Highlights of the Financing for Sustainable Development Report 2020

About the Inter-agency Task Force on Financing for Development

The Inter-agency Task Force on Financing for Development is made up of more than 60 United Nations agencies, programmes and offices, the regional economic commissions and other relevant international institutions. 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—take 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 Task Force and substantive editor of its annual report.

About the 2020 Financing for Sustainable Development Report

The 2020 Financing for Sustainable Development Report of the Inter-agency Task Force provides a comprehensive assessment of progress in all action areas of the Addis Ababa Action Agenda. This assessment is grounded in an analysis of the global enabling environment: Chapter I describes an extremely challenging global macroeconomic context that is hampering progress. The thematic chapter (chapter II) explores how digital technologies are changing financing—including financial sectors, public finance, and development pathways (trade and investment). The chapter puts forward policy options across the Addis Agenda action areas to make the most of the tremendous opportunities that new technologies create, while carefully managing risks. The remainder of the report (Chapters III.A to III.G and IV) discusses progress in the seven action areas of the Addis Agenda.

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

Highlights of the Financing for Sustainable Development Report 2020

DESA Financing
Financing for Development

Key messages

1. The global economic recession and financial turmoil from COVID-19 are derailing the Addis Agenda and the Sustainable Development Goals (SDGs).

2. Even before the pandemic, there was backsliding in many areas:

ODA to developing countries fell by 4.3 per cent in 2018.

One in five countries—home to billions of people living in poverty—were likely to see per capita incomes stagnate or decline in 2020.

The share of countries with vulnerabilities in non-bank financial institutions increased by almost 20 percentage points during the second half of 2019.

3. Due to the COVID-19 crisis, global financial markets witnessed heavy losses and intense volatility. Investors have moved a record USD $90 billion out of emerging markets.

4. A new debt crisis may loom. Compounded by tumbling commodity prices, the crisis may further increase the number of LDCs and other developing countries at high risk of debt distress.

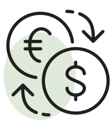
5. 2020 Financing for Sustainable Development Report calls for immediate actions and medium-term policy solutions:

Implement a globally coordinated **stimulus** package. Reverse the decline in aid and increased concessional finance.

Prevent a debt crisis. Immediately suspending debt payments from poor countries. Beyond the crisis, reassess debt sustainability.

Use of capital account management.

Stabilize financial markets. In the medium-term, limit over-borrowing for non-productive investments, such as repaying shareholders.

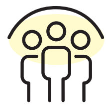


Partner with the private sector. In the short term, roll over debt SMEs and individuals that are cash strapped. In the medium-term, promote sustainable investment.

6. The COVID-19 pandemic should be the impetus to set the world on a more sustainable development path.

7. 2020 Financing for Sustainable Development Report calls for building back better through:

Public and private investment in sustainable development, including in resilient infrastructure.



Strengthened social protection systems.

Investment in crisis prevention, risk reduction and planning.

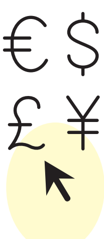
Eliminating trade barriers and restrictions that affect supply chains.

8. Digital technologies present tremendous potential for the SDGs, as highlighted during the pandemic. But inequities in access remain. And digital technologies raise new risks and challenges. Public policies must address exclusion and ensure benefits for society at large, including decent jobs.

Financing sustainable development in an era of transformative digital technologies

1. As COVID-19 spreads around the world, **digital technologies facilitate communication and activities**—in work, in education, and other areas.

2. Digital technologies **create opportunities in financing for development,** including in:

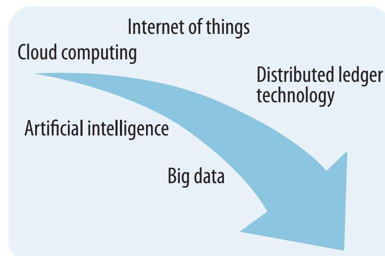


financial markets, by increasing access to financial services;

public financial management, by increasing efficiencies in public financial management

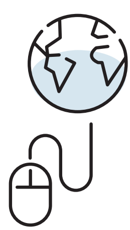
development pathways, by facilitating access to global markets and international trade

3. They can **enable inclusion and increase efficiencies. . .**



Greater **access and efficiency** in production of goods and financial services

4. . . .but many remain excluded from the digital economy

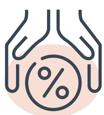


Almost half the world is still not connected to the internet

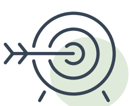
The gender gap in internet use is growing in some regions

5. And create **new risks and uncertainty!**

Automation and AI threaten routine and manual jobs and can increase **wage inequality** and **unemployment.**



Algorithms' inherit **biases** can **exacerbate exclusion and discrimination** (e.g. in access to financial services and credit)



"Winner take most" mechanisms and **market concentration** across sectors and borders

6. Policy and regulatory frameworks must take a people and employment-centered approach:

Take a strategic approach to digital technologies and finance!

Invest in **basic building blocks** (digital and related infrastructure and skills)!

Overcome **silo-style regulation!**

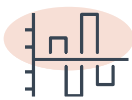
Enforce **competition** to harness the power of big tech and support **innovation!**

Incentivize use of digital technologies that support **labour-enhancing development pathways!**

Step up **global collaboration!**

Domestic public resources

1. Measures to control COVID-19 will negatively impact revenues, while expenditures increase



Fiscal systems also need sufficient resilience and flexibility so they can face unexpected circumstances

Countries should expand health spending to address the public health crisis.

2. Progress in tax mobilization is insufficient to match the ambition of the 2030 Agenda.

53 developing countries increased tax revenues from 2017–2018, while 46 countries registered a decline.

3. Governments should investment in technology to support all parts of the fiscal system.

Around **60 per cent** of tax returns **are e-filed** in middle-income countries, while the figure is less than **40 per cent in low-income** countries.

4. New tax norms related to digitalisation need to be better adapted for developing countries.

Continued digitalisation of the economy is making tax norms agreed almost a century ago obsolete. . .

but new proposals are extremely complex. . .

and may be inappropriate for developing countries.

Developing countries need more time to assess proposals and propose adaptation that match their needs and capacities.

5. As international tax rules are being re-written, the new architecture also needs:

Effective inclusion in tax norm setting processes

Greater investment in tax capacity building from development partners

1/3 share of peer review recommendations related to the need to improve country's implementation of beneficial ownership transparency

6. To help combat illicit financial flows, new technology, such as artificial intelligence, can enable better identification of suspicious activity.

More work is also needed on implementation of international standards on transparency of beneficial ownership information.

7. Expenditure frameworks should be aligned to the SDGs, strategic procurement can help.

100% the number of OECD countries with some entities with green procurement strategies

25% the number of OECD countries with some entities with women-owned business procurement strategies

Domestic and international private business and finance

1. Partner with the private sector to combat the impact of the COVID-19 crisis

In the short term, **roll over debt to small and medium sized enterprises and individuals** that are cash strapped.

In the medium-term, **promote sustainable investment to build back better.**

2. Strengthen the business enabling environment by targeting constraints to private sector development in support of the SDGs

In 2018/19, 115 economies undertook 294 **business regulatory reforms** but there remains space for improvement

Women cannot run a business the same way as men in 115 countries

Building capacity for planning and project development is key **to address the persisting infrastructure gaps** in a cost-efficient and sustainable manner

Harnessing technological advancement can facilitate **access to finance** but requires appropriate regulatory frameworks

41% of formal MSMEs in developing countries have unmet financing needs

3. Fit-for-purpose financial instruments could increase investment in developing countries if properly structured and leveraged where appropriate

International vehicles can be used to better **manage currency, disaster and political risks through diversification** across countries

Smartly structured private equity and venture funds can mobilize **additional equity financing** needed to support innovative companies in less advanced economies

$2 trillion
Is the estimated amount of money Private Equity funds have already raised and need to invest

Innovative models, such as auction systems, can be designed to **minimize subsidies** and optimally use scarce concessional resources.

4. Change towards more sustainability is required in the way private business and finance works

Business leaders and investors are increasingly recognizing that integrating sustainability issues are necessary **for long-term financial successes…**

but turning this recognition into action requires:

Mandatory disclosures by large companies on a minimum set of harmonized environmental and social indicators

Minimum **standards for investment products** to be marketed as "sustainable"

Investment advisors asking their clients about their **sustainability preferences**

International development cooperation

1. Global official development assistance (ODA) recovers in 2019* but remains insufficient, especially due to additional financing needed to combat COVID-19

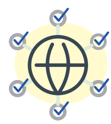
ODA increased by 1.4% in 2019
ODA to LDCs increased by 2.6%

2. Covid-19 underscores the importance of preparedness

Ex ante financing instruments should be efficient, predictable and quick-dispensing

Need to invest in disaster risk reduction

3. South-South cooperation continues to expand in scope, volume and geographical reach



Documenting its added value and impact could further support the Sustainable Development Goals

4. Development financial institutions can learn from innovations to raise resources

Examples include merging concessional windows and well-structured synthetic securitization

*Data update as at 16 April 2020

5. Innovations in public finance instruments changing the development cooperation landscape, but not a panacea

Traditional ODA remains important—innovations can make aid more effective and leverage private finance

Examples include catastrophe risk pooling, and green bonds

6. Switch from a search for bankability to a search for impact in blended finance

Don't aim to maximize leverage ratios!—Least developed countries will have lower leverage, different structures

Blended finance should be driven by country needs and country ownership

Capacity development support critical

7. Countries graduating to higher income status may need support

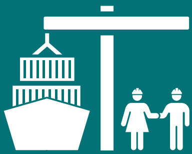
Pre-graduation planning critical

Allow for reverse graduation processes due to major shocks (such as COVID-19)

Exceptional and temporary support measures vital e.g. World Bank's small state exception for access to concessionary resources

8. Need to link plans, strategies and resources and align interventions to country priorities

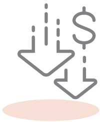
Country-owned Integrated National Financing Frameworks can help



International trade as an engine for development

1. The COVID-19 crisis will have a significant impact on trade, particularly trade in services. Any response to the crisis should minimize disruptions to trade and not increase protectionism in order to accelerate post-crisis recovery

2. Countries need to curb the imposition of new trade-restrictive measures and reduce the accumulated stock of restrictions



Trade coverage of import-restrictive measures amounts to US$ 747 billion—almost ten times larger than that recorded two years ago.

3. The global trading system under the WTO needs to be preserved, strengthened and made more reactive to the 21st century geo-economic realities

4. It is important to identify potential solutions to the current gridlock in the WTO dispute settlement system

5. Immediate actions are required to address the challenges faced by least developed countries (LDC), smooth the transition for those graduating from the LDC category and accelerate economic diversification

39 LDCs are considered as commodity dependent (i.e. exports of primary commodities account for more than 60% of a country's merchandise export revenue).

6. E-commerce allows businesses, big and small, to reach a broader network of buyers; access competitive suppliers; and participate in global value chains

While most online shoppers buy from domestic suppliers, some 21 per cent, or 277 million people, made a cross-border purchase in 2017

Wide variations in e-commerce readiness enhances the risk of benefits from e-commerce being unequally distributed

Competition policies can be used to prevent trade gains from becoming disproportionally captured by dominant players, such as online marketplace platforms

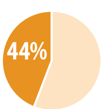
7. Trade and investment agreements should address synergies between trade, investment and socio-economic and environmental policy, as well as possible negative linkages

8. Trade finance gaps can be reduced by helping local banks leverage technology to digitalize paper-intensive products and streamline verification processes

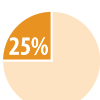
The global trade finance gap is stable at about $1.5 trillion, particularly affecting small companies.

Debt and debt sustainability

1. Debt risks, which were already high in many developing countries, are further exacerbated by COVID-19, threatening countries' ability to respond to the crisis and invest in the SDGs



44% of least developed and other low-income countries were already at high risk of or in debt distress before COVID-19.



25% of public revenue was used to service public debt in frontier economies even before the crisis.

2. Global debt risks will rise further . . .

In 2018, global debt amounted to **267% of global GDP,** driven by an explosion of private-sector debt.

Highly-leveraged corporations are vulnerable to shocks—COVID-19 could turn into a protracted crisis

Growing rollover risks due to changing debt composition threaten to materialize in the next months

3. Immediate global action is needed to increase fiscal space for a crisis response

Official bilateral creditors should immediately suspend debt payments from LDCs and other low-income countries that request forbearance.

Other creditors should consider similar steps or equivalent ways to provide new finance.

Some middle-income countries will also need support.

4. Beyond the crisis, national and global action can increase fiscal space for the SDG

A balance sheet approach clarifies how debt is used can improve our understanding of SDG investments' impact on revenue.

Innovative instruments such as debt swaps can be a source of funding for additional SDG investment.

5. It is time to revisit existing mechanisms for sovereign debt workout

Increasing complexity of the debt landscape has further complicated debt resolution

Further work is needed to revisit existing mechanisms and arrive at a fair, effective and timely international process for debt resolution.

The UN can provide a forum for informal and inclusive dialogue among all stakeholders.

Addressing systemic issues

1. COVID-19 is causing investors to flee to safety and widening spreads on bond yields of developing countries, setting the stage for currency, debt and financial crises

The international monetary system remains vulnerable to volatility and contagion.

2. Agreed regulatory reforms, while important, are not enough to create stable and sustainable financial systems.

Changes to the financial regulatory system after a crisis tend to focus on preventing a recurrence of past problems, while future shocks may have different causes and transmission channels.

30% of global financial assets *are managed by non-bank financial institutions, which have lighter regulation, far surpassing pre-2008-crisis levels.*

3. Countries should continue to step up efforts to track and regulate financial intermediation based on the function it performs rather than the type of institution involved

Innovative financial technologies and instruments can help sustainable development…

… but they can also create pockets of leverage that present economic and social risks.

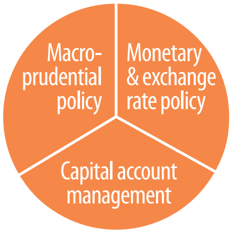
4. Regulations on the operation of private digital currencies should be carefully considered in each jurisdiction:

5. Policymakers should adopt global mandatory financial disclosures on climate-related financial risk to support long-term stability of financial systems.

Climate risk is financial risk

Regulations can encourage positive change in behaviours and reducing investment in climate-change-inducing or other environmentally risky activities

6. Integrated policy frameworks —manage excess leverage and volatility in domestic and cross-border finance



Science, technology, innovation and capacity building

1. New digital technologies enhance the capacity of countries to respond to emergencies like Covid-19

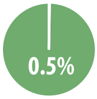
Algorithms can be used to estimate the **probability of exposure** to Covid-19 and can help authorities to **target testing** to places with high probabilities.

Digital remote working technologies enable the **preservation of essential human interactions** and thus **prevent** the complete **cessation of economic activity.**

However, **access to critical digital technologies remains uneven**—almost half the global population is still not connected to the internet

2. Countries at all stages of development must increase their capacities in science, technology and innovation (STI) to achieve the SDGs

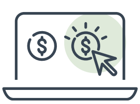
There has been important **progress in most STI indicators** since the Addis Agenda, but gaps remain large, particularly for LDCs



R&D spending remains low in most developing countries, and less than **0.5% of GDP** in LDCs

3. Fintech has been an important driver of financial inclusion.

Mobile money providers have played a key role in enabling **digital payments**—there are **866 million** mobile money **accounts** globally, almost half in Africa



Financing platforms have expanded access to financial services. P2P lending and online crowdfunding amount to **$415 billion**

As big tech enters finance, **risks rise of market dominance,** data collection and use

4. International knowledge-sharing and collaboration need strengthening to ensure that no one is left behind

Official development assistance for STI has increased in recent years, but additional efforts are needed, particularly **for LCDs**

The Technology Facilitation mechanism and the Technology Bank have been operationalized, and will require continued support to deliver on their mandates

Data, monitoring and follow-up

1. Digital technologies and big data can help strengthen official statistics for the implementation and monitoring of the Sustainable Development Goals.

But not all countries have the necessary **capacity to harness** new data sources;

Questions remain around **data security, access and privacy;**

Many countries still lack a **minimum set of quality traditional data,** including basic census and civil registration data.

2. The emergence of a new and evolving data ecosystem challenges the traditional role of official statistics.

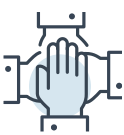
National statistical systems need to modernize and embrace **new technologies and data sources;**

National Governments should view **data as a strategic asset for development;**

This requires a **step-change in resource mobilization,** from both domestic and international sources.

3. New financing mechanisms can help pool external funding for data and statistics, mobilize additional resources and increase sector coordination.

They should strengthen national statistical systems and align with countries' **national statistical plans;**



An **innovative funding mechanism,** as called for in the 2018 Dubai Declaration, can complement existing initiatives.

4. Building on past progress, indicators, concepts and methodologies for the measurement and implementation of the SDGs need further strengthening.

National and subnational indicators can complement global SDG indicators and help **identify financing gaps and constraints;**

5. To overcome the limitations of GDP, national accounting frameworks will need to be integrated with different measures of wellbeing.

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