Financing for Development 2025 Fact Sheet on Systemic Issues including Policy and Institutional Coherence

Confidential - Draft for Consultations

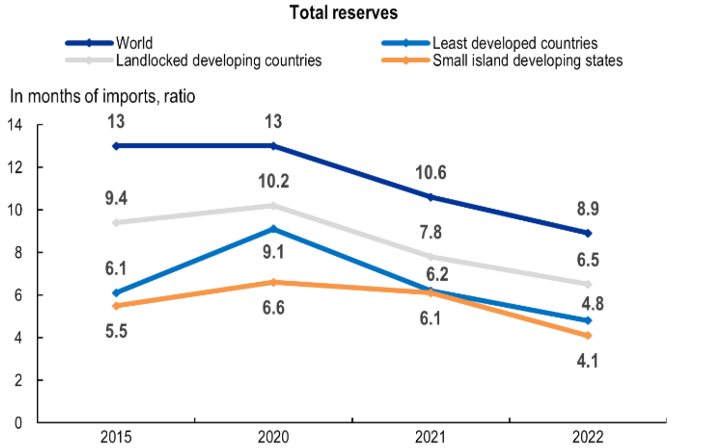
This document is currently in draft form and is being shared for consultation purposes. Your input is valuable in refining the content. Please submit any comments, feedback, or suggested changes by **18 November** to **Olivier.cattaneo@oecd.org and Rachel.morris@oecd.org**.

OECD

Data dashboard

Key trends

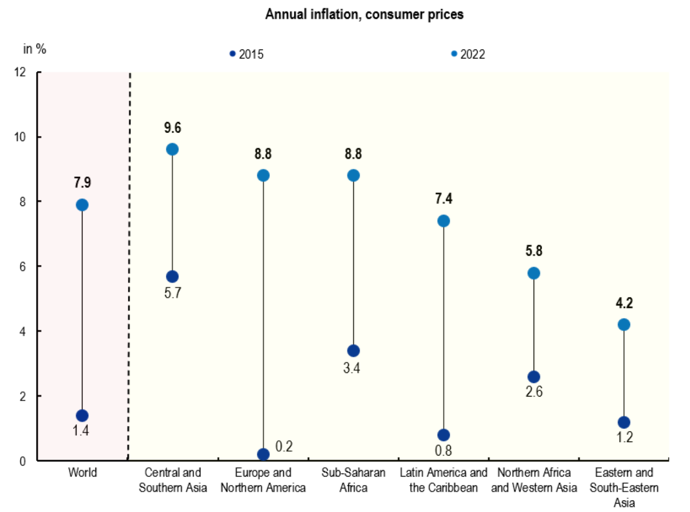
Global reserves (in months of imports ratio) decreased by a third between 2015 and 2022.



Note: Total reserves consist of monetary gold holdings, special drawing rights, International Monetary Fund (IMF) member reserves held by the IMF and foreign exchange assets managed by monetary authorities. This indicator represents reserves in terms of the number of months of imports of goods and services they could cover.[1]
Source: unstats.un.org/sdgs/files/report/2024/E_2024_54_Statistical_Annex_I_and_II.pdf

Total reserves worldwide went from 13 months of imports in 2015 to 8.9 months in 2022 (-32%). This trend is also visible in countries most in need, where reserves have decreased by 21% for least developed countries (LDCs), 31% for landlocked developing countries (LLDCs) and 25% for small island developing states (SIDS) over the same period.[2]

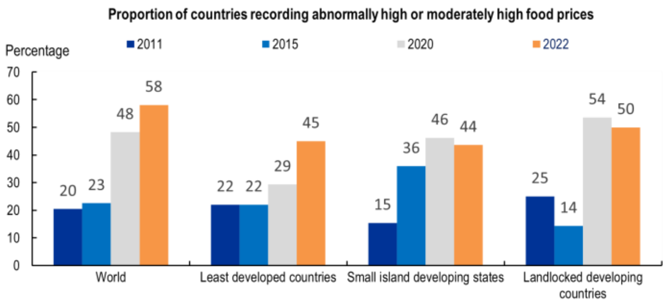
Inflation has risen significantly globally and across all regions.



Source: E_2024_54_Statistical_Annex_I_and_II.pdf (un.org), based on the World Bank.

Global inflation has surged from 1.4% in 2015 to 7.9% in 2022. This trend has been observed across all regions. Central and Southern Asia recorded the highest inflation rate, reaching 9.6% in 2022, up from 5.7% in 2015. Europe and Northern America experienced the most pronounced increase with inflation rising by 8.6 percentage points over the same period.

Recorded food prices are high, particularly in countries most in need.



Note: Abnormally high values are defined as those for which the indicator of food price anomalies is equal to or exceeds 1. Moderately high values are defined as those for which the indicator is equal to or greater than 0.5 but strictly less than 1.
Source:
unstats.un.org/sdgs/files/report/2024/E_2024_54_Statistical_Annex_I_and_II.pdf
based on Food and Agriculture Organization of the United Nations (FAO)

High inflationary pressures in the global post-pandemic environment have taken a toll on all countries. In 2022, 58% of countries recorded abnormally high or moderately high food prices, up from 23% of countries in 2015.

The share of developing countries recording abnormally high or moderately high food prices has increased since 2015. In 2022, 45% of LDCs, 44% of SIDS and 50% of LLDCs recorded abnormally high or moderately high food prices compared with, respectively, 22%, 36% and 14% in 2015. The detrimental effect of high inflation on household has been higher for households in extreme poverty.[3]

Key performance indicators

(full list in statistical annex)

It should be noted that the chapter of the Addis Ababa Action Agenda on systemic issues does not include quantifiable or timebound commitments.

- ⇑ The global financial safety net was strengthened by the new 2021 allocation of USD 650 billion in special drawing rights (SDRs). About one-third of this allocation went to developing countries, amounting to 0.42% of their gross domestic product (GDP).[4]
- ⇔ Approximately half of the world's economies hold 97% of international reserves, with the remaining 3% held by a group of about 90 vulnerable emerging and low-income countries.[5]
- ⇔ Developing countries hold 37% of the voting rights at the IMF and 39% at the World Bank though they constitute 75% of the membership in these institutions.[6]
- ⇔ Non-bank financial intermediation (NBFI) represented 47.2% of total global financial assets in 2022 compared with 48.6% in 2015.[7]
- ⇔ In a 2023 survey by the OECD,[8] 73% of responding countries identified lack of data and analysis on the transboundary impacts of policies as a key barrier to making progress on policy coherence for sustainable development (PCSD).

Resource mobilisation potential

- ❖ Ongoing reforms of multilateral development banks (MDBs) aim to triple total lending volumes by 2030 to reach USD 400 billion per year.
- ❖ Climate change could cost the world economy an estimated USD 38 trillion per year by 2050, which would translate to a loss of 19% in income per capita around the world.[9]
- ❖ The cumulative economic costs of the COVID-19 pandemic are estimated at about USD 13.8 trillion in global output loss through to 2024.[10] [11]

Key areas of progress

Efforts to strengthen financial stability and crisis prevention are paying off.

Financial stability measures accelerated in the aftermath of the global financial crisis in 2008-09. Many of these measures were thus in place before the Addis Ababa Action Agenda (AAAA) was adopted in 2015, and they have since contributed to greater resilience in the international financial system. The Early Warning Exercise, a semi-annual assessment that identifies and analyses potential risks to the global financial system that could lead to significant economic disruptions, was created in 2008. A year later, in 2009, the Financial Stability Board (FSB) was established to strengthen financial regulation and prevent future crises. In 2017, the IMF introduced a Macroprudential Policy Survey feeding the integrated Macroprudential Policy database, which facilitates quantitative analyses of macroprudential instruments. Basel III standards, a set of regulatory reform measures that cover banks' capital, leverage and liquidity, were finalised in 2018, with full implementation expected by end-2024. An evaluation of the impact and efficacy of these various reforms found that the overall resilience of the banking sector has increased, without affecting the cost of capital of banks. In 2022, banks showed improved performance compared with 2015, a shift driven by ongoing recovery from the COVID-19 crisis. The share of countries reporting a return on assets (ROA) above 1% rose to 77.2%, up from 70.0% in 2021, and the median ROA increased from 1.34% to 1.56%.

However, there are concerns that tighter regulations have led to a reduction in cross-border lending by global banks to developing countries, including for financing infrastructure projects. Tightened bank regulations also gave rise to a greater role for NBFI, which can exacerbate the volatility of international financial flows. NBFI grew from USD 165.4 billion in 2015 to USD 217.9 billion in 2022 or by 31.7%. In relative terms, NGFI represented 47.0% of total global financial assets in 2022 compared with 48.6% in 2015 and 42.0% in 2008 and a peak of 50.0% in 2019.[12]

The global financial crisis also triggered a number of proposals and legislation aimed at strengthening the regulatory and supervisory framework for credit rating agencies (CRAs). In 2010, for instance, the FSB called for a reduction of reliance on CRA ratings, but little progress has been made since (see factsheet on international development co-operation). The big three CRAs (Moody's, S&P and Fitch Ratings) together hold 95% of the credit rating market and are frequently criticised for their perceived bias towards developing countries. The planned establishment of the pan-African CRA is expected to help make borrowing cheaper for African governments by providing more accurate assessments that take into account regional dynamics and geopolitical factors.

The global financial safety net is stronger but remains uneven.

Countries' own reserves, the largest component of the global financial safety net, have increased in absolute terms but decreased in relative terms since 2015. Countries' reserves covered 8.9 months of imports in 2022, down from 13 months in 2015. The global network of bilateral swap lines provided prompt liquidity support during the pandemic, helping to stabilise the global financial markets and capital flows to EMDEs. The network expanded substantially, from six swap lines in the early 2000s to 160 swap lines in 2024. However, very few developing countries have access to these facilities. According to the IMF, 97% of international reserves are held by approximately half of the world's economies, with a group of about 90 vulnerable emerging market and low-income countries accounting for the remaining 3%.

The IMF has significantly expanded lending while adjusting its toolkit to address evolving needs especially in developing and vulnerable countries. In FY23, the IMF approved about USD 5.7 billion in new concessional lending commitments to low-income countries – more than the three times the volumes in FY15 (USD 1.8 billion). The Resilience and Sustainability Trust, created in 2022, helps countries build resilience to macroeconomic risks arising from longer-term structural challenges, including climate change and pandemic preparedness. The allocation of an additional USD 650 billion in SDRs[13] helped countries address balance of payments needs and improve liquidity. (see factsheet on debt and debt sustainability) To date, a total of 660.7 billion SDRs (equivalent to roughly USD 943 billion) have been allocated and constitute a significant portion of countries' international reserves. However, SDR distribution is based on IMF quotas, meaning that high-income countries receive the majority of the SDRs.

Calls to reform the international financial architecture are abounding.

Bridgetown 3.0,[14], the United Nations SDG Stimulus[15] and the Paris Pact for People and the Planet[16] collectively call for a comprehensive reform of the international financial architecture to enhance support for climate action, sustainable development and economic resilience in vulnerable and developing countries. Reforms under way of MDBs as part of these initiatives focus on increasing the scale and development impact of lending. The World Bank Group's evolution roadmap,[17], updated in September 2023, suggests that it could boost its lending capacity by USD 50 billion, to USD 150 billion, over 2022-32 –an annual average increase of from 5 billion to USD 15 billion. In a joint Viewpoint Note[18] released for the 2024 World Bank and IMF Spring Meetings, ten MDBs estimated that their institutions could collectively expand their lending headroom by an additional USD 300 billion to USD 400 billion over the coming ten years, equivalent to an annual average increase of USD 30 billion to USD 40 billion. The projected increases, however, would fall short of initial targets, such as the goal of an additional USD 260 billion per year set by the Group of Twenty (G20) Independent Expert Group,[19] in part because current reform initiatives are tilted towards increasing capital efficiency rather than increasing the general capital of MDBs.

Despite the repeated commitments to enhance the voice and participation of developing countries, their representation has not significantly changed in many international financial institutions and standard-setting bodies. Developing countries constitute 75% of the membership of the IMF and the World Bank but hold only 37% and 39%, respectively, of the voting rights in these institutions. While there has been an increase in IMF quota allocations, the quota formula has not been updated to reflect the shifting economic weights of member countries in the world. The current IMF quota formula was agreed in 2008. The 14th General Review of Quotas entered into force (2016), with the 15th review taking place in 2020. The 16th review, which took place in 2023, approved a 50% increase in quota resources, with members' contributions to be in proportion to their current shareholdings – the equivalent of raising the IMF's permanent resources to USD 960 billion.

Persistently challenging areas

Conflicts are growing in number, driving insecurity, and placing additional burden on countries' financing capacities.

A growing number of conflicts are taking a heavy toll on financing capacities. In 2023, there were 56 active conflicts, the highest number since the end of the Second World War. The global economic cost of violence amounted to USD 19.1 trillion, or 13.5% of global GDP. Spending on peacebuilding and peacekeeping amounted to USD 49.6 billion, accounting for less than 0.6% of total military expenditure in PPP terms.[20]

Migration is on the rise with opportunities and challenges for financing for sustainable development.

An estimated 281 million people were living in a country other than their country of birth in 2020 – 32 million more than in 2015, 128 million more than in 1990 and more than triple the estimated number in 1970.[21] As a consequence, the volume of remittances has also been increasing, representing a crucial source of income for households and small and medium-sized enterprises (see Factsheet on domestic international private business and finance).

At the same time, forced migration has increased steeply. At the end of 2022, the number of forcibly displaced people worldwide was estimated at 108.4 million, among them 35.3 million refugees and 5.4 million asylum seekers.[22] The majority (76%) of forcibly displaced people worldwide are hosted in low- and middle-income countries, straining the already stretched resources of these countries. (The cost of hosting refugees in donor countries is discussed in the Factsheet on international development co-operation.)

Policy coherence for sustainable development demands greater political ambition to assess and address policy impacts.

Achieving greater policy coherence for sustainable development (PCSD) remains a major challenge. The interconnected nature of the world economy and between economic, social, and environmental challenges mean that individual countries' policies often have transboundary impacts[23] on other countries and the global commons. Despite commitments, governments have made limited progress to assess and address the impacts of their policies on global sustainable development.[24] This shortfall is mainly due to insufficient data, limited technical capacity, low political leadership and weak institutional mandates to implement measures with a lack of data and analysis on the potential transboundary impact of policies as a key obstacle. Governments must be better equipped to anticipate, address, and adjust policies to systematically consider their impact on global sustainable development.

Failing to assess, monitor, and address the interactions and impacts of different policies undermines key global objectives and negatively affect the sustainable development prospects of developing countries. For instance, the absence of global co-ordination and policy coherence is hampers developing countries' access to climate finance and the equitable management of shared resources. Due to rising energy prices, direct fossil fuel subsidies rose to USD 1.53 trillion in 2022, a fivefold increase over 2020, thereby reversing progress towards the net zero transition (see Factsheet on domestic public resources for more information on remittances). Potentially trade-distortive state interventions surged after the COVID-19 pandemic, hindering the competitiveness and global trade participation of LDCs (see Factsheet on international trade as an engine for development).

New and emerging areas

A new context since the AAAA brings a shift in systemic issues, beyond systemic financial risk.

Since the AAAA was adopted in 2015, shifting global challenges have reshaped the nature of systemic risks demonstrating threats to financing for development beyond those related to the global financial crisis of 2008-09. Emerging threats now include climate change, pandemics, and high debt levels as well as risk posed by artificial intelligence and cybersecurity vulnerabilities. At the same time, geopolitical pressures, including war and violent conflict, have intensified, complicating collective decision making through international and intergovernmental bodies. There is a threat that the world will be divided into rival geopolitical blocs, which would reshape global trade and affect the cross-border allocation of capital. For example, a one standard deviation increase in geopolitical tensions between an investing country and a recipient country could reduce bilateral cross-border portfolio and bank allocation by about 15%.[25] The growing complexity and interconnected nature of these systemic risks increases the imperative of governments to strengthen their political commitment to, and tools to ensure, policy coherence and to ensure long-term policy making that takes into account the impact of policies now and into the future.

Climate change and biodiversity loss present a key systemic risk.

Climate change presents a major systemic risk. If no additional measures are taken to address climate change, the negative impact on global annual GDP could range from 1.0% to 3.3% by 2060.[26] In 2023, 129 countries reported having a national disaster risk reduction strategy that is aligned to the Sendai Framework. However, according to the United Nations Environment Programme, international adaptation finance flows to developing countries fall short of estimated needs (USD 300 billion annually by 2030) by a factor of five to ten.[27] At COP27 in 2022, a Loss and Damage Fund was established with the aim of providing financial assistance to countries most vulnerable to and impacted by the effects of climate change. The Kunming-Montreal Global Biodiversity Framework, adopted in December 2022, aims to halt and reverse biodiversity loss, which could trigger a collapse in ecosystem services that would result in a USD 2.7 trillion annual decline in global GDP by 2030.[28] The Kunming-Montreal Global Biodiversity Framework includes targets to mobilise at least USD 200 billion per year in financial resources for biodiversity by 2030 from public and private sources.

There is widespread acknowledgement of the need to assess, manage and mitigate the financial vulnerabilities due to climate change, commonly referred to as climate-related financial risks. In 2021, the FSB published a comprehensive roadmap to address climate-related financial risks in four key policy areas: firm-level disclosures, data, vulnerabilities analysis, and regulatory and supervisory practices and tools. Starting in 2015, the now-disbanded Task Force on Climate-Related Financial Disclosures coordinated efforts to improve climate-related disclosures, and the International Sustainability Standards Board currently leading follow-up efforts.

The pandemic highlighted the systemic relevance of global health.

The COVID-19 pandemic caused major disruptions to the global economy and heightened awareness of the critical relevance of global health for sustainable development.[29] The G20 High Level Independent Panel estimates that a Global Health Threats Fund would require at least USD 10 billion in additional annual investment and another USD 5 billion is needed to strengthen the World Health Organization (WHO) and other institutions.

Donor investments in global health have increased. The Pandemic Fund was established in 2022 to finance investments to strengthen pandemic prevention, preparedness, and response capacities, with a focus on low- and middle-income countries. In 2023, WHO members agreed on a 20% increase in assessed contributions and the establishment of a replenishment mechanism to raise multi-year voluntary contributions. In 2022, 182 State Parties (representing 93% of anticipated submissions) reported on their implementation of the international health regulations (IHR), which require countries to develop capacities to respond to public emergencies. Overall, IHR capacities improved, albeit modestly, with the average global score rising from 64% in 2021 to 66% in 2022.[30] Total net official development assistance disbursements to medical research and basic health sectors totalled USD 21.1 billion in 2022, more than double the 2015 total of USD 10.5 billion.[31]

Inflationary pressures cause cost of living spikes and diminish access to finance.

High inflationary pressures in the global post-pandemic environment have taken a toll on developing countries. Annual inflation (consumer prices) rose to 7.9% in 2022, up from 1.4% in 2015. In LDCs, inflation reached 9.5% in 2022 compared with 4% in 2015. The share of countries experiencing moderately to abnormally high food prices hit a record high of 58.1% in 2022, a significant increase from 22.5% in 2015. Due to the spike in food prices an estimated 29.6% of the global population – 2.4 billion people – did not have access to adequate food in 2022, 745 million more than in 2015.

Monetary tightening in response to inflation has exacerbated countries' struggle to secure stable and affordable long-term financing to support sustainable development. Developing countries' average interest cost on external borrowing is three times higher than that of developed countries (see debt factsheet).

Cybersecurity risks could detract from available financing for sustainable development.

See STI Factsheet.

ENDNOTES

[1] World Bank (n.d.), Glossary | DataBank (n.d.).

[2] Authors' calculations based on UN ECOSOC (2024), Progress towards the Sustainable Development Goals - Statistical Annex

[3] OECD et al. (2023), Latin American Economic Outlook 2023: Investing in Sustainable Development, OECD Publishing, Paris, https://doi.org/10.1787/8c93ff6e-en.

[4] Systemic issues_Concept Note.pdf

[5], UN ECOSOC, 2023, Progress towards the Sustainable Development Goals, Report of the Secretary-General Supplementary Information

[6] UN ECOSOC, 2023, Progress towards the Sustainable Development Goals, Report of the Secretary-General Supplementary Information

[7] Financial Stability Board (2023), Global monitoring report on non-bank financial intermediation

[8] This refers to countries that have Adhered to the OECD Council Recommendation on Policy Coherence for Sustainable Development, see: https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0381

[9] Nature (2024), The economic commitment of climate change

[10].IMF (2022) The impact of the IMF's COVID-19 support to developing and emerging economies

[11] Jameel-Institute---General---Dec-23-report.pdf (imperial.ac.uk)

[12] Financial Stability Board (2023), Global monitoring report on non-bank financial intermediation

[13] International reserve assets created by the IMF to supplement member countries' official reserves

14 Global Policy Forum (2024), Bridgetown Initiative 3.0 released: What´s the news? ,

[15]United Nations Secretary-General (2024), SDG Stimulus Leaders' Group

[16] Ministère de l'Europe et des Affaires étrangères. (n.d.), The Paris Pact for People and the Planet (4P). France Diplomacy - Ministry for Europe and Foreign Affairs

[17] Development Committee (2023), Ending Poverty on a Livable Planet: Report to Governors on World Bank Evolution.

[18] *Inter-American Development Bank (2024), Viewpoint Note: MDBs Working as a System for Impact and Scale*.

[19] *The Independent Expert Group (2023), Strengthening multilateral Development Banks: the Triple agenda*.

[20]. Institute for Economics & Peace (2024), Global Peace Index

[21] *IOM (2022), World Migration Report*.

[22] *UNHCR (2022), Global Trends 2022*.

[23] Transboundary impacts: Any effect – intended or not – originated in one country that crosses national borders through flows of capital, goods, human and natural resources, and that is able to affect positively or negatively the sustainable development prospects of another country. (Source: OECD, Recommendation of the Council on Policy Coherence for Sustainable Development, OECD/LEGAL/0381)

[24] OECD (2024), *Unleashing Policy Coherence to Achieve the SDGs: An Assessment of Governance Mechanisms*, OECD Publishing, Paris, https://doi.org/10.1787/a1c8dbf8-en.

[25] IMF (2023), Global Financial Stability Report, April 2023: Safeguarding Financial Stability amid High Inflation and Geopolitical Risks

[26] OECD (2015), The Economic Consequences of Climate Change

[27] United Nations Environment Programme. (n.d.). What you need to know about the COP27 Loss and Damage Fund.

[28] World Bank (2021). Protecting nature could avert global economic losses of $2.7 trillion per year

[29] *World Bank (n.d.), Emerging Risks to the Recovery*.

[30] UN ECOSOC, 2023, Progress towards the Sustainable Development Goals, Report of the Secretary-General Supplementary Information

[31] UN ECOSOC, 2023, Progress towards the Sustainable Development Goals, Report of the Secretary-General Supplementary Information