Financing for Sustainable Development Report 2022

Inter-agency Task Force on Financing for Development

Bridging the Finance Divide

http://bit.ly/FSDR2022

InfoPoint Virtual Conference

Bridging the Finance Divide

- Interlinked crises putting the SDGs out of reach

- Need large investment push for climate action and the SDGs
  - Social /social protection
  - Environmental/climate
  - Productive Investment -- development and climate impact

    … *and* lead to growth and create fiscal capacity to service debt

- Pandemic revealed a Great Finance Divide
  - Rich countries financed recovery
  - Poorer countries were unable to

- Exacerbated by liquidity, debt, and trade risks
  - Risk of near-term crises
  - And need for longer-term systemic solutions

- Data and technology

Since publication … even more challenging global environment

- Inflation with slow growth
  - Growth projected between 2.5 and 2.8% in 2022

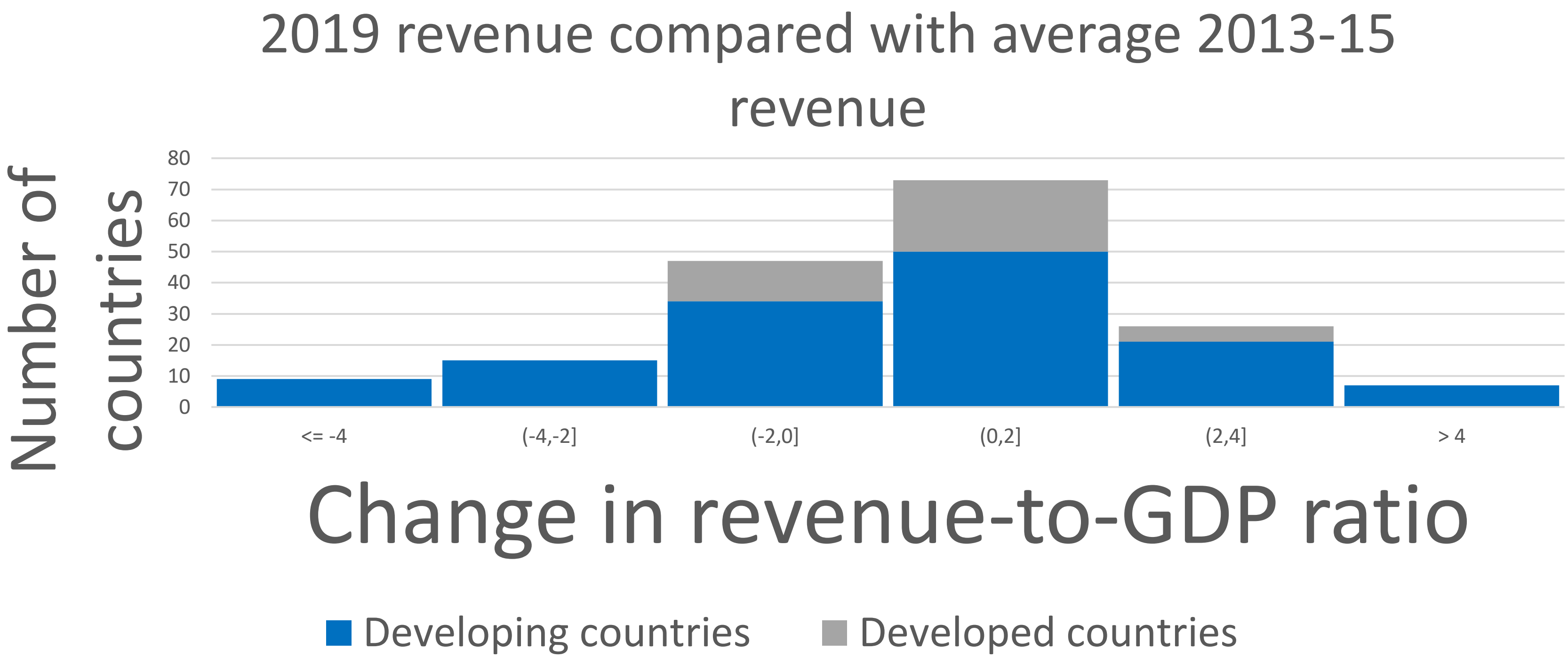
- Growing systemic risks
  - Rising interest rates/weakening exchange rates
  - $70 billion in capital outflows in the first 9 months of 2022, compared to $50 billion in net inflows in 2021
  - Financial market volatility and increasing risk of debt distress
    - ½ LDCs at high risk of debt distress; ¼ of MICs high risk of fiscal crisis
    - Leverage in the system/NBFI/fintech
  - Non-economic risks: climate-related shocks/disasters, pandemic risks, etc.

- Interlinkages between social, environmental, and economic risks

2022 FSDR recognized a ‘great finance divide’

- Developed countries financed a large-scale response to COVID-19
  - Despite high levels of debt, only 3.5% of developed country revenue spent on servicing existing debt
- Developing country response was constrained by limited fiscal space
  - Median revenue/GDP of 11.5% in LDCs vs. 24.6% in developed countries
  - With rising expenditures/social protection needs
  - High debt servicing:
    - LDCs were dedicating 14% of revenue to debt service
    - MIC SIDS not eligible for DSSI paid over 40% of revenue on average
  - Rather than investing in recovery, cut spending (education, infrastructure)
- *Even prior to the war in Ukraine:*
  - 77 million more people fell into extreme poverty in 2021
  - GDP per capita of 1/5 of developing countries was estimated to be below 2019 levels by end-2023

Pre-COVID domestic revenue mobilisation

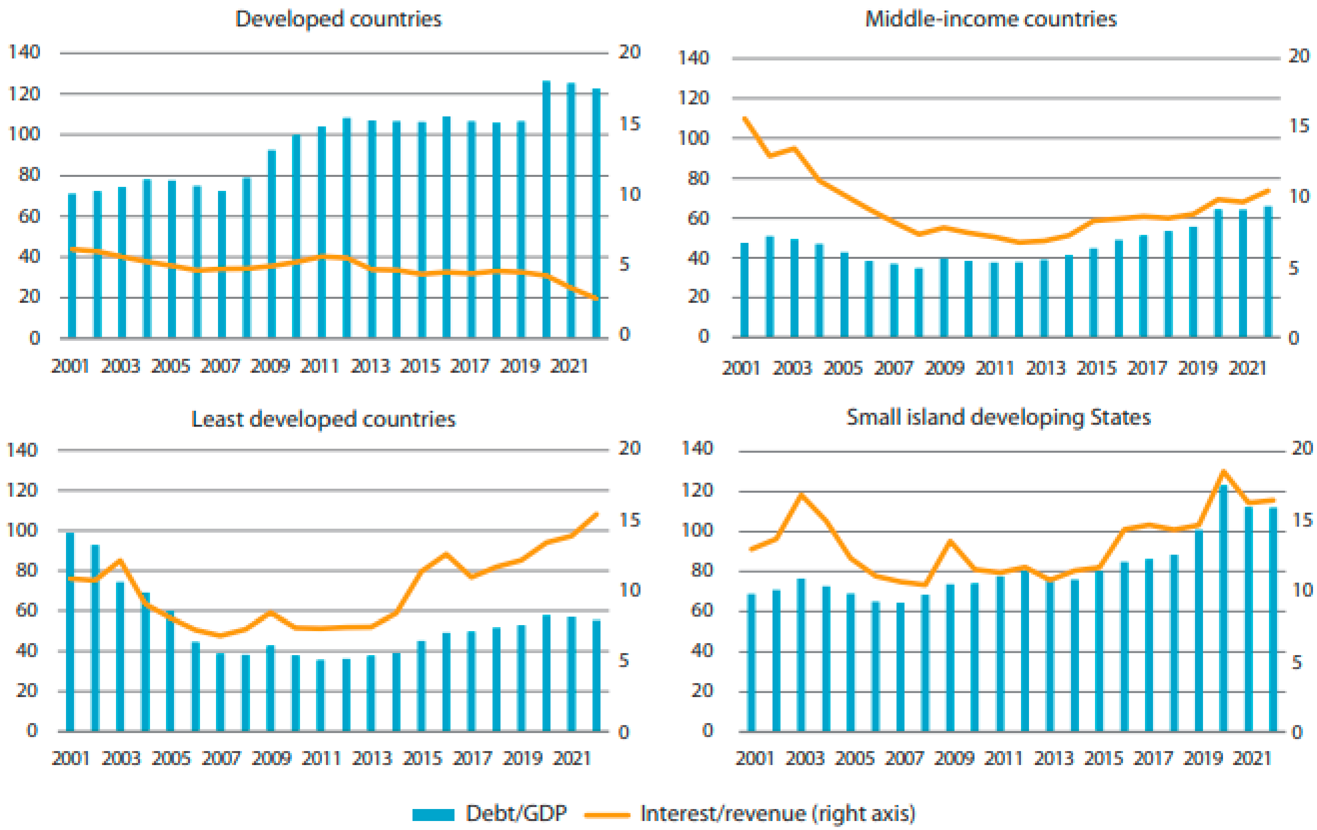


Domestic public resources

- Domestic resource mobilization
  - Tax-to-GDP ratio declined in 72% of countries in 2020
  - Revenue/GDP below 15% in 76 countries post-pandemic, including 2/3 of African countries and 60% of Asian countries
- Expenditures also procyclical
  - 47% of the global population had no access to any social protection benefits in 2020
- While economic growth is essential as a driver of public revenue…
  - sustainable revenue mobilization requires tax policy, tax administration and enforcement -- and international tax cooperation;
  - reforms should be started immediately but are not a short-term fix for deep fiscal challenges

The great finance divide

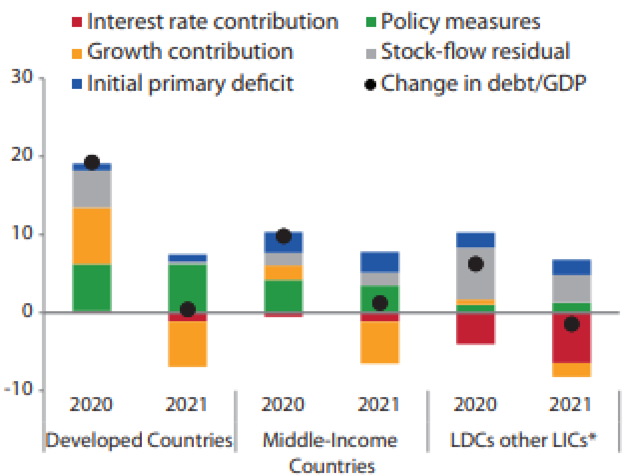
Figure II.1b
Debt stocks and debt servicing costs
(Percentages)



Debt and debt sustainability

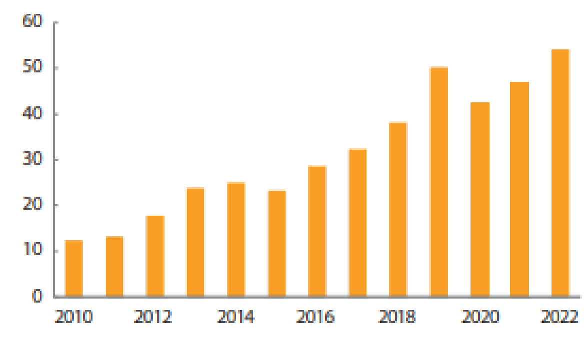
Differing debt dynamics

Drivers of change in public debt, 2019–2021
(Percentage of GDP)



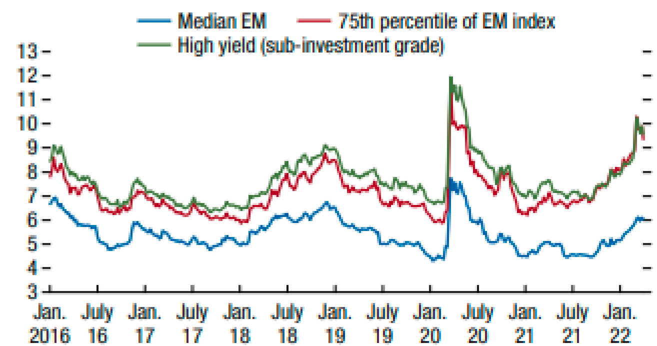
DSSI impact

External public and publicly guaranteed debt service for DSSI participating countries
(Billions of United States dollars)



Spreads increasing

3. Emerging Markets Sovereign Hard Currency Bond Yields (Percent)



Source: 2022 FSDR, IMF GFSR April 2022

Cost of Sovereign borrowing

- Credit spreads and capital flows are pro-cyclical…
  As of August 2022:
  - Sovereign bond yields over 10% for over 20 countries.
  - Capital markets effectively dried up for at least 54 developing countries.

- Capital market sovereign borrowing historically expensive:
  - Since 1995, total returns to investors (net of losses from defaults) have averaged around 6 percentage points over the risk-free rate.

- Sovereign bonds have been the best performing asset class for international investors
  - Even after adjusting for volatility

- High borrowing costs for developing countries in part reflects this capital market sovereign cost

Financing for Sustainable Development

Domestic Public Resources

Private Business and Finance

Development Cooperation

Trade

Debt

Systemic

Technology and Capacity

Inter-agency Task Force on Financing for Development

http://developmentfinance.un.org

Collective action to massively boost investment in the SDGs and address risks to sustainable development

- International public finance
  - ODA (Concessional Finance/Grants)
  - System of PDBs
  - Leverage private finance (blending re-thought)
- Reduce cost of borrowing on capital markets
  - National actions to reduce risks/global to reduce volatility
  - Longer-term credit ratings and debt sustainability assessments/liquidity vs. solvency
  - Growing interest in sustainability issues to reduce borrowing costs
- Reset financial markets
  - Regulations “same activity, same risks, same rules”
  - Sustainability: i) reporting; ii) credibility; iii) policies
- Global financial safety net / Liquidity
  - More systematic issuance of SDRs?
- Urgently address risk of debt crises

Bridging the Finance Divide: public finance and financial market development

- Domestic resource mobilization – MTRS
  - But needs to be supported by international tax cooperation
- Countries must manage and use these resources well
  - Good governance, enabling environment, and debt management reduces risks
  - Productive Investment has development impact *and* can create fiscal capacity to service debt
- Developing sustainable local capital and financial markets
- Integrated National Financing Frameworks (INFFs)

Financing for Sustainable Development Report

Inter-agency Task Force on Financing for Development

Requests from 2023 FfD outcome document

- Analyse mix of public and private finance to support inclusive and sustainable growth and development, as well as industrial transformation

- Include analysis on industrial policies and pathways to sustainable industrialization

Thank You !

http://developmentfinance.un.org