A series of crises—the COVID-19 pandemic, the fallout from the war in Ukraine, and the continuing climate emergency—have led to sharply divergent global prospects, putting the SDGs out of reach for many. Rising interest rates have increased risks of a systemic debt crisis.

2. The 2022 FSDR identifies a "great finance divide". While developed countries financed historic rescue packages, poorer countries have been unable to raise sufficient resources affordably for crisis response and investment.

3. Financing gaps and rising debt risks must be urgently addressed.

4. All financing flows must be aligned with sustainable development, to address climate change and inequalities head on.

5. Enhanced transparency and a more complete information ecosystem will strengthen the ability to manage risks and use resources well.

Global Economic Context

1. The global economic outlook is highly fragile and uncertain.

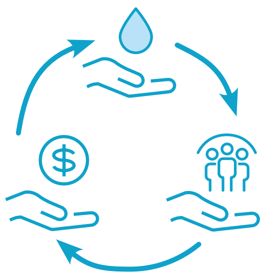
- The war in Ukraine has led to sharply higher commodity prices, more acute supply bottlenecks, and increased financial market volatility.
- Monetary authorities are facing difficult choices amid a growth slowdown and rising inflationary pressures.
- The tightening of global financial conditions amid rising inflation is putting more countries at risk of debt distress and could trigger large capital outflows.

2. Many developing countries are facing the risk of a lost decade for sustainable development.

- 77 million more people were in extreme poverty in 2021 compared to 2019.
- Even prior to the war in Ukraine, GDP per capita of 1 in 5 developing countries was estimated to still be below 2019 levels by end-2023.

3. There are growing interlinkages between economic, social and environmental risks.

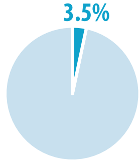
- Increased frequency and intensity of climate-related shocks are having a disproportionate effect on some of the world's most vulnerable economies.



Overcoming the 'great finance divide'

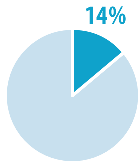
1. Fiscal constraints in developing countries are driving a widening pandemic recovery gap.

2. Developed countries financed a large-scale response to the COVID-19 pandemic at historically low interest.



- Despite high levels of debt, only 3.5% of their revenue is used to servicing existing debt.

3. Many developing countries were faced with significantly higher borrowing costs, and were thus hamstrung in their response.



- The poorest countries dedicate 14% of their revenue to debt service, some African countries pay over 8% interest on their Eurobonds.
- Rather than investing in recovery, developing countries had to cut spending on education, infrastructure and other priorities.

4. Debt can finance productive investment and growth but during the crisis borrowing compounded growing debt risks.

- Borrowing to invest in productive and sustainable development, if the proceeds are well-used, will lead to growth, which will improve the debt situation.

Overcoming the 'great finance divide'

5. To reverse the divergence in recovery and achieve the SDGs, actions in 4 areas are needed.

- Countries must take steps to manage and use these resources well so that financing translates into development impact and fiscal capacity to service debt.

- International public finance must be scaled up. The system of development banks should be strengthened by extending capacity and/or financial support to national institutions; multilateral and regional development banks can, in turn, benefit from national banks' detailed knowledge of local markets. Concessional finance should be increased.

- Borrowing costs in markets need to be reduced. First and foremost, countries should strengthen their enabling environments. But high borrowing costs are also related to the volatility of capital flows; global policy actions are needed to reduce such volatility. Longer-term credit ratings and debt sustainability assessments, and exploiting the growing interest in sustainability issues, can also help to reduce borrowing costs.

- Additional steps are needed to address debt overhangs to reduce debt burdens.

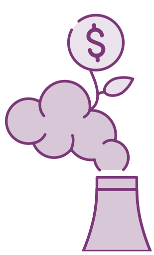
Domestic public resources

1. Boosting domestic revenue mobilization requires medium-term planning and strong political will for implementation.

- The tax-to-GDP ratio declined in 72% of countries in 2020 as a result of pandemic-induced disruptions.
- Short- and medium-term actions can focus on tackling major sources of noncompliance, including illicit financial flows, and broadening the tax base.
- Progressive tax systems could directly reduce inequalities.
- Expenditures should aim at reducing inequality, for example through strengthened social protection; only 46.9% of the global population had access to at least one social protection benefit in 2020.
- Gender equality can be advanced with both gender-responsive budgeting, and gender-responsive tax policies.

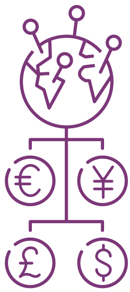
2. All countries can better align their fiscal systems with climate change mitigation and adaptation as well as other environmental goals.

- Pricing of carbon emissions is a powerful tool, alongside ending inefficient fossil fuel subsidies and using regulatory instruments to promote a sustainable economy.



Domestic public resources

3. Countries should strengthen international tax cooperation to ensure that no countries are left behind.



- Improving the inclusivity of international sharing of tax information should enable more countries to receive information suitable to their capacities and needs.
- Broadening the amount of information shared will make tax transparency more relevant f or smaller countries.
- Putting more information in the public domain will better inform policymaking across government, including publishing information on potential impacts of new international tax norms and opening beneficial ownership registries to public use.

4. The multidimensional nature of illicit financial flows requires a coordinated, whole-of-government approach.

- Countries can make better use of information at the national level, including sharing and verifying information across government.
- Improved public financial management and better procurement systems can prevent corruption, including in emergency spending programmes.

Private business and finance

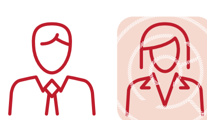
1. Policymakers need to review priorities for investment promotion in light of structural changes in international production systems, the digitalization of the economy, and climate change impacts.

2. Foreign direct investment rebounded by 77% in 2021 after decreasing by 35% in 2020, but the rebound was uneven and the outlook is uncertain.

3. While private investment cannot replace public investment in infrastructure, there are opportunities for scaling up its role.

- Financed infrastructure deals in developing countries increased by 25% in 2021, but remains 9% lower than prior to the pandemic.
- Government strategies should identify where public and private investments are appropriate and what policy and institutional reforms are needed to implement these strategies.

4. Governments should foster an inclusive private sector by removing obstacles that generate economic exclusions, such as laws discriminating against women, and by creating incentives and policies targeting excluded groups.



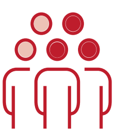
Private business and finance

4. Policy actions are needed to make the trillions allocated to sustainable investing in capital markets more impactful.

- Sustainable bond issuance doubled in 2021, exceeding $1 trillion, while sustainability-themed funds increased by 62% (net inflow of $600 billion).
- Governments need to adopt policy measures that make unsustainable businesses less profitable.
- Sustainable finance approaches in capital markets should be used to incentivize financing flows towards developing countries with large SDG gaps.

5. Policymakers can use capital market regulation to incentivize sustainability.

- Regulation can improve the quality and comparability of companies' sustainability reports.
- Common norms and criteria can be established for investment products to be marketed/labelled as sustainable.



- Pension funds and financial advisors can be required to ask their beneficiaries and clients about their sustainability preferences.
- Institutional investors should be expected to disclose the sustainability footprint of their portfolios.

International development cooperation

1. Official development assistance rose to its highest level in 2021 but is not enough.

- Donors must meet their ODA commitments with new and additional resources; least developed countries (LDCs) and small island developing States (SIDS) need grant finance.
- The immediate priority is meeting the financing gap of the ACT-accelerator.
- Supporting millions of refugees from Ukraine and elsewhere is critical; yet this should not replace cross-border development assistance to poorer countries.
- Donors should use vulnerability criteria as a complement to GDP for access to ODA in a consistent and systematic way.
- Integrated national financing frameworks (INFFs) can be a useful tool to improve the effectiveness of development cooperation.

2. Development of an initial conceptual framework for South-South cooperation marks a breakthrough in its measurement.

3. The world needs a revitalized and effective form of international cooperation.

- Developed countries urgently need to fulfil their commitment to mobilize $100 billion per year for climate action in developing countries.
- All providers should meet their commitment to double adaptation finance by 2025.
- Development partners should integrate disaster risk reduction measures into development cooperation across all sectors.
- Aid and climate commitments must translate to gains for LDCs and SIDS.

International development cooperation

4. Scaling up multilateral development bank (MDB) resources can help meet elevated demands for long-term financing.

- Donors should provide MDBs with additional capital funding.
- Capital adequacy requirements should be reformed, and balance sheet optimization approaches advanced.

5. Blended finance can be an option for post-COVID-19 recovery efforts, but needs to be country-led and aligned with country priorities.

- A differentiated approach based on need and impact could increase its scale and effectiveness given limited concessional resources.
- Different instruments can be considered to scale up blended finance, such as guarantees and risk transfer mechanisms.
- INFFs can help policymakers consider blended finance options.

International trade as an engine for development

1. Global trade rebounded strongly, surpassing its pre-pandemic levels by 11%, but the war in Ukraine is affecting international trade prospects, disrupting value chains and triggering an upsurge in the prices for fuel, food, fertilizer and selected metals/minerals.

- The disruption in trade logistics that hampered global value chains (GVCs) during the pandemic is being corrected, albeit slowly.

2. Progress in multilateral trade negotiations remains insufficient and better implementation of trade facilitation reforms is needed.

- Implementation of the World Trade Organisation (WTO) Trade Facilitation Agreement is important to enhance the movement of goods, including medicines and foodstuffs and reduce trade costs.
- The multilateral trading system played an instrumental role in encouraging restraint in the use of trade-restrictive measures.
- Further efforts are needed to advance multilateral policy coordination on issues such as fisheries subsidies, food security, special and differential treatment, and e-commerce.

3. Trade and investment policy actions are needed to address vaccine inequality and improve access for all countries to medical products and other technologies vital for combating the pandemic.

- WTO members are encouraged to agree on ways to improve the WTO response to COVID-19, including trade policy-related aspects of the pandemic response.

International trade as an engine for development

4. Reducing trade finance costs will help narrow the trade finance gap.

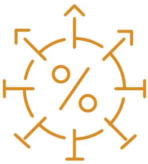
- During the pandemic, the trade finance gap widened from $1.5 trillion to $1.7 trillion.
- Streamlining company risk assessments and anti-money laundering regulations can help.

5. Trade and investment policy actions are intricately connected to climate action.

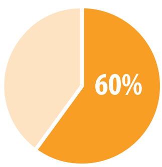
- The international community should continue to support developing countries' capacity building in reducing the carbon contents of their exports.

Debt and debt sustainability

1. The COVID-19 shock has compounded pre-existing debt vulnerabilities.



- Global public debt surged further in 2021, reaching around 99% of gross world product, but dynamics differed.
- Developed country public debt jumped by 18 percentage points during pandemic, while developing countries were more constrained in their response, but still saw debt levels rise.



- About 60% of LDCs and other low-income countries are now at high risk or in debt distress.
- 1 in 4 middle-income countries is at high risk of a fiscal crisis.

2. The war in Ukraine is exacerbating debt challenges.

- Rising inflation and interest rates, and lower growth, will particularly hit energy and food importers. Rising risks are visible already in rising sovereign spreads.
- Difficult global conditions have increased the risk of a systemic debt crisis affecting multiple countries.

3. The debt resolution architecture needs to be improved.

- Stepped-up implementation of the Common Framework requires: (i) timely implementation; (ii) standstills during negotiation; (iii) more clarity on private creditor treatment; and (iv) expanded eligibility for developing countries in need.

- Legislative solutions may be needed in case of a systemic crisis.

Debt and debt sustainability

4. Debt transparency and management must be strengthened to prevent future crises.

- Countries need capacity support while the international community can undertake coordinated data collection.
- Greater use of state-contingent clauses, including by official creditors, would provide automated breathing space to borrowers for future shocks.

5. Climate shocks exacerbate debt challenges.

- A multidimensional vulnerability index could help holistically assess debt challenges and help calibrate debt relief needs in restructurings.

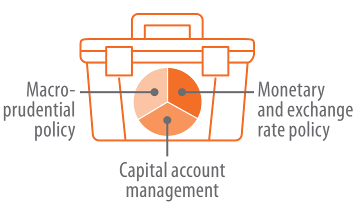
Addressing systemic issues

1. Emergency financing from different layers of the global financial safety net helped countries weather the pandemic, but access is uneven and new risks loom.

In August 2021, the IMF issued a record $650 billion of Special Drawing Rights to help members address challenges from the COVID-19 crisis.

- Countries with strong external positions should channel $100 billion of unused SDRs to countries in need, including through IMF mechanisms and development banks.
- Regional financing arrangements could further strengthen the GFSN, by expanding their member base and increasing their resource envelopes.

2. Managing the consequences of international capital flow volatility continues to be a challenge for many countries.



- Policymakers should use of the full policy toolkit for managing capital flow volatility, integrated policy frameworks can help.
- Clear and transparent communication of domestic monetary policy shifts in source countries can help to reduce negative spillovers.

Addressing systemic issues

3. Financial and macroeconomic stability risks have shifted to the less regulated non-bank financial sector, and the role of non-economic risks is growing.

- The principle of "same activity, same risk, same rules" can address systemic risks, complemented by entity-specific regulations to prevent anti-competitive practices.
- Policymakers should set mandatory reporting standards for financial institutions and further integrate climate risk scenarios in financial stress tests.

4. Rapid developments in digital assets and currencies create new opportunities and risks, including for financial stability and integrity.

- Enhanced international cooperation is needed to create a comprehensive, coordinated regulatory framework for crypto-assets and so-called "stablecoins".
- Exploratory work on the design of central bank digital currencies should continue, and discussions on international standards must include the voice of developing countries.

5. A strong, inclusive and coherent multilateral system is needed to overcome the COVID-19 crisis and get back on track to achieve the SDGs.

SUSTAINABLE DEVELOPMENT GOALS

Science, technology, innovation and capacity-building

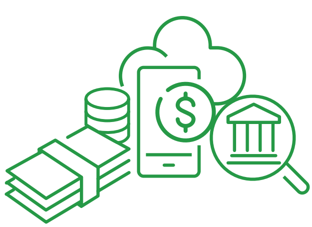
1. Increased digitalization helped mitigate the COVID-19 crisis for some but exacerbated the cost of digital exclusion and created new risks.

- In 2021, 90% of individuals used the Internet in developed countries, compared to 57% in developing countries and just 27% in LDCs.
- Policymakers must ensure universal and affordable Internet access, digital skills training and targeted policies for specific groups, including women and girls.

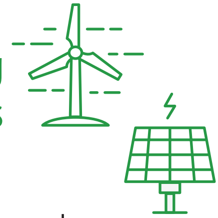
- Growing risks from cyber incidents and digital fraud in fintech must be addressed, including by strengthening consumer protection and holding financial service providers accountable.

2. Universal and inclusive participation in the digital economy will require estimated additional investments of $428 billion by 2030.

- Well-managed and transparent universal service and access funds can help mobilize resources, based on private sector contributions that can be pooled with public funds where necessary.



Science, technology, innovation and capacity-building



3. Science, technology and innovation are opening up new opportunities to reduce greenhouse gas emissions and reach net-zero by 2050.

- Policymakers must further increase climate ambitions and support their pledges through appropriate budget measures.
- International cooperation is needed to support the transition in many developing countries, including through capacity building and technology transfer.

- Efforts to increase energy efficiency, including through digital technologies, can lower overall investment needs.

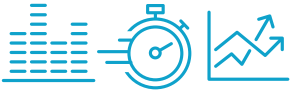
4. The United Nations System is working to strengthen countries' scientific and technological capacities, complementing bilateral and other multilateral efforts.

- Member States should step up their contributions to ACT-A and share know-how to support the fight against COVID-19 and strengthen resilience to pandemics.
- The Technology Facilitation Mechanism and the United Nations Technology Bank for the Least Developed Countries need continued support to deliver.

Data, monitoring and follow-up

1. The COVID-19 crisis has emphasized the value of robust and timely data, as well as highlighted global data inequalities.

2. Data and statistical systems have long been underfunded, while costs and demands have risen.



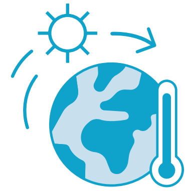
- The international community should increase the share of ODA for data and statistics, especially to strengthen the national statistical systems of LDCs and SIDS.
- New global funds and instruments are one way to achieve needed enhanced coordination and greater integration of efforts.
- Country ownership and development effectiveness principles need to be at the centre of increased efforts and investments.

3. A national data strategy in the context of an INFF can help to implement an integrated data system to realize the full value of data.

- Governments should develop a national data strategy in accordance with their level of data maturity and establish data stewards to promote issues of data access, interoperability and governance
- Allocation of domestic public resources needs to be prioritized for data and statistics, which can also clearly convey priorities for external support to implement the data strategy—an INFF can help.

Data, monitoring and follow-up

4. Progress continues to be made on improving data frameworks, measurements and collection despite some challenges; COVID-19 and climate crises have revived beyond GDP discussions.



- Stakeholders should work together to close the remaining SDG data gaps.
- The international community should support the use and development of measures that extend beyond GDP.
- The Inter-agency Task Force on Financing for Development can map the use and effectiveness of GDP metrics in the analysis of sustainable development and climate change, including for allocation of finance.

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