

2020 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*

<http://developmentfinance.un.org>

2020 FSDR - Outline



Financing^{for} Development

Global
Economic
Context

Thematic Chapter:
Transformative
Digital
Technologies

Domestic
Public
Resources



Private
Business
and Finance



Development
Cooperation



Trade



Debt



Systemic



Technology
and Capacity



Data

Inter-agency Task Force on Financing for Development

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Main Messages from the 2020 FSDR:

The global context

- The global **economic recession** and **financial turmoil** from **COVID-19** are derailing the **Addis Agenda** and the **SDGs**;
 - Collapsing trade and investment
 - Investors **removed around USD \$90 billion** out of emerging markets as of March -- the largest outflow ever recorded.
- But **even before the pandemic**;
 - ODA fell 4.3%; ODA to LDCs fell 2.2% in 2018
 - 1/5 countries were likely to see per capita incomes stagnate or decline in 2020.
 - Rising vulnerabilities in non-bank financial institutions



Particularly worrisome is the prospect of a **new debt crisis**

- COVID-19 has enormous fiscal impacts...and
- Exacerbates risks of a debt crisis!
 - **44%** of LDCs and other LICs were already at high risk of or in debt distress
 - **25%** of public revenue was used for debt payments in frontier economies
- Global debt will rise further..
 - In Africa alone, **6** additional oil-exporters, as well as tourist dependent countries, are at high risk of shocks and debt distress
 - Public debt will rise further in response to COVID-19
 - Highly-leveraged corporations are vulnerable to shocks – COVID-19 could turn into a protracted crisis



Main Messages from the 2020 FSDR:

Immediate actions and medium-term policy solutions required

- **A globally coordinated stimulus package**, including reversing 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/revisit existing mechanisms
- **Stabilize financial markets by continuing to inject liquidity:**
 - Use of capital account management;
 - In the medium-term, explore regulatory frameworks to limit over-borrowing for non-productive investments, such as repaying shareholders.
- **Partnering with the private sector:**
 - In the short term, roll over debt to SMEs and individuals;
 - In the medium-term, promote sustainable investment: e.g. **Mandatory disclosures; minimum standards for investment products**; advisors required to ask about sustainability preferences

Main Messages from the 2020 FSDR:

Additional policy solutions

- **Building back better for sustainable development:**
 - Public and private investment in sustainable development including in resilient infrastructure;
 - Strengthened social protection systems;
 - Investment in crisis prevention, risk reduction and planning;
 - Eliminate trade barriers and restrictions that affect supply chains.

- **Digital technologies present tremendous potential for the SDGs, as highlighted by the use of technology to respond to the COVID-19 pandemic. But the pandemic has also highlighted inequities in access. And digital technologies raise new risks and challenges.**
 - Public policies should be adjusted to accelerate progress, address exclusion and risks of discrimination, and ensure benefits for the society at large, including decent jobs.

Thematic chapter: Financing sustainable development in an era of transformative digital technologies

- **Digital technologies** have unique properties that enable **inclusion** and **efficiency**...
 - *It is much cheaper to gather, process and search for information*
 - *Digital goods and services have almost zero transportation costs*
 - *Digital goods can be reproduced at zero cost*
- and create **opportunities across** the Addis Ababa Action Agenda:
 - *financial markets*: access to financial services;
 - *public financial management*: efficiencies in public financial management
 - *development pathways*: access to global markets and international trade
- ... but they also create **inequities, new risks** and **uncertainty**!
 - *Automation and AI threaten jobs and can increase wage inequality*
 - *Algorithms inherit historic biases that exacerbate discrimination (credit screening)*
 - *“Winner take most” and market concentration across sectors and borders.*



Thematic chapter: Financing sustainable development in an era of transformative digital technologies

- **Countries must prepare for and invest in digital technologies, always putting people first:**
 - Take a *strategic approach* to digital technologies and finance!
 - Invest in *basic building blocks* (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!*



Thematic chapter: Financing sustainable development in an era of transformative digital technologies

PUTTING PEOPLE AND DECENT JOBS FIRST

Financing policy responses to the digital revolution – a strategic approach

Put in place basic building blocks:

- STI and complementary infrastructure
- regulatory frameworks
- digital skills

Adapt financing policies and institutions:

- financial market regulation
- public financial management and taxation
- the 'real economy': investment, trade, technology and related policies

Use digital technologies for achieving the SDGs:

- for inclusive, stable and long-term oriented financial systems
- for enabling sustainable growth paths
- for achieving equitable outcomes





Financing for Sustainable Development Report 2020

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Thank you!



Financing
for
Development

Additional slides



Domestic public resources

- COVID-19 will have enormous fiscal impacts
 - Expanding health spending to address the public health crisis
 - Falling tax revenues
- Even before the pandemic, progress in tax mobilization was insufficient to match the ambition of the 2030 Agenda
 - **53** developing countries **increased tax revenues** from 2017-2018, while **46** countries **registered a decline**
- Technology can support 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





Domestic public resources

- New tax norms related to digitalisation need to be better adapted for developing countries
 - New proposals are extremely complex, may be inappropriate for developing countries
 - A new tax architecture also needs effective inclusion in tax norm setting & greater investment in tax capacity building from development partners
- To help combat illicit financial flows, new technology, such as AI, can enable better identification of suspicious activity
 - **1/3 of tax transparency peer review recommendations** related to the need to improve country's implementation of beneficial ownership transparency
- Expenditure frameworks should be aligned to the SDGs, such as:
 - Strategic procurement
 - Gender responsive budgeting
 - Disaster risk reduction a& resilience





Private business and finance

- **Weak** private investment, but **sustainability** issues are receiving greater consideration:
 - i. Weakening outlook for private investment over the last decade - amplified by the COVID-19 crisis (investment fell 24.5% during Jan-Feb in China);
 - ii. Low investment growth in traditional assets and infrastructure prior to the crisis; higher growth in digital technology;
 - iii. Weak foreign direct investment (FDI), but a shift to developing countries; and
 - iv. Greater interest in sustainability, with a focus on climate-related risks.
- Policymakers should **strengthen the business enabling environment** by targeting investment constraints.

115 economies undertook 294 business regulatory reforms but there remains space for improvement (e.g., women cannot run a business the same way as men in 115 countries)





Private business and finance

- **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

- Private business and finance must **incorporate greater sustainability**. This requires:
 - i. Adjusting corporate governance, aligning internal incentives (such as remuneration criteria for CEOs), and addressing persisting short-termism in capital markets;
 - ii. **Mandatory disclosures by large companies** on a minimum set of harmonized environmental and social indicators;
 - iii. **Minimum standards for investment products** to be marketed as “sustainable”;
 - iv. Investment advisors asking their clients about their **sustainability preferences**





International development cooperation

- Need for increased concessional finance and reversing the decline in official development assistance (ODA):
 - **ODA** to developing countries fell by **4.3%**,
 - **ODA** to least developed countries fell by **2.2%**
- Covid-19 also underscores the importance of preparedness
 - Including efficient, predictable and quick-dispensing ex-ante instruments, with incentives for risk reduction
- 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
- Development financial institutions can learn from innovations to raise resources
 - E.g. merging concessional windows and synthetic securitization





International development cooperation

- Innovations in public finance instruments are changing the landscape of development cooperation, but are not a panacea
 - Traditional ODA remains important – innovations can make aid more effective and leverage private finance
 - *Examples instruments include: securitization, catastrophe risk pooling, and green bonds*
- Switch from a search for bankability to a search for impact in blended finance
 - Don't aim to maximize leverage ratios! -- LDCs will have lower leverage, different structures
 - Blended finance should be driven by country needs
 - Capacity development support critical
- 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
- Need to link plans, strategies and resources & align interventions to country priorities – country-owned Integrated National Financing Frameworks can help





International trade as an engine for development

- Preliminary data for 2019 suggests that the value of world trade **contracted by 3%**; the COVID-19 crisis will have a significant impact on trade, particularly trade in services.
- Countries need to **curb the imposition of new trade-restrictive measures** and reducing 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**.*
- The global trading system under the **WTO need to be preserved**, strengthened and made more reactive to the 21st century geo-economic realities





International trade as an engine for development

- Immediate actions are required to address the challenges faced by LDCs, 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 merchandise export revenue)*
- E-commerce allows businesses, big and small, to reach a broader network of buyers and participate in global value chains
 - *Wide variations in e-commerce readiness and the rise of dominant players enhance the risk of benefits from e-commerce being unequally distributed*
- Trade finance gaps can be reduced by helping local banks leverage technology to digitalize paper-intensive products and streamline verification processes





Debt and debt sustainability

- COVID-19 further exacerbates debt risk that were already elevated in many developing countries
 - **44%** of LDCs and other LICs were already at high risk of or in debt distress
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- Both creditors and debtors should prioritize long-term borrowing for productive investments that can create fiscal space





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Debt and debt sustainability

- Immediate global action is needed to create fiscal space for the 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.*
- Fiscal space for the SDGs must be increased beyond the crisis
 - *Innovative instruments such as debt swaps can be a funding source for SDG investment*
- It is time to revisit existing mechanisms for sovereign debt workout
 - *More complex debt instruments and the rise of non-traditional creditors has complicated debt resolution*
 - *Further work is needed to revisit existing mechanisms and arrive at a fair, effective and timely international process for debt resolution*





Addressing systemic issues

- COVID-19 is causing investors to flee to safety, widening bond spreads and setting the stage for currency, debt and financial crises
 - The international monetary system remains vulnerable to volatility and contagion
- 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
- Step up efforts to track and regulate financial intermediation based on function rather than type of institution
 - Innovative financial technologies and instruments can help sustainable development...
 - ... but they can also create pockets of leverage that present economic and social risks.

30% of global financial assets are managed by non-bank financial institutions with lower levels of regulation, far surpassing pre-2008-crisis levels.





Addressing systemic issues

- Regulations on the operation of private digital currencies by jurisdiction
 - Critical considerations: financial stability, financial integrity, consumer protection, privacy, sustainable development impact
- 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
- Integrated policy frameworks – can help manage excess leverage and volatility in the domestic and cross-border finance





Science, technology, innovation and capacity-building

- New digital technologies enhance the capacity of countries to respond to global emergencies like the Covid-19 pandemic
 - *Digital technologies enable work, learning and communication*
 - *but many are not able to take advantage because of lack of access*
- Access to technologies remains uneven
 - *Almost half the world is not connected to the internet*
 - *While gaps in access are closing, growth is slowest in LDCs*
- Strengthen capacities in science, technology and innovation (STI) to achieve the SDGs
 - *Innovations should respond to society's needs and contribute to sustainable development, e.g. be labour-enhancing rather than labour-replacing.*





Science, technology, innovation and capacity-building

- Fintech has been an important driver of financial inclusion
 - *Mobile money providers enable more people to send and receive digital payments*
 - *Financing platforms have reduced financial intermediaries and costs and increased access*
- The Technology Facilitation mechanism and the Technology Bank have been operationalized
 - *They will require continued joint efforts from Member States, supported by the United Nations systems, to deliver on their mandates.*
- International knowledge-sharing and collaboration need strengthening to ensure that no one is left behind
 - *Large gaps remain between developed and developing countries, and particularly LCDs;*
 - *Official development assistance for STI has increased in recent years, but remains low*



Data

- **Digital technologies and big data can help strengthen official statistics** for the implementation and monitoring of the SDGs.



*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*

- 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



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



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

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