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

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2020 FSDR - Outline

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Global Economic Context

Thematic Chapter: Transformative Digital Technologies

Domestic Public Resources

Private Business and Finance

Development Cooperation

Trade

Debt

Systemic

Technology and Capacity

Data

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:**
  - 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, but COVID-19 has highlighted its challenges and risks.**
  - 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:

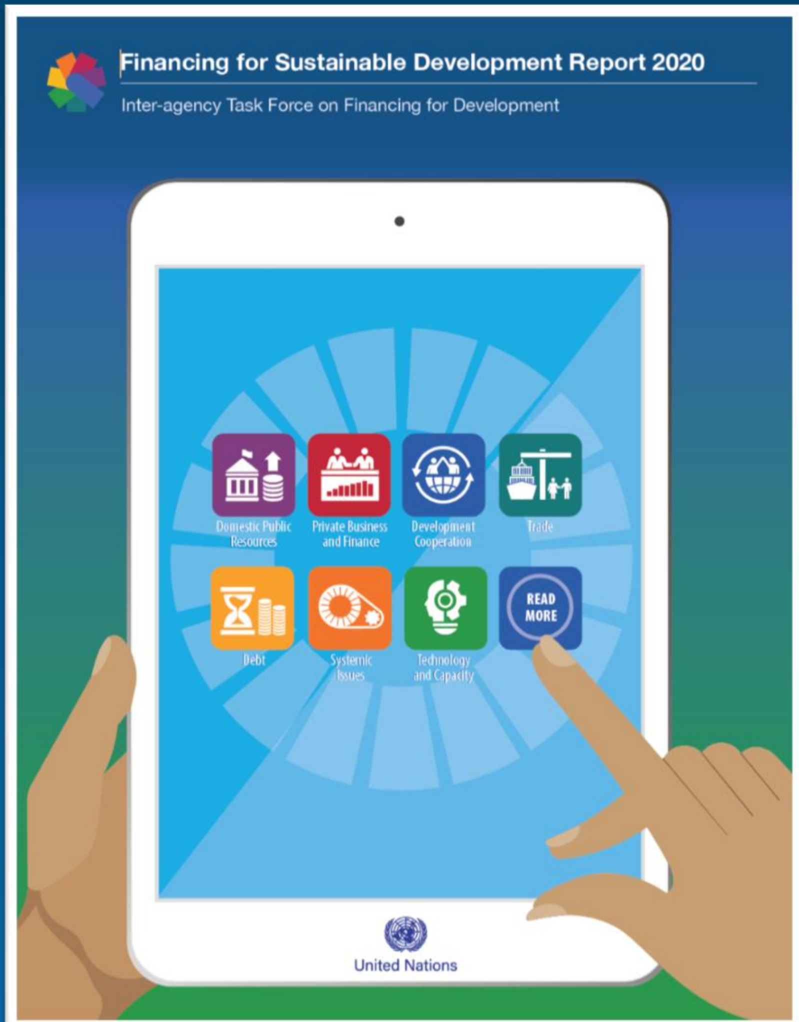
- STI and complementary infrastructure
- regulatory frameworks
- digital skills

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



Thank you!

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Additional slides

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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

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

- 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.

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*

Data

- **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**.