2021 Financing for Sustainable Development Report (FSDR)

by the Inter-agency Task Force on Financing for Development

More than 60 United Nations Agencies and international organizations.

Led by UN-DESA, with the IMF, WBG, UNDP, UNCTAD and WTO in leading roles

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Financing for Development

Selected Messages from the 2021 FSDR Chapters

Financing for Development

Domestic Public Resources

Private Business and Finance

Development Cooperation

Trade

Debt

Systemic

Technology and Capacity

Main Messages from the 2021 FSDR

- **There is a risk of a sharply diverging world**
  - Worst recession in 90 years & 120 million more people in poverty
  - USD 16 trillion in support concentrated in developed world
  - Vaccines many months away in developing countries
- **We must take immediate action to avoid another lost decade for development**
  - Meet ODA commitments
  - Replenish liquidity and concessional facilities
  - Offer debt relief to countries in need

Main Messages from the 2021 FSDR

- **Crisis response creates opportunity to invest long-term in risk reduction and rebuild better**
  - Invest in human capital, social protection, resilient infrastructure and technology to reduce risk, create decent jobs and stimulate sustainable growth
  - Provide ultra-long term financing and debt swaps to developing countries
  - Facilitate new business models that support people and planet

- **Space to reform and “future-proof” the policy and institutional architecture, at all levels**
  - Ensure that proposals on taxation in the context of a digitalising economy, the multilateral trading system, international debt architecture and the global financial safety net are fully aligned with the 2030 Agenda
  - UN unique convening power can serve to galvanize collective action

Thematic chapter: Risk-informed sustainable finance and development

- **The COVID crisis highlights the rise in systemic risks, threatening SDG implementation;**
  - reducing and managing these risks is indispensable to achieving the SDGs

- **Clear case for investment in risk reduction, but underfunded as a public good**

- **Public role:**
  - 'Risk-bearer of last resort
  - Align private risk landscape with SDG risks
  - Take on risks associated with high social returns

- **Risk management cycle: understand, reduce, transfer/ share, rebuild better**

Thematic chapter: Risk-informed sustainable finance and development

- **Risk-informed and resilient financing**
  - Overcome short-term and ex post biases in budgeting; and adopt a multi-instrument approach to manage risks to public balance sheets
  - Incorporate all material SDG risks in private investment decisions

- **Financing *for* risk-reduction and resilience**
  - Public investment in prevention and risk reduction
  - Incentives and regulations to internalize all SDG-relevant risks in private investment

- **International cooperation**
  - Funding and cooperation to tackle global systemic risks
  - Support to strengthen national systems

Domestic public resources

- Governments responded to the crisis with historic fiscal support packages, though the response and reach were uneven
- Opportunity to revamp the social contract and align fiscal policy with sustainable development; poorest countries need support
  - Not withdraw stimulus measures prematurely
  - Prioritize spending on essential health functions and social protection floors
  - Pursue progressive fiscal systems and use taxes (e.g., carbon taxes)
  - Strengthen public financial management

Domestic public resources

- Fiscal policy choices increasingly complex
  - Integrated national financing frameworks can help
- Strengthening international tax cooperation is necessary to support domestic efforts
  - Consensus-based global solution is the best approach if implemented by a critical mass of countries
  - Developing country interests and perspectives should be integral to discussions
- Critical to address illicit financial flows
  - FACTI Panel made recommendations for governments to consider, including a Global Pact for Financial Integrity for Sustainable Development

Private business and finance

- Short-term support measures have been essential to avoid bankruptcies and limit the long-term negative impact
- For a long-term recovery, the business and finance models have to be reimagined so they work for all stakeholders
- Developing countries require a boost in private investment to achieve the SDGs… but FDI plummeted by 42% in 2020
  - Reducing investment risks by national actions and international support is key to attract private investment
  - Countries can prioritize sectors for private investment that generate sufficient cash flows, such as telecom and renewable energy
  - The multiple efforts and assistance of development partners should be further integrated, for instance through creating a common marketplace for investments in developing countries

Private business and finance

- Scaling-up access to risk capital is necessary but capital market remains underdeveloped in many countries
  - Alternative measures, such as blended instruments, can also be considered to enhance access to risk capital
- The current crisis presents an opportunity to build a more sustainable financial system
  - All actors in the investment chain should develop incentives that encourage a long-term approach in decision-making
  - Companies must provide greater transparency on their environmental and social impact and their plan to align their businesses with the SDGs
  - Regulators need to combat SDG-washing and help create credible investment products with real impact
  - Due consideration in standard setting must be given to make sure sustainable finance goes where the financing needs are the greatest

International development cooperation

- International development cooperation vital countercyclical flow
  - Need to scale up and meet ODA 0.7% commitment, and 0.15 to 0.20% of GNI to least developed countries
  - Immediate priority – meet the financing gap of the ACT-accelerator
- MDBs supporting developing countries
  - Additional funding for MDBs concessional pool; capital replenishment needed
  - Consider ultra long-term financing (e.g., 50 years) and fixed-interest lending (take advantage of current ultra-low global interest rates)
- Innovative instruments supporting COVID-19 response
  - COVAX advanced market commitments
  - Blended finance can complement aid but are not panaceas; careful not to divert finance from social needs for blending, based on country priorities
  - Blended finance fund pooled from bilateral/MDB resources
  - Explore below market rate non-concessional loans for blending

International development cooperation

- Risk analysis important for effective development cooperation
  - Integrated national financing frameworks can help translate country priorities into concrete asks for development partners
  - Alignment with AAAA, SDGs, Paris Agreement and Sendai Framework
- Political will needed to scale up both climate finance and ODA
  - Developed countries should aim for climate finance flows of $100 billion per year as a floor
  - Increase adaptation finance to equal mitigation finance; prioritize grant finance for LDCs and SIDS
  - More work needed to understand how best to capture financing global public goods

International trade as an engine for development

- World trade contracted by 9% in 2020; trade in services (including tourism) was particularly affected (-16.5 %)
- Life-saving vaccines and medical supplies bypass many countries
  - Markets should remain open to ensure flows of essential goods/ services
  - Governments must reject vaccine nationalism and protectionism
  - Countries should meet their transparency obligations on trade measures taken to fight the pandemic and its impact
- Reforms are urgently needed to make the multilateral trading system responsive to sustainable development priorities
  - Addressing the functioning of the dispute settlement system and reaching agreements on key issues under negotiations, such as fisheries subsidies

International trade as an engine for development

- Regional trade agreements and international investment agreements can be continually modernized to increase their contribution to sustainable development
- Making trade inclusive requires addressing trade finance gaps
    - Facilitating a rapid transition to paperless trading can help reduce costs of transactions while streamlining trade finance verification process
    - Increasing coordination between multilateral development banks and the private sector can help fill trade financing needs, particularly of small businesses in developing countries.
- International and regional cooperation is essential for redressing cross-border anticompetitive practices and in combating fraudulent and deceptive cross-border commercial practices

Debt and debt sustainability

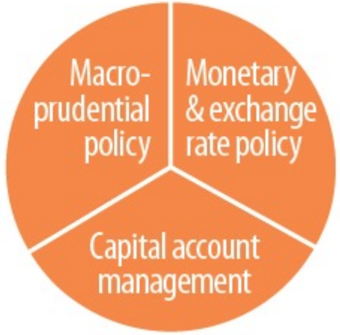
- Debt levels and debt risks are rising across the globe, international support prevented systemic crisis so far
  - *Global public debt to reach **100%** of world gross product*
  - *Appropriate response to sharp fall in revenue and rising spending needs*
  - *Despite fresh financing, DSSI, many developing countries face rising solvency risks*
- Debt crisis prevention remains a priority
  - *Transparency by borrowers and creditors*
  - *Make use of instruments to create fiscal space and prevent future crises, such as SCDI, and debt swaps*

Debt and debt sustainability

- Crisis as opportunity to strengthen architecture
  - *Balance sheet analysis to better match long-term investments with long-term liabilities*
  - *Further enhance market-based approaches such as CACs*
  - *Make use of statutory instruments in case of systemic crisis: legal options at national or international levels*
- Common Framework as step toward more universal framework
  - *UN as valuable platform to discuss and advance proposals*

Addressing systemic issues

- Emergency financing helped address urgent liquidity and balance-of-payment needs in 2020 – but external financing needs remain high
  - A **new allocation of SDRs** would supplement countries' official reserves
  - A voluntary reallocation would increase the impact for countries most in need
  - Many countries will need **additional long-term and low-interest finance** for sustainable development
- Managing the consequences of capital flow volatility remains an important challenge
  - Integrated Policy Frameworks can bring together the **full policy toolkit** to manage excess volatility
  - The international community should be mindful of **spillovers from domestic policy choices**



Addressing systemic issues

- The financial market turmoil in March 2020 highlighted vulnerabilities in different market segments
  - Almost **50%** of global financial assets are managed by non-bank financial institutions – surpassing pre-2008 crisis levels
  - Regulators should continue moving towards **regulating based on the function it performs** rather than the type of institution involved
- Monetary and regulatory authorities need to further address the impact of climate risks
  - Through **mandatory reporting standards** and financial **stress tests**
  - By integrating climate risks into **central bank policy frameworks**
- The COVID-19 crisis is an opportunity to build consensus around necessary reforms to the global architecture

Science, technology, innovation and capacity-building

- Science, technology and innovation (STI) has been instrumental in the global crisis response to COVID-19
  - **Medical knowledge and innovations** are guiding policymakers, helping societies cope, and paving a way towards recovery
  - New and emerging **digital technologies** are supporting economic activity, including through remote work, education, e-commerce and finance
- But the acceleration of digitalization has deepened the digital divide and exacerbated other risks
  - **Half of the world's population** is still not connected to the Internet
  - Public and private financing of around **$430 billion** will be needed to achieve universal broadband Internet access by 2030
  - **National financial inclusion strategies** should build on the potential of fintech, while addressing inequalities and other risks

Science, technology, innovation and capacity-building

- Policy guidelines and regulations are needed to reduce risks
  - More transparent algorithms, guidelines for the ethical use of AI, and more diverse views in innovation can help **overcome new forms of exclusion**
  - **Regulatory frameworks** are needed to reduce the market power of large digital platforms and create a more level playing field
- STI can help reduce the likelihood and impact of shocks and build more resilient societies
  - **Mission-oriented innovation** can set **incentives** towards specific technological, environmental or social goals
- Enhanced development cooperation and knowledge-sharing is needed, particularly for LDCs
  - The recent **decline in official development assistance for STI** must be reversed
  - The **Technology Facilitation Mechanism** and **Technology Bank** require continued support to deliver on their mandates

Data, monitoring and follow-up

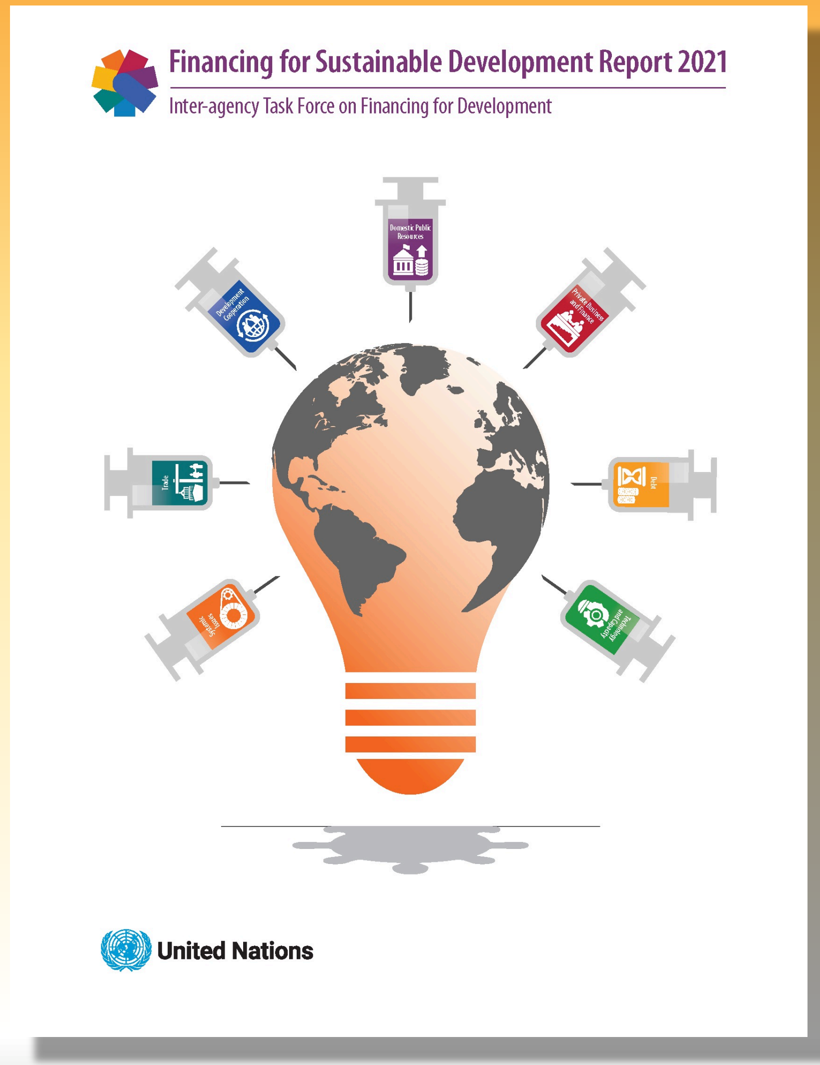
- The pandemic has **exacerbated global data inequalities**
  - ➢ LDCs and other LICs need a step-change in financial support, equipment and infrastructure and technical assistance to strengthen capacities
  - ➢ Investments in civil registration, vital statistics systems and geospatial information sources must be a priority

- **Open data** played an important role; **updated data governance frameworks** are needed
  - ➢ To resolve questions of data quality, timeliness, completeness, availability and access, as well as privacy and data security concerns
  - ➢ NSOs to work together with international support, with international community setting the standards

Data, monitoring and follow-up

- **National Statistical Offices** need assistance to fill **major data gaps**
  - Timely, quality, open, disaggregated and geospatially enabled data and statistics are needed
  - The pandemic has severely affected NSOs' ability to produce short-term statistics
  - In the last year 65% of NSO headquarters were partially or fully closed, 90% had staff working from home, and 96% stopped face-to-face data collection.

Thank you !



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