

Highlights of the Financing for Sustainable Development Report 2021



DESA
Financing



Financing for Development

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 2021 Financing for Sustainable Development Report

The report begins with an assessment of the impact of the pandemic on the global macroeconomic context (chapter I), including a discussion of the interlinkages between economic, social (e.g. health, inequality), and environmental (e.g. climate) risks, and the implications for economic policymaking. The thematic chapter (chapter II) explores the impact of global systemic risk on the Financing for Development agenda, with a view to identify policy options for financing that are sustainable and resilient, and ensure that sustainability and resilience are financed. The remainder of the report (Chapters III.A to III.G and IV) discusses progress in the seven action areas of the Addis Agenda. Each chapter gives updates on implementation and lays out 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/fsdr2021>

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Report of the
Inter-agency Task Force on
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Financing for Sustainable
Development Report 2021



Main Messages from the 2021 FSDR

1. 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.



2. 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.



3. The 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 (e.g. 50 year loans) and debt swaps to developing countries.
- Facilitate a new business model that works for everyone, including by pricing externalities and reorienting capital markets toward sustainability.



4. It creates 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.





Risk-Informed Sustainable Finance and Development

1. The COVID-19 crisis highlights the rise in systemic risks, threatening SDG implementation.



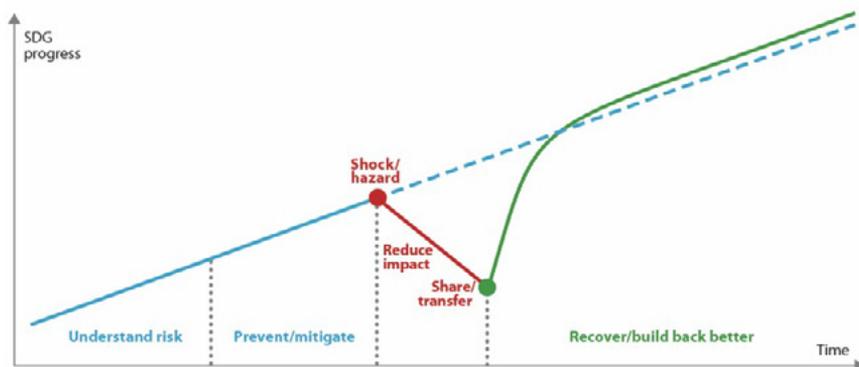
- Reducing and managing systemic risk is indispensable for SDG achievement.
- Investments in the SDGs themselves help reduce risks and increase resilience.

2. Clear case for investing in prevention and risk reduction, but like many public goods, they are underfunded.

- Because of **short-term incentives** and lack of knowledge on risk impacts.
- Because of **inequities**, with those most vulnerable to shocks least able to influence policy decisions.

3. The public sector must take the lead in incorporating risk in the entire policy cycle.

- That includes efforts to understand, reduce, transfer or share risk, and rebuild better.



4. All financing must be risk-informed and resilient.

- Short-term and **ex post biases** in budgeting must be **overcome**, multi-instrument approach adopted to manage risks to public balance sheets.
- All material SDG risks must be incorporated in investment decisions.

5. Financing must be mobilized for investments in risk-reduction and resilience.



- This starts with public investments, e.g. in climate mitigation and social protection.
- Incentives and regulations are needed to internalize all SDG-relevant risk in private investment.

6. International cooperation must be strengthened to address global systemic risk.



- Increase voice of most vulnerable in global policy processes to tackle climate, pandemic, financial and other systemic risks.
- Increase support to vulnerable countries:
 - Strengthen national systems to understand and manage risk.
 - Put in place ex ante financing mechanisms for risk reduction.
 - Design effective crisis response financing mechanisms.



Domestic Public Resources

1. Governments responded to the crisis with historic fiscal support packages, but the response and reach were uneven.



Reflects the greater fiscal space of developed economies, as well as the timing and severity of the pandemic.

- Fiscal measures should not be prematurely lifted.

2. Opportunity to revamp the social contract; poorest countries need support.



- Prioritize spending on essential health functions and social protection floors.
- Strengthen public financial management.

3. Also an opportunity to align fiscal policy with sustainable development.



- Use taxes, such as carbon taxes, to incentivize behavior aligned with the SDG.
- Pursue progressive fiscal systems.

4. Fiscal policy choices increasingly complex due to strain on public finance, and growing debt sustainability and systemic risks.



- Integrated national financing frameworks can help, incorporating other fiscal policy tools, such as medium-term revenue strategies and gender-responsive budgeting.

5. Strengthening international tax cooperation is necessary to support domestic efforts.



COVID-19 has accelerated the digital transformation of economies and societies, raising the stakes in discussions over taxation of the digital economy.

- 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.

6. Critical to address illicit financial flows, which drain resources from sustainable development.



The High-level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (FACTI Panel) made recommendations for governments to consider, including a Global Pact for Financial Integrity for Sustainable Development.



Domestic and International Private Business and Finance

1. Short-term support measures have been essential to avoid bankruptcies and limit long-term negative impacts on economic activities.



2. For a sustainable and inclusive recovery, the business and finance models have to be reimagined. But a paradigm shift requires governments to change the rules of the game.

The responsibility of businesses must extend to **all its stakeholders**, not only shareholders.

Greater transparency for companies on their environmental and social impact is essential and requires:

- Further **consolidating** reporting frameworks.
- Ensuring **international coherence**.
- **Mandating** a minimum level of disclosure.



Companies should also provide information on their **plan to shift activities** towards more sustainability.



Investors can help spearhead the transformation of the companies they invest in, but they need tools to do so, including: **coherent taxonomies** and credible sustainable investment **projects and products**.

Sustainable finance standards must be designed to ensure that financial flows can go where the needs are greatest.



All actors in the investment chain should develop **incentives** that encourage a **long-term approach** in decision-making, which is critical to properly considering sustainability risks and opportunities.



3. Developing countries require a boost in private investment if they are to achieve sustainable development goals.

Investment opportunities in key sustainable sectors in developing countries are estimated at **\$10.2 trillion** between 2020 and 2030.



Realizing these opportunities requires us to:

- Mitigate **investment risks** through national actions and support from the international community.
- Provide developing countries with the means to develop and promote a **pipeline of investable projects**.
- Further **integrate** assistance from development partners to maximize its impact and create a marketplace for investment in developing countries.

4. It is important to harness the benefits of digital financial inclusion.

But **bottlenecks**, including digital access gaps, need to be addressed for these technologies to have a greater impact.



5. Scaling-up access to risk capital in developing countries is necessary but capital market development remains limited in many countries.





International Development Cooperation

1. Official development assistance (ODA) is a vital countercyclical flow.



- Need to scale up and meet ODA 0.7% of gross national income (GNI) commitment; 0.15-0.20% of GNI for least developed countries (LDCs).
- Immediate priority – meet \$22.6 billion financing gap for Access to COVID-19 Tools- Accelerator.

2. Multilateral Development Banks (MDBs) supporting developing countries.



- Need additional funding for MDBs concessional pool & general capital replenishment.
- Consider ultra long-term financing (e.g., 50 years) and fixed-interest lending (take advantage of current ultra-low global interest rates).

3. Innovative instruments supporting COVID-19 response – COVAX advanced market commitments and blended finance.



- Blended finance can complement aid but are not panaceas – careful not to divert finance from social needs and country priorities.
- Consider blended finance fund pooled from bilateral/MDB resources.
- Explore below market rate non-concessional loans for blending.

4. Risk analysis important for effective development cooperation.

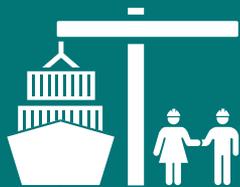


- Integrated national financing frameworks can help translate country priorities into concrete asks for development partners.
- Align activities with the Addis Ababa Action Agenda, Sustainable Development Goals, Paris Agreement and Sendai Framework.

5. Political will needed to scale up both climate finance and ODA.



- Developed countries should aim for climate finance flows of \$100 billion per year.
- Increase adaptation finance to equal mitigation finance; prioritize grant finance for LDCs and small island developing States.
- More work needed to understand how best to capture financing global public goods.



International Trade as an Engine for Development

1. World trade in 2020 contracted by about 9% from the previous year, with trade in goods declining by 6% and trade in services declining by 16.5%.



2. Life-saving vaccines and medical supplies still bypass many countries.



- The international community should continue efforts to **keep markets open** to ensure equitable **flows of essential goods and services** in times of crisis.
- The international community must **reject vaccine nationalism and protectionism**, and meaningfully improve access for all countries to COVID-19 vaccines.
- Countries are encouraged to fully **meet their transparency obligations** on trade measures taken to fight the pandemic and its socioeconomic impacts and ensure that these measures are **consistent** with their WTO commitments.

Between April and August 2020, each citizen of high-income countries has received, on average, 10 times more imports of medical supplies than those living in middle-income countries.



3. The COVID-19 crisis prompts us to look at trade through the lens of an inclusive and sustainable recovery.



- Reforms of the **multilateral trading system** are needed to address, inter alia, the functioning of the **dispute settlement system** and reaching agreements on key issues under negotiations, such as fisheries subsidies.
- Trade and international investment agreements can be continually **modernized** with a view to enhancing their contribution to sustainable development.

4. Making trade more inclusive also 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.

5. The digital divide within and across countries persists and prevents equitable sharing of benefits from the digital economy and e-commerce.



- 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

1. Debt levels and debt risks are rising across the world, but international support has prevented a systemic crisis so far.

100% Global public debt has reached almost **100%** of gross world product.

56% Despite international support, more than half of the poorest countries are at high risk or in debt distress.

2. COVID-19 has exacerbated long-standing debt challenges . . .

Debt service has been increasing in developing countries over the last decade.



- In SIDS, median debt service represents **30%** of revenue.
- Debt service exceeds **40%** of revenue in a quarter of developing countries.

... due to both rises in level and changes in the composition of debt, increasing debt servicing costs and rollover risks.

3. Debt crisis prevention remains a priority.



- This requires enhancing transparency by borrowers but also creditors.
- Innovative instruments such as debt swaps and state-contingent instruments can finance additional SDG investment and prevent future crises.

4. The crisis presents an opportunity to strengthen the debt architecture.

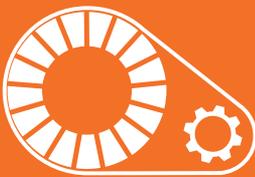


- Balance sheet analysis can better match long-term investments with long-term liabilities.
- Market-based approaches to debt resolution can be further enhanced.
- Statutory instruments at national and global levels must be used in case of a systemic crisis.

5. The Common Framework can be a step toward a more universal framework for debt workouts.



- Increasing complexity of the debt landscape has further complicated debt resolution.
- Further work is needed to arrive at a universal and permanent framework for efficient sovereign debt resolution.
- The UN provides a forum for informal and inclusive dialogue to advance proposals.



Addressing Systemic Issues

1. Emergency financing, and debt service relief for the poorest countries, helped address urgent liquidity and balance-of-payment needs in 2020 – but external financing needs remain high.



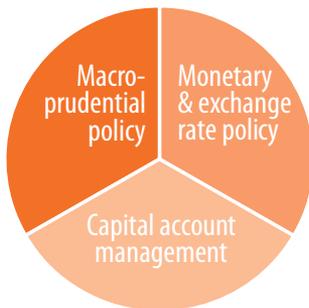
A **new allocation** of **Special Drawing Rights** would supplement countries' official reserves; its impact could be strengthened by a **voluntary reallocation** to countries most in need.

Many countries will need **additional long-term** and low-interest finance to support more inclusive, sustainable and risk-informed development.

*At the end of January 2021, the IMF had approved **\$105.5 billion** for **85 countries**.*



2. Managing the consequences of capital flow volatility remains an important challenge.



Integrated Policy Frameworks can bring together the full policy toolkit – as part of **integrated national financing frameworks** – to manage excess leverage and volatility in domestic and cross-border finance.

The **international community** should be mindful of **spillovers from domestic policy choices**.

3. 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 financial intermediation based on the function it performs** rather than the type of institution involved.

Regulators also need to ensure **that so-called “stable coins”** comply with financial stability and integrity requirements.

4. Monetary and regulatory authorities need to further address the impact of climate risks.



Policymakers should set **mandatory reporting standards** for financial institutions and integrate climate risk scenarios in **financial stress tests**.

Central Banks should continue to **integrate climate risks into policy frameworks**, to safeguard **financial stability**, and consider the **climate impact** of their own policy actions.

5. The COVID-19 crisis is an opportunity to build consensus around necessary reforms to the global architecture and align financial, investment, trade, development, environmental and social policies.





Science, Technology, Innovation and Capacity Building

1. Science, technology and innovation (STI) have 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.

2. 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; and **women and girls** lack equal access and training in digital skills.
- **Public and private actors** together need to mobilize an estimated **\$428 billion** 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.

3. Policy guidelines and regulations are needed to reduce risks such as new forms of exclusion, mis- and disinformation, and ensure a level playing field.



- More **transparent algorithms**, guidelines for the **ethical use of Artificial Intelligence**, and more **diverse views in the innovation process** can help overcome new forms of exclusion.
- **Regulatory frameworks**, including antitrust regulation, are needed to reduce the market power of **large digital platforms** – including in **fintech** – and create a **more level playing field**.

4. STI can help reduce the likelihood and impact of shocks and build more resilient societies.



- **Mission-oriented innovation** can help reduce risks and build resilience, by setting incentives towards specific **technological, environmental or social goals**.

5. Enhanced development cooperation, STI-investment 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

1. National statistical offices (NSOs) are responding to the COVID-19 pandemic, but many need assistance in filling major existing 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**.

■ **Governments need to view data as a strategic asset**



- The **global data community** should accelerate action to implement the **Cape Town Global Action Plan for Sustainable Development Data (CTGAP)** and the **Dubai Declaration**.

- **Supporting global alliances**, such as the Bern Network on Financing Data for Development, can foster **innovative funding mechanisms**.



- **National and international efforts** are needed to harmonize **company sustainability reporting**.

2. The COVID-19 pandemic has exacerbated global data inequalities.



- **Low- and lower-income countries need a step-change** in financial support, equipment and infrastructure, and technical assistance **to strengthen capacities.**
- **Investments in civil registration and vital statistics and geospatial information sources** must be a **priority.**

3. Open data has played an important role in the global response to the COVID-19 pandemic.



- **Updated data governance frameworks** are needed to harness their potential.
- This includes resolving questions of **data quality, timeliness, completeness, availability and access**, as well as **privacy and data security** concerns.
- The **international community** should **set standards.**
- **NSOs**, together with **international support**, should **update governance frameworks** to realize the opportunities of open data for the public good.

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