



Financing for Sustainable Development Report 2021

Inter-agency Task Force on Financing for Development



United Nations

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The online annex of the Task Force (<http://developmentfinance.un.org>) provides additional data and analysis on progress in implementation of the Financing for Development outcomes, including the Addis Ababa Action Agenda and relevant means of implementation targets of the Sustainable Development Goals.

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Overview and key messages



Overview and key messages

This is the second report of the Inter-agency Task Force written amidst the COVID-19 pandemic. In the spring of 2020, in the early phases of the pandemic—just as the world embarked on the Decade of Action to deliver the SDGs—the Task Force warned of the threats COVID-19 posed to realization of the 2030 and Addis Agendas. A year later, these threats have materialized. At the same time, unprecedented crisis response measures provide a unique opportunity to change course and put the world on a more sustainable, inclusive and risk-informed development trajectory.

COVID-19 has dramatically set back SDG progress, and affected all aspects of financing for development: the global economy has experienced the worst recession in 90 years, with the most vulnerable segments of societies disproportionately affected; around 120 million people have fallen back into extreme poverty; 114 million jobs have been lost; tax revenues, foreign direct investment, trade and remittances have decreased; and debt vulnerabilities increased along with the rise in debt levels.

This is despite a large-scale, if highly uneven, policy response. Unprecedented fiscal and monetary measures—USD 16 trillion in fiscal stimulus, and emergency measures by central banks—have cushioned the socio-economic impact of the pandemic in developed countries in particular, even when they could not prevent a heavy death toll. A systemic financial crisis has been averted, with some market indices reaching new highs. The tech sector has done particularly well, driven by accelerated digitalization in response to social distancing and other measures during the pandemic. But for many, the pandemic's impact has been devastating. Many developing countries in particular face tight fiscal constraints, creating a bifurcated global response. Widespread access to vaccines is imminent in rich countries but in the majority of countries it remains many months (and for some of the most vulnerable countries years) away. The fight against the pandemic is far from over.

Immediate action to avoid a lost decade for many

The world is thus still in firefighting mode. The focus must remain on containing the pandemic and addressing its socio-economic fallout for all. *There is a grave danger of a sharply diverging world*—with one group of countries recovering on the back of strong stimulus measures and digital acceleration, and many others sinking deeper into a cycle of poverty, hunger, unsustainable debt and austerity—*potentially facing another lost decade of sustainable development* and failing to achieve the SDGs. Preventing this scenario must be a foremost priority in global recovery efforts. The 2021 Financing for Sustainable Development Report of the Inter-agency Task Force focuses on this urgency and calls for:

- *Meeting ODA commitments* and providing *fresh concessional financing* for developing countries, especially LDCs, along with replenishing the capital of MDBs as needed; sustaining a high level of positive net flows at highly concessional terms to IDA-eligible countries through a successful replenishment of IDA20; *Fully funding the Access to COVID-19 Tools (ACT) Accelerator*, to ensure rapid and equitable access to vaccines, diagnostics and therapeutics;
- Provision of a new allocation of *Special Drawing Rights* (along with voluntary use of SDRs of countries in strong external positions to help countries most in need) in support of liquidity for developing countries to fight COVID-19 and its economic/social fallout; an *extension of the G20 Debt Service Suspension Initiative* as circumstances demand; and debt treatments from official bilateral and commercial creditors for countries with unsustainable debt levels or protracted financing gaps.

Rebuilding better: investing in a sustainable recovery and fixing the system

The COVID-19 crisis has also exposed vulnerabilities and inequalities in the financial system and the global economy, which necessitate urgent reform. First, it has underlined the systemic and interlinked nature of risk in a tightly intertwined world—where a health crisis disrupts global trade and financial flows, and where climate-related risks loom increasingly large. Second, it has highlighted underlying vulnerabilities that have accumulated in the global economy over decades: financial markets remain short-term oriented, highly leveraged, and often disconnected from the real economy; and many countries are overindebted—around half of least developed and other low-income countries were at high risk of or in debt distress even prior to the COVID-19 shock. Third, it has further accelerated digitalization of economies and societies—allowing for business continuity, but also further underlining inequalities in access to and use of digital technologies. Fourth, it has revealed the lack of resilience in many parts of our economies and societies, including through insufficient investment in health and social protection systems to protect households in the event of crises. Climate change is compounding threats across all these dimensions and will create catastrophic damages if current policies and growth paths continue. In short, the pandemic has reminded us that to achieve the SDGs, we need financing for investments in sustainability, risk reduction and resilience, along with sustainable, risk-informed and resilient financing.

The 2021 Financing for Sustainable Development Report puts forward proposals to *change this trajectory*, with concrete ideas to (i) *invest in people and a sustainable and risk-informed recovery*; and (ii) *reform the global financial and policy architecture*, to ensure that it is supportive of a recovery and aligned with the 2030 Agenda.

As first steps all governments should:

- align their recovery packages with the SDGs and climate targets, including through integrated financing approaches; and refrain from lifting support measures prematurely to safeguard the recovery and protect the most vulnerable; and
- pursue progressive fiscal systems to address rising inequalities and use taxes to better align behaviour with sustainable development, such as through carbon taxes.

Investing in people

The crisis response creates an unprecedented opportunity to redesign the social contract. Household vulnerability is closely linked to lack of SDG progress: poverty, inequality, education, health and at times social or ethnic status, gender, disability and environmental concerns all determine household vulnerability. Crisis response packages that focus on prevention, risk reduction and protection of the most vulnerable can stimulate economic growth, while strengthening resilience to future shocks and helping achieve the SDGs.

Governments should prioritize:

- spending on social protection and health, with international support to help the poorest countries, including to build social protection infrastructure (which can be scaled up in times of crises); in the medium term financing social protection floors can also be supported by scaling up counter-cyclical financing;

- investments in human capital, including digital skills, to help develop a workforce for the 21st century; and
- modernizing labour market policies, social protection systems, and fiscal policies to reflect the realities of an increasingly digitalized world and changing global economy.

Investing in sustainable and resilient infrastructure and innovation: enabling ultra-long-term financing and investment strategies

Investment in people must be complemented by investment in sustainable and resilient infrastructure, along with increased investment in innovation. Such investments can combat climate change, create employment, stimulate growth, reduce risks and build resilience to future crises. Productive investments in the capital stock should also improve debt sustainability in the long-run, even while raising debt levels in the near term.

A sustainable and resilient infrastructure push, along with investment in human capital, is entirely feasible in most developed countries, in part due to extraordinarily low interest rates that enable access to cheap finance. But many developing countries do not have fiscal space for such investments. Without additional support, they will be left behind. Providing access to relatively short-term market finance alone is not the answer—as in some countries this will exacerbate risk of debt distress; nor is relying on private finance to fill all the gaps, which is suitable in some but not all SDG contexts. Solutions rely on development strategies with very long-term lending and investment horizons.

- First, official lenders should make *very long-term sustainable* finance available to countries, by:
 - extending maturities of lending and exploring options to *provide grants or ultra-long term (e.g. 50 years) financing* to developing countries for investment in long-term growth and sustainable development; and offering more *fixed-interest lending* so countries can take advantage of ultra-low global interest rates;
 - *Debt swap initiatives* have been, or are being launched in several regions, and could be further expanded;
 - including *state-contingent elements in public debt* to ‘automatize’ moratoria in times of crisis, and to set a precedent for private markets; and
 - In this context, longer-term balance sheet analysis could help countries design instruments that can reduce debt vulnerability risks while facilitating long-term investments. This would also allow them to more consistently take long-term risks such as climate change into account, as well as to incorporate the positive feedback effects of long-term investments on economic growth.
- Second, the international community needs to better leverage public development banks (PDBs) as a tool for sustainable development investment. In many countries, PDBs were instrumental in supporting the COVID-19 crisis response, including those newly established by countries of the South. Well-managed PDBs can allow for a more transparent accounting of both public liabilities and associated assets—in essence they can ringfence assets and borrow against them.

- The international community can help *strengthen the system of development banks*; for example, cooperation between national and multilateral banks can help banks build capacities while also leveraging local knowledge; continued research on appropriate *capital, risk management and SDG reporting frameworks* can support PDB governance and risk-informed lending for SDG investments.
- Third—blended finance can play a role, but needs to focus on where it can add the most value. Support from the official sector can often *include non-concessional official lending* in support of commercial finance, rather than relying mostly on concessional finance. For example, loans that include equity-like elements could support investment in digital technologies in developing countries, including LDCs. This would allow public actors to share in the possible financial upside, and not divert concessional resources from the social sector. To increase efficiencies and better leverage risk capital, bilateral and/or MDB official resources could be *pooled into a blended finance fund or build on existing funds*.
- Fourth—the private sector has a critical role to play in financing sustainable investments, including in developing countries. However, the current business model – focused on short term financial returns for shareholders—is not conducive to support business’ contributions to the SDGs. *Policy makers can help facilitate a new business model that works for everyone*, not only for shareholders, by:
 - accounting for the effects of private activity on environmental and social impacts, including by pricing externalities such as carbon emissions; requesting transparency on businesses’ plans to align their activities with sustainable development; and making corporate governance more long-term oriented;
 - reorienting capital markets toward investing in sustainable development-aligned priorities, by encouraging the removal of short-term incentives along the investment chain, as called for in the Addis Ababa Action Agenda, and mitigating the risk of SDG-washing in investment practices.
- Fifth, by *improving enabling environments*, Governments can also further mitigate investment risks (e.g. in the context of an integrated national financing framework, INFF); such measures should be complemented by international support to help developing countries in addressing the challenges of financing the 2030 Agenda.
 - meets the needs of developing countries, and effectively reduce harmful tax competition; and better using technologies to combat illicit financial flows (chapter III.A);
 - further consolidating existing sustainability reporting frameworks to ensure global coherence, mandating a minimum level of corporate disclosure, using the strong momentum in this area to realize ambitious changes; and developing coherent taxonomies and setting appropriate incentives to encourage investors to help spearhead transformation of the companies in which they invest (chapter III.B);
 - developing strategies for better international crisis coordination and risk reduction in development cooperation. Country-owned Integrated national financing frameworks (INFFs) can provide a basis to translate country priorities into concrete asks for development partners (chapter III.C);
 - revamping the multilateral trading system to make it fully effective and responsive to sustainable development priorities (chapter III.D);
 - continuing efforts towards greater debt transparency, responsible lending and borrowing, and building on the recently adopted G20 Common Framework for debt treatments beyond DSSI to improve the international debt architecture, toward a more efficient framework for sovereign debt resolution (chapter III.E);
 - further strengthening the global financial safety net, and closing gaps that were highlighted in the last 12 months; incorporating climate risk considerations into policy frameworks and financial regulation, e.g. by setting mandatory reporting standards and integrating climate risk scenarios in financial stress tests (chapter III.F);
 - building an inclusive digital economy, including by ensuring affordable internet access and digital literacy for all; strengthening global norm-setting and national regulatory frameworks to address risks from the digital economy, including an increase in market concentration (chapter III.G).

Strengthened multilateralism and new forms of global cooperation—that bring different policy communities together and give voice to those most vulnerable to shocks and crises—are needed to address the systemic nature of climate, pandemic and other global risks, address inequalities and achieve the SDGs. The current crisis is an opportunity for the international community to build consensus around necessary reforms to align financial, investment, trade, development, environmental and social policies and institutions to avoid a global climate catastrophe, build resilience, and achieve the SDGs.

The United Nations can serve as a unique platform to bring together health, climate, economic, social and other policy domains at a global level, including through discussions at the UN General Assembly, the *ECOSOC Forum on Financing for Development Follow-up*, the 15th UNCTAD Conference on Trade and Development, and the Secretary-General’s joint initiative, with Canada and Jamaica, on *Financing for Development in the Era of COVID-19 and Beyond* (see box 1).

Future-proofing the system

Investment alone will not suffice. Often it is gaps in the international financial architecture, or policy incoherence at national and international levels that undermine financing for sustainable development. To achieve the SDGs, we must “future-proof” the policy and institutional architecture, at national and global levels. This entails updating tax policies, capital market rules, development cooperation, trade, debt, financial sector regulations, and competition policies to ensure that these are in line with the new realities, including an increasingly digitalized economy and systemic nature of risk. Indeed, it requires actions across the chapters of this report, including:

- ensuring that a final agreement on proposals in relation to taxation in the context of a digitalising economy address the concerns of and

Box 1: High-level events on Financing for Development in the Era of COVID-19 and Beyond

To address the socio-economic fall-out from the COVID-19 pandemic and its potential to derail progress towards the Sustainable Development Goals, the Secretary-General together with Canada and Jamaica convened a series of high-level events on Financing for Development in the Era of COVID-19 and Beyond. Discussions kicked off during a high-level event on 28 May 2020 that brought together UN member states, international organizations and other key partners. The meeting led to the formation of six working groups on: (i) external finance and remittances, jobs and inclusive growth; (ii) recovering better for sustainability; (iii) global liquidity and financial stability; (iv) debt vulnerability; (v) private sector creditors engagement; and (vi) illicit financial flows. A high-level meeting of Ministers of Finance on 8 September 2020 provided further inputs before the final meeting of Heads of State and Government on 29 September 2020. World leaders agreed that the international community must support efforts to build back better by fostering more inclusive, resilient and sustainable economies and societies.

The working groups brought together Member States, supported by the broader UN-system, and came up with a menu of policy options across all action areas of the Addis Ababa Action Agenda. These options do not represent a negotiated outcome among countries but provide guidance

on concrete actions that individual countries, international financial institutions, regional organizations, and the global community at large could undertake to overcome the crisis and steer the recovery towards the attainment of the 2030 Agenda for Sustainable Development.^a

These options reflect a wide array of perspectives and priorities that can inform the future work of the Inter-agency Task Force on Financing for Development. To prepare the 2021 FSDR, the Task Force has reviewed these policy options and discusses key recommendations in each of the chapters. A range of networks could also take the options up in their work streams, including the Economic and Social Council, the members of the Group of Friends on SDG Financing and entities within the UN Development System. The United Nations Deputy-Secretary General has designated six UN-entity led clusters to provide continued technical and policy advisory support, focusing on sustainability and climate action; socio-economic response; finance and technology; liquidity and debt vulnerability; illicit financial flows; and addressing special country needs.

This report builds on the recommendations from the Discussion Groups that the Task Force chose to highlight as options for implementation. The recommendations from this report will in turn inform the six cluster groups.

Source: UN DESA.

^a United Nations. 2020. *Financing for Development in the Era of COVID-19 and Beyond: Menu of Options for the Considerations of Heads of State and Government. Part I*. New York: United Nations; United Nations. 2020.

About this report

The themes covered in the report respond to the request made by Member States in the 2020 ECOSOC Forum on Financing for Development Follow-up. Member States asked the Task Force to review the impact of the COVID-19 pandemic on Financing for Sustainable Development, and to assess and propose options for sustainable financing going forward. To this end, the thematic chapter of the report is adopting a risk lens to assess the impact of the COVID-19 pandemic, climate change and other risks to sustainable finance. Together with the seven chapters of the report, which follow up on the chapters of the Addis Ababa Action Agenda, it provides guidance to Member States to ‘rebuilding better’ toward a more resilient future.

The 2021 *Financing for Sustainable Development Report* of the Inter-agency Task Force 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 is sustainable and resilient, and that 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.

In chapter III.A on domestic public resources, main issues include: using COVID-19 fiscal stimulus packages to support sustainable development,

including through building social protection floors; raising resources and using fiscal systems to combat inequality; strengthening international tax cooperation and fighting illicit financial flows; and aligning fiscal systems with sustainable development. In chapter III.B on private business and finance, main issues include: scaling up private investment in recovery; improving financial inclusion and reducing remittance transaction costs; mobilizing capital markets; and making the private sector and financial markets more sustainable. In chapter III.C on international development cooperation, main issues include: ODA, along with other forms of development cooperation; lessons from the crisis for development effectiveness; and international public finance for climate change and disaster risk reduction. In chapter III.D on international trade as an engine for development, main issues include: the role of trade in supporting public health, reforms of the multilateral trading system; trade policies consistent with the SDGs, including investment treaties; as well as e-commerce and trade financing gaps. In chapter III.E on debt and debt sustainability, main issues include: debt trends and debt crises risks in the context of COVID-19; the immediate policy response to prevent liquidity crises and create fiscal space for investments in recovery and the SDGs, and improvements to the debt architecture. In chapter III.F on addressing systemic issues, main issues include: the international crisis response and the role of the global financial safety net; policy options for managing capital flow volatility; financial regulatory reforms and the role of climate risks; the growing role of digital finance; and how to strengthen global governance and coherence. In chapter III.G, on science, technology and innovation (STI), main issues include: the role of digital technologies in the COVID-19 response; the broader contribution of STI to addressing complex risks and building resilience; and the contribution of the United Nations system towards

progress of STI for the SDGs. Finally, in chapter IV on data and monitoring, main issues include: development cooperation in support of statistical systems and the role of big data for the 2030 Agenda.

This 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—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 the report.

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