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**Follow-up and review of the financing for development
outcomes and the means of implementation of the 2030
Agenda for Sustainable Development**

Financing for Sustainable Development

Note by the Secretary-General

Summary

The present note, which highlights the main findings of the *Financing for Sustainable Development Report 2021* of the Inter-Agency Task Force on Financing for Development, provides an assessment of progress in implementing the financing for development outcomes. In the *Report*, the Task Force draws on the expertise, analysis and data collected by over 60 of its members. It analyses the global economic context and its implications for sustainable development, risk-informed sustainable finance and development, progress in the seven action areas of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development and relevant data issues.



I. Overview and key messages

1. In the spring of 2020, just as the world embarked on the decade of action to deliver the Sustainable Development Goals, the Inter-Agency Task Force on Financing for Development warned of the threats that the coronavirus disease (COVID-19) pandemic posed to the realization of the 2030 Agenda for Sustainable Development and Addis Ababa Action Agenda of the Third International Conference on Financing for Development. A year later, those 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.

2. COVID-19 has dramatically set back progress towards attaining the Sustainable Development Goals 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. Between 80 million and 90 million people have fallen into extreme poverty; 114 million jobs have been lost; tax revenues, foreign direct investment, trade and remittances have decreased; and debt vulnerabilities have increased along with the rise in debt levels.

3. These setbacks resulted despite a large-scale, if highly uneven, policy response. Unprecedented fiscal and monetary measures – \$14 trillion in fiscal stimulus and emergency measures by central banks – have cushioned the socioeconomic 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 technology sector has done particularly well, driven by accelerated digitalization during the pandemic. However, 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 most 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

4. Thus, the world is still in firefighting mode. The focus must remain on containing the pandemic and addressing its socioeconomic 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 others sinking deeper into a cycle of poverty, hunger, unsustainable debt and austerity. The world is potentially facing another lost decade of sustainable development. Preventing such a scenario must be made a foremost priority in global recovery efforts. The *Financing for Sustainable Development Report 2021* of the Inter-Agency Task Force on Financing for Development is focused on this urgency and calls for:

(a) Meeting commitments regarding official development assistance and providing fresh concessional financing for developing countries, in particular the least developed countries, along with replenishing the capital of multilateral development banks as needed, and fully funding the Access to COVID-19 Tools Accelerator initiative to ensure rapid and equitable access to vaccines, diagnostics and therapeutics;

(b) Providing a new allocation of special drawing rights (along with a voluntary reallocation of special drawing rights from countries with strong external positions to countries most in need) in support of liquidity for developing countries to fight the pandemic and its economic and social fallout; an extension of the Debt Service Suspension Initiative of the Group of 20 (G20) as circumstances demand; and debt treatments for the most vulnerable countries.

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

5. The COVID-19 crisis has exposed vulnerabilities and inequalities in the financial system and the global economy. First, it has underlined the systemic and interlinked nature of risk in a tightly intertwined world in which a health crisis disrupts global trade and financial flows and climate-related risks loom increasingly large. Second, it has

highlighted underlying vulnerabilities that have accumulated in the global economy over decades: financial markets remain oriented towards the short term, highly leveraged and are often disconnected from the real economy. Many countries are overindebted: around half of the least developed and other low-income countries were at high risk of debt distress or were in it even prior to the COVID-19 shock. Third, it has further accelerated the digitalization of economies and societies, allowing for business continuity, but also further underlining inequalities in access to digital technologies. Fourth, it has revealed the lack of resilience in economies and societies, including because of 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.

6. In short, the pandemic has reminded us that to achieve the Sustainable Development Goals, we need financing for investments in sustainability, risk reduction and resilience, along with sustainable, risk-informed and resilient financing.

7. The *Financing for Sustainable Development Report 2021* puts forward proposals to change the current trajectory, with concrete ideas to invest in people and reform the global financial and policy architecture so as to ensure that it is supportive of a recovery and aligned with the 2030 Agenda.

8. As first steps all Governments should:

(a) Align their recovery packages with the Sustainable Development Goals and climate targets and refrain from lifting support measures prematurely to safeguard the recovery and protect the most vulnerable;

(b) 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

9. The crisis response creates an unprecedented opportunity to redesign the social contract. Household vulnerability is closely linked to a lack of progress towards attainment of the Sustainable Development Goals; poverty, inequality, education, health and gender, disability and environmental concerns all determine household vulnerability. Crisis response packages that are focused on prevention, risk reduction and protection of the most vulnerable can stimulate economic growth while strengthening resilience to future shocks and helping to achieve the Goals.

10. Governments should prioritize:

(a) Spending on social protection and health, with international support to help the poorest countries, in particular to build social protection infrastructure that can be scaled up in times of crisis. In the medium-term, financing social protection floors can also be supported by scaling up counter-cyclical financing;

(b) Investing in human capital, including digital skills, to help to develop a workforce for the twenty-first century;

(c) Modernizing labour market policies and fiscal policies to reflect the realities of an increasingly digitalized world and changing global economy.

Investing in sustainable and resilient infrastructure and innovation

11. Investment in people must be complemented by investment in sustainable and resilient infrastructure and in innovation. Such investments can serve to combat climate change, create employment, stimulate growth, reduce risks and build resilience to future crises. In addition, productive investments in the capital stock should improve debt sustainability in the long run, even though they would raise debt levels in the near term.

12. A sustainable and resilient infrastructure push, along with investment in human capital, is entirely feasible in most developed countries, in part owing to extraordinarily low interest rates that enable access to cheap finance. However, many developing countries do not have the 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 the risk of debt distress, nor is relying on private finance to fill all the gaps, which is suitable in some but not all Goals-related contexts. Solutions are based on developing strategies with very long-term lending and investment horizons:

13. First, official lenders should make long-term sustainable finance available to countries, by doing the following:

(a) Extending maturities of lending and exploring options to provide ultra-long-term (e.g., 50 years') financing to developing countries for investment in long-term growth and development, and offering more fixed-interest lending so that countries can take advantage of extremely low global interest rates;

(b) Debt swap initiatives have been launched, or are being launched, in several regions and could be expanded further;

(c) Including state-contingent elements in public debt to "automatize" moratoriums in times of crisis and to set a precedent for private markets.

14. Second, the international community should better leverage public development banks as a tool for sustainable development investment. In many countries, public development banks were instrumental in supporting the response to the COVID-19 crisis. Well-managed public development banks can make a more transparent accounting of both public liabilities and associated assets possible. In essence, they can ring-fence assets and borrow against them. The international community can help to strengthen the system of development banks; for example, cooperation between national and multilateral banks can help banks to build capacities and leverage local knowledge at the same time; continued research on appropriate capital, risk management and Goals-related reporting frameworks can support the governance of public development banks and risk-informed lending for Goals-related investments;

15. Third, blended finance can play a role, but needs to be focused 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 the least developed countries. Doing so would enable 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 official resources and/or official resources provided by multilateral development banks could be pooled into a blended finance fund or used to build on existing funds;

16. Fourth, the private sector has a critical role to play in financing sustainable investments, including in developing countries. However, the current business model, which is focused on short-term financial returns for shareholders, is not conducive to supporting business contributions to efforts to reach the Sustainable Development Goals. Policymakers can help to facilitate a new business model that works for everyone, not only for shareholders, by doing the following:

(a) Accounting for the environmental and social effects of private activity, including by pricing externalities such as carbon emissions, requesting transparency from businesses about their plans to align their activities with sustainable development, and making corporate governance more oriented towards the long term;

(b) Reorienting capital markets towards investing in priorities aligned with sustainable development 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. "SDG-washing" means claiming to be aligned with the Sustainable Development Goals without making a meaningful contribution to their achievement.

17. Fifth, by improving enabling environments, Governments can further mitigate investment risks (e.g., in the context of an integrated national financing framework). Such measures should be complemented by international support to help developing countries in addressing the challenges of financing the 2030 Agenda.

Future-proofing the system

18. Investment alone will not suffice. Often, financing for sustainable development is undermined by gaps in the international financial architecture or policy incoherence at the national and international levels. To achieve the Sustainable Development Goals, we must make the policy and institutional architecture future-proof, at the national and global levels. That requires taking across the chapters of the Addis Ababa Action Agenda, including:

(a) Ensuring that a final agreement on taxation in the context of a digitalizing economy address the concerns of developing countries, meet their needs and effectively reduce harmful tax competition, and better using technology to combat illicit financial flows;

(b) Further consolidating sustainability reporting frameworks to ensure global coherence, mandating a minimum level of corporate disclosure, using the strong momentum in that area to realize ambitious changes; in addition, developing coherent taxonomies and setting appropriate incentives to encourage investors to spearhead the transformation of the companies in which they invest;

(c) Developing strategies for better international crisis coordination and risk reduction in development cooperation. Integrated national financing frameworks owned by countries can provide a basis for translating those countries' priorities into concrete requests for development partners;

(d) Revamping the multilateral trading system to make it fully effective and responsive to sustainable development priorities;

(e) Building on the recently adopted G20 common framework for debt treatments beyond the Debt Service Suspension Initiative to improve the international debt architecture and work towards a more efficient framework for sovereign debt resolution;

(f) Further strengthening the global financial safety net and closing gaps that were highlighted in the past 12 months; in addition, incorporating climate risk considerations into policy frameworks and financial regulation, such as by integrating climate risk scenarios into financial stress tests;

(g) 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 stemming from the digital economy, including an increase in market concentration.

19. There is a need for 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, so as to address the systemic nature of global risks such as climate change and the pandemic, address inequalities and achieve the Sustainable Development Goals. The current crisis is an opportunity for the international community to build a consensus around necessary reforms aimed at aligning financial, investment, trade, development, environmental and social policies and institutions to avoid a global climate catastrophe, build resilience and achieve the Goals.

20. 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 General Assembly, the forum on financing for development follow-up of the Economic and Social Council, the fifteenth session of the United Nations Conference on Trade and Development (UNCTAD) and the Initiative on Financing for Development in the Era of COVID-19 and Beyond undertaken jointly by the Secretary-General, Canada and Jamaica.

II. The global economic context and its implications for sustainable development

21. As the COVID-19 pandemic continues to spread and mutate across countries, the global economic outlook remains bleak. The United Nations projects a modest recovery of 4.7 per cent for the global economy in 2021, which will barely offset the contraction by 4.3 per cent in 2020. The baseline outlook is highly susceptible to downside risks

amid a high degree of uncertainty. Against this backdrop, the global recovery is expected to be fragile and uneven.

22. The deep economic downturn caused by the pandemic has exacerbated existing inequalities and is threatening the achievement of the Sustainable Development Goals. The pandemic and economic crisis have aggravated debt and other vulnerabilities, and have disproportionately affected those at the lower end of the skills and income scale, causing sharp increases in unemployment, poverty, hunger and inequality, and disproportionately affecting women, the young and marginalized segments of society. It has accelerated the pace of automation and digitalization, meaning that many jobs lost during the economic downturn may not come back.

23. Unprecedented policy action avoided worse outcomes, but many developing countries are still facing the risk of a lost decade. Large fiscal and monetary stimuli were critical to addressing the immediate health crisis, support economies and jobs, and avert a financial crisis. Nevertheless, 114 million full-time jobs were lost in 2020¹ and the crisis risks leaving long-term economic scars and reducing potential output for the global economy. The impact is likely to be the greatest in developing countries that lack the resources to effectively combat the crisis.

24. Macroeconomic policies require careful balancing to ensure an equitable and sustainable recovery. Premature withdrawal of monetary and fiscal stimuli can derail a fragile economic recovery. And while unprecedented monetary easing by central banks, together with large-scale fiscal interventions, was crucial in averting a financial meltdown in early 2020, prolonged easy liquidity conditions can raise concerns about financial market stability, debt vulnerability and inflation. The already high and growing public and private debt levels in many economies can become unsustainable once interest rates pick up again. Even where public debt levels may be considered “sustainable”, high debt service payments will constrain the fiscal policy space to respond to future shocks.

25. Central banks need to monitor the interaction between monetary policy, climate risks and inequality. Rising climate and other systemic risks threaten financial stability and economic growth. At the same time, quantitative easing measures, even where considered market-neutral, may reflect market bias towards heavy carbon emitters, given that, for example, oil and gas companies, utilities and airlines issue more bonds than others. Rising asset prices as a consequence of loose monetary policy may exacerbate inequalities, since stock ownership is typically concentrated in wealthier households.

26. Policies that address the economic fallout from the pandemic provide a historic opportunity to lay the groundwork for a sustainable, equitable and resilient economic model. The massive fiscal interventions currently under way are an unprecedented opportunity to put the world on track to meet climate targets and the Sustainable Development Goals, including through tackling long-standing gender inequalities. Nevertheless, successful climate mitigation and adaptation require a combination of policies: carbon pricing, the elimination of fossil fuel subsidies, a sustainable investment push and support for green energy research and innovation. Moreover, international support for countries in need will be necessary to ensure an equitable and just transition for all and avoid a lost decade.

III. Risk-informed sustainable finance and development

27. The COVID-19 pandemic is the latest example of the dramatic impacts that risks can have in an increasingly complex and interrelated risk landscape. It has shown how the effects of shocks in one area can be transmitted throughout value chains, across geographies and communities and throughout the wider macro economy.

28. A key lesson from the current crisis is that development that is not risk-informed is neither inclusive nor sustainable. Disasters are often the result of decades of risk

¹ International Labour Organization, “ILO Monitor: COVID-19 and the world of work”, 7th ed., 25 January 2021.

accumulation within social, economic, financial, environmental and political systems. Risks that have not been sufficiently addressed, such as high debt and excess leverage, poverty and inequality, infrastructure that is not resilient and climate change, will continue to derail Goals-related financing and progress. Reducing and better managing those risks is vital to achieving the Goals.

29. At the same time, investments in the Goals can reduce vulnerability and drive resilience. Complex, systemic and interrelated risks can be difficult to manage directly, leaving the world ill prepared for crises like the one it is experiencing right now. Traditional risk management tools need to be complemented by investment in prevention and resilience. The 2030 Agenda, the Addis Ababa Action Agenda and the Sendai Framework for Disaster Risk Reduction provide a risk reduction strategy and roadmap to building resilience.

30. The case for investing in prevention, risk reduction and resilience is clear, but significant barriers, such as short-termism, inequities and lack of inclusion in policymaking stand in their way. Short-term costs of investments may loom larger than uncertain long-term benefits. Investments in prevention and resilience are investments in the public good, and as is often the case with public goods, they are underfunded. While private investors evaluate risks as a routine part of investment decision-making, they too are often not sufficiently long-term oriented to internalize significant risks with relevance for the Sustainable Development Goals. And those most exposed and vulnerable to shocks and disasters often lack the resources to invest in risk reduction and lack a voice in relevant policy decisions.

31. While all actors must manage risks, Governments must lead in taking a risk-informed perspective. First, Governments are the “risk-bearers of last resort”. When a crisis occurs, private risks often become public liabilities. Second, public policy shapes the risk landscape for investors and other stakeholders. It is up to policy makers to ensure that incentives are well aligned with risk prevention. Third, in some cases, it can be advantageous for the public sector to actively seek risks associated with transformative investments precisely because such investments may lower risks in the future. Also, Governments can share investment risks with private investors.

32. Policymakers need to mainstream risk considerations into all policies, processes and decisions. A risk framework to help Governments in navigating the wide landscape of risk management issues and identify policies best suited to respond to different risk challenges would consist of: understanding the systemic nature of risk and its implications for the Sustainable Development Goals; reducing the likelihood of shocks when possible; reducing the impact or cost of shocks and hazards and building resilience; sharing or transferring residual risks; and continuous adaptation to and learning from shocks and risks to be prepared to build back better. Such a risk framework must be underpinned by inclusive governance mechanisms at all levels that elicit and address the concerns and interests of all stakeholders, particularly the most vulnerable.

33. Managing risk requires that financing is sustainable, risk-informed and resilient on the one hand, and that sustainability, risk reduction and resilience are financed on the other. To that end, both national and global action is needed. To enhance sustainability and resilience of finance, the following needs to be done:

(a) Governments need to mainstream multi-hazard risk analysis into public planning processes, for example in the context of an integrated financing framework, overcome short-term and ex-post biases in budgeting processes and adopt a multi-instrument approach to manage multiple risks to public balance sheets;

(b) The private sector needs to overcome short-termism in investment decision-making and incorporate all material Goals-related risks in investment decisions.

34. Financing for sustainability and risk reduction additionally requires the following:

(a) Greater public investments in prevention and risk reduction and economic diversification;

(b) A strengthening of social protection systems;

(c) Policies and regulations that incentivize investors to internalize those Goals-related risks that have no material impact their financial returns.

35. International cooperation must be strengthened to do the following:

(a) Tackle global systemic risks that cannot be addressed by any one country, such as risks arising from the international financial system, climate change and pandemics, including by strengthening the voices and participation of the most vulnerable countries in relevant decision-making;

(b) Enhance support to vulnerable and exposed countries by strengthening their national capacities and systems to reduce risk and by putting in place effective ex-ante financing mechanisms for risk reduction and prevention, effective disbursement mechanisms and decision-making systems to reduce the need for ex-post support in times of crises.

IV. Key messages and recommendations in the *Financing for Sustainable Development Report 2021*

Domestic public resources

36. The unprecedented fiscal response to the COVID-19 crisis presents an opportunity to revamp the social contract and align fiscal policy with sustainable development. However, the poorest countries will need international support. In the Addis Ababa Action Agenda, States Members of the United Nations committed themselves to a new social contract, including social protection systems and measures for all. Although there has been some progress in raising domestic resources since 2015, the COVID-19 crisis laid bare the gaps, including in investments in health-care and social protection systems.

37. Governments should do the following:

(a) Prioritize spending on essential health-care functions and social protection floors. International support will be needed to help the poorest and most vulnerable countries; in the medium term, financing social protection floors can be supported by scaling up counter-cyclical financing;

(b) Align fiscal support with sustainable development, including public investment in resilient infrastructure, reduce harmful subsidies and refrain from withdrawing stimulus measures prematurely;

(c) Pursue progressive fiscal systems and use taxes (e.g., carbon taxes) to better align behaviour and decisions with the 2030 Agenda;

(d) Strengthen public financial management as part of the post-pandemic recovery; capacity-building efforts should be scaled up.

38. Fiscal policy choices have become increasingly complex owing to the strain that the crisis has put on public finances and to the growing debt sustainability and systemic risks that could trigger future crises. Governments can use integrated national financing frameworks to navigate complex fiscal policy choices, trade-offs and risks management. In doing so, they should incorporate fiscal policy tools, such as medium-term revenue strategies and gender-responsive budgeting.

39. Strengthening international tax cooperation is necessary to support domestic efforts. While significant progress has been made to increase international cooperation and transparency in taxation and address cross-border taxation challenges, more remains to be done, especially to ensure that all developing countries, including the least developed ones, benefit from that progress. The pandemic has accelerated the digital transformation of economies and societies, raising the stakes in discussions about taxation of the digital economy. There is widespread agreement that a consensus-based global solution, if implemented by a critical mass of countries, is the best approach to enable effective taxation of the digitalising economy, and avoid the risks of tax uncertainty, double taxation and retaliatory measures that accompany uncoordinated unilateral measures. The

interests and perspectives of developing countries should be an integral part of global discussions. Any solution must be simple enough to administer and consistent with international tax norms, rules and principles observed, such as neutrality and efficiency.

40. It is 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 has made recommendations for addressing illicit financial flows for Governments to consider, including a global pact for financial integrity for sustainable development aimed at reinforcing the values of integrity and legitimacy, strengthening policy frameworks and redesigning institutions to foster and strengthen financial integrity for sustainable development.

Domestic and international private business and finance

41. The COVID-19 crisis has had a devastating socioeconomic impact and derailed private sector investment, which is needed for recovery. Short-term support measures for private companies by Governments have been essential to avoid bankruptcies and limit the long-term negative impact on economic activities. However, for a long-term sustainable and inclusive recovery, the current business and finance models have to be reimaged. The current model, with its focus on short-term financial returns for shareholders, is not suitable to support the business sector's contributions to achieving the Sustainable Development Goals. Reducing social and environmental vulnerabilities, including addressing externalities of private behaviour, will be all-important to creating a resilient economy that benefits all. The crisis provides an opportunity to build a new business model that works for everyone, one that extends to all its stakeholders, not only shareholders. However, a paradigm shift requires Governments to change the rules of the game.

42. Developing countries require a boost in private investment if they are to achieve the Sustainable Development Goals. Investment in support of a long-term recovery can be reignited by prioritizing sectors that are capable of driving sustainable economic growth and can attract private sector investment, such as telecommunications and renewable energy. However, reducing the risk premium of developing countries is necessary to unlock more capital-intensive projects. National actions can mitigate some investment risks, for instance by strengthening the business-enabling environment and ensuring timely administrative decisions. At the same time, the international community should help developing countries to benefit from cheaper financing sources, develop a pipeline of investable projects and use risk-sharing mechanisms. The multiple efforts made and assistance provided by development partners should be further integrated, for instance through creating a common marketplace for investments in developing countries.

43. It is important to harness the benefits of digital financial inclusion. Digital financial services have gained further importance amid the pandemic. This raises prospects for financial inclusion but accentuates the need for regulatory frameworks to address related risks. Digital financial services can reduce remittance transaction costs, but are not always available in high-cost remittance corridors. Governments and development partners can promote digital services to reduce remittance transaction costs, but bottlenecks, including digital access gaps, need to be addressed. A corridor-by-corridor approach is necessary to remove structural barriers, such as the lack of competition and the reduction in the number of correspondent banking relationships. Scaling up access to risk capital is limited by underdeveloped capital markets in many countries. Their deepening depends on a range of enabling conditions that developing countries must first address. The international community should provide support to countries with underdeveloped capital markets to put in place market infrastructure and develop action plans tailored to their local circumstances. Alternative measures, such as blended instruments and innovative financing approaches, can also be considered to enhance access to risk capital (see the *Financing for Sustainable Development Report 2020*).

44. The current crisis presents an opportunity to build a more sustainable financial system that channels resources to projects and companies that make positive contributions to sustainable development and to achieving the Sustainable Development Goals. To that end, a number of actions are necessary:

(a) All actors in the investment chain should develop incentives that encourage a long-term approach in decision-making. Without a long-term approach, risks and opportunities critical to sustainable development will not be properly considered;

(b) Companies must provide greater transparency on their environmental and social impact as a prerequisite for making them accountable to their financiers and other stakeholders. This can be achieved by further converging existing reporting frameworks, ensuring global coherence and mandating a minimum level of disclosure;

(c) Companies should provide information not only on their current impact, but also on their plans to shift activities towards more sustainability, and should adjust internal governance for that purpose. With regard to climate change, this means that every company should have a plan to reduce carbon emissions in line with the Paris Agreement; the same holds for social issues, such as gender balance and labour conditions;

(d) Investors can help to spearhead the transformation of the companies that they invest in, but they need the appropriate incentives, internal capacity and tools to do so, including coherent taxonomies, credible labelling for sustainable investment projects and financial products;

(e) Standards and rules must be designed to make sure that sustainable finance goes where the financing needs are the greatest. Without specific attention paid to the constraints that developing countries face, some actions could shift finance further away from developing countries in the short term because of companies' seeking to manage sustainability-related risks.

International development cooperation

45. International development cooperation is a crucial component of the COVID-19 response, including efforts to support the poorest and most vulnerable countries in mounting a response to the pandemic and the economic crisis. Development cooperation provides a countercyclical flow in times of crisis and can help to fight poverty and prevent inequality from worsening. At the same time, there is fiscal pressure on donor budgets due to the pandemic. Donor countries should step up their efforts and meet their commitment to providing 0.7 per cent of the gross national income in official development assistance. Grant finance rather than loans should be prioritized for vulnerable countries, such as the least developed countries and small island developing States, while the decline in official development assistance to health care should be reversed. As an immediate priority, providers of official development assistance should meet the financing gap faced by the Access to COVID-19 Tools Accelerator initiative and rally behind the efficient and equitable distribution of vaccines for all countries.

46. Multilateral development banks are playing an important role in supporting developing countries. There has been particularly strong support for the least developed countries, which has been achieved by front-loading concessional resources. The non-concessional lending windows of multilateral development banks provide an important avenue for middle-income countries to access long-term access finance at below-market rates. However, financial capacity constraints are limiting the support of multilateral development banks for those middle-income countries. Donors should provide multilateral development banks with additional funding to the existing concessional pool or advance scheduled replenishments and replenish the capital of those banks. Official lenders should extend the maturities of their lending and explore options to provide ultra-long-term (e.g., 50 years') fixed-rate financing to developing countries for investment in long-term growth and development, so that all countries can take advantage of the current extremely low global interest rates.

47. Innovative public finance instruments are already in use or are being considered for the COVID-19 response. For example, advance market commitments are successfully serving to support the equitable distribution of COVID-19 vaccines. Innovative forms of finance, including blended finance, can be useful complements to traditional aid, but they are not panaceas. Blended finance can play a role in areas that provide positive financial returns to repay the private partners and support public goals

at the same time. When creating blended financial structures, partners should carefully consider country priorities so as to avoid diverting grant finance from social needs. Bilateral and/or official resources belonging to multilateral development banks could be pooled into a blended finance fund. Donors should examine the possibility of using below-market-rate non-concessional loans for blending, including equity like components, to allow the public partner to share in the possible financial returns.

48. The pandemic underscores the importance of cohesively incorporating risk analysis into development cooperation so as to make it more effective. Despite the contingencies in place, there was a lack of coordination among partners in their crisis responses and many were not prepared to respond to multiple crises while being affected by the COVID-19 crisis. Development cooperation actors should develop strategies and contingencies for better international crisis coordination and risk reduction. Country-owned integrated national financing frameworks can provide a basis for translating country priorities into concrete requests for development partners. All sources of international development cooperation should be aligned with the Addis Ababa Action Agenda, Agenda 2030, the Paris Agreement and the Sendai Framework, with a focus on supporting the efforts of countries to reduce risk and build resilience.

49. Political will is needed to scale up both climate finance and official development assistance to address the confluence of crises. The COVID-19 crisis has likely derailed the achievement of the \$100 billion climate finance target for 2020. Also, the pandemic has brought to the fore the importance of financing global public goods. Developed countries should scale up climate finance flows, with \$100 billion per year as a floor. All providers should increase adaptation finance to equal mitigation finance and prioritize grant finance for the least developed countries and small island developing States. More work is needed to understand how best to incorporate the financing of global public goods into sustainable development finance practices.

International trade as an engine for development

50. The COVID-19 crisis temporarily put the brakes on the contribution of trade to the achievement of the Sustainable Development Goals. The unprecedented fall in tourism, for instance, drastically reduced the external earnings of many developing countries, in particular small island developing States and the least developed countries. It is unlikely that target 17.11 of the Sustainable Development Goals on doubling the share of global exports of the least developed countries by 2020 was met. Also, the crisis highlighted the vulnerability of landlocked developing countries resulting from their dependence on their transit neighbours.

51. Reigniting global trade is vital to achieving an inclusive and sustainable recovery from the COVID-19 crisis. Global trade was a major transmitter of demand and supply shocks across the globe. at the same time, the crisis highlighted the fundamental importance of trade in making essential goods and services available to people in need. Trade remains a source of income, jobs and opportunities for women and men, and an important source of public revenue in many developing countries.

52. Life-saving vaccines and medical supplies still bypass many countries. Only a tiny fraction of the vaccines and other medical supplies to fight the pandemic have reached the least developed countries. The production of COVID-19 vaccines can be extended by localizing more production in developing countries. Various multilateral initiatives have been taken to stimulate the voluntary sharing of vaccine-related knowledge and intellectual property rights. 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, including through facilitating the transfer of technology under multilateral rules so as to encourage research and innovation while at the same time allowing licensing agreements that help to scale up manufacturing.

53. The multilateral trading system helped to maintain transparency with regard to trade measures during the COVID-19 crisis. The multilateral trading system could not

prevent the initial proliferation of temporary protectionist measures. However, it did support a steady shift from the use of trade-restrictive to trade-facilitating measures, such as the temporary elimination of import tariffs on essential supplies in the latter half of 2020. Countries are encouraged to fully meet their transparency obligations on trade measures taken to fight the pandemic and its socioeconomic impacts and ensure that those measures are consistent with their commitments in the context of the World Trade Organization.

54. Still, the COVID-19 crisis prompts us to review the multilateral trading system, regional trade and investment agreements, and trade policy through the lens of an inclusive and sustainable recovery. The existing multilateral and regional trade agreements can be transformed to help countries to pursue trade-led economic recovery in a manner that leaves no one behind. Reforms are urgently needed to make the multilateral trading system responsive to sustainable development priorities. In that light, it is necessary to address the functioning of the dispute settlement system and reach agreements on key issues under negotiation, such as fisheries subsidies. Multilateral and regional trade agreements and international investment agreements can be continually modernized with a view to enhancing their contribution to sustainable development including public health, climate change, the circular economy, decent jobs and gender empowerment, particularly in times of crisis.

55. Making trade more inclusive requires addressing trade finance gaps that disproportionately affect small businesses and countries not fully integrated into global supply chains or the international financial system. Facilitating a rapid transition to paperless trading can help to reduce the cost of transactions while streamlining the trade finance verification process. Increasing coordination between multilateral development banks and the private sector can help to fill trade financing needs, particularly those of small businesses in developing countries.

56. The digital divide within and across countries persists. The rapid progress of digital technologies and e-commerce has become an effective tool for economic recovery. However, the digital divide prevents the benefits of the digital economy and e-commerce from being shared equitably. In addition, digital trade platforms have led to concerns about anti-competitive practices, as well as the vulnerability of consumers to unfair and fraudulent business practices. International and regional cooperation is essential in redressing cross-border anticompetitive practices and combating fraudulent and deceptive cross-border commercial practices.

Debt and debt sustainability

57. Debt levels are rising across developing and developed countries, as economies contract and fiscal deficits widen. Global public debt is projected to approach 100 per cent of the gross domestic product (GDP) in 2020, up from 65 per cent in 2008. The increase in public debt is more pronounced for developed countries, as developing countries and the least developed countries have been more financially constrained in their crisis response. Nonetheless, debt sustainability indicators worsened across the board. Five sovereign debtors defaulted in 2020.

58. International support helped to prevent a more widespread and systemic crisis in 2020. Actions by central banks across income groups helped to ease financing conditions and reduced stress in debt markets for middle-income countries. The least developed countries and other low-income developing countries relied on emergency financing provided by the International Monetary Fund (IMF) and multilateral development banks. The Debt Service Suspension Initiative of the Group of 20, available to 73 developing countries, including all the least developed and low-income countries, enabled participating countries to redirect their limited resources from debt service to crisis response.

59. Nonetheless, risks remain elevated. More developing countries may face worsening solvency concerns requiring fiscal adjustments that would be challenging to implement in the pandemic. In many cases, debt sustainability hinges on fiscal adjustment that would be hard to achieve in the current crisis. Some countries' debt may

become unsustainable, particularly if the impact of the COVID-19 shock is more protracted. Even where debt remains sustainable, pandemic-related scarring effects could be exacerbated without access to fresh finance if authorities are forced to withdraw fiscal support prematurely and give lower priority to investment.

60. For countries where debt remains sustainable despite rising vulnerabilities, debt crisis prevention is a priority. That includes strengthening debt management and enhancing debt transparency by both debtors and creditors. The international community is assisting members in those areas, including through the joint IMF/World Bank multi-pronged approach to address debt vulnerabilities, in which are addressed debt transparency, debt management capacity, analytical tools, debt policies of international financial institutions and the UNCTAD Debt Management and Financial Analysis System Programme. Transparency about the public debt of borrowers should be based on a comprehensive concept of public debt and extend to borrowing terms and collateral conditions, while creditors should ensure that lending practices are fully in line with sustainable, responsible and transparent financing practices.

61. A range of instruments and tools exist to create fiscal space for investments in pandemic response and recovery, and to reduce the likelihood of future crises. Greater use of state-contingent debt instruments could provide automatic and fast relief in the event of future shocks and ensure faster and more durable restructurings, for example in case of climate-related disasters or other shocks. The international community could further develop standard terms for inclusion in sovereign debt contracts and official bilateral creditors could systematically include such clauses in their own lending, building on existing experiences. In addition, debt swap initiatives have been launched or are being launched in several regions and could be expanded further.

62. The current crisis provides an opportunity to further strengthen the international debt architecture to allow speedy and efficient restructuring. The debt resolution architecture has proven to be generally effective in addressing most recent restructuring episodes, which primarily involved private sector holdings of sovereign bonds. Nevertheless, the architecture should be strengthened to cope with the potential increase in restructurings in the aftermath of the pandemic and amid a changing creditor landscape. A range of actions can be considered. Collective action clauses and equivalent terms should be included in all bond and non-bond debt contracts to reduce holdout risks. Debt restructuring would be facilitated by greater transparency of the contract terms. Credit enhancements and debt buy-backs could be considered in specific circumstances to incentivize creditor participation without reducing relief for the debtor.

63. Market-based solutions may not be sufficient in a systemic crisis. Statutory instruments may be needed. As a last resort, in the context of systemic crisis, legal options in major financial jurisdictions should be considered to limit litigative action by holdout creditors; any such legislation would need to be carefully tailored to limit the impact on the rights of creditors and avoid undermining the secondary market in sovereign debt. The international community could provide additional financial and technical support for countries with limited legal capacities, for example by strengthening support to existing facilities such as the African Legal Support Facility.

64. The recently adopted G20 common framework for debt treatments beyond the Debt Service Suspension Initiative is a step on the road to improving the international debt architecture. The common framework brings together members of the Paris Club and G20 creditors that are not members the Paris Club, and requires that participating debtor countries seek a treatment at least as favourable as that agreed under the common framework from other official and private creditors. It could serve as a first step towards a more universal and possibly permanent framework for efficient sovereign debt resolution. The United Nations continues to provide a valuable platform for considering and advancing such proposals, and to bring all relevant stakeholders together to consider debt crisis prevention and fair and effective debt crisis resolution as a necessary condition for achieving the Sustainable Development Goals.

Addressing systemic issues

65. The COVID-19 pandemic and the social and economic crisis it has triggered, has amplified risks underlying the international financial system. After record capital outflows from developing markets in early 2020, international financial markets have stabilized, thanks in large part to fast and aggressive actions by the central banks of major economies.

66. However, external financing needs are expected to remain elevated throughout 2021 and many developing countries continue to face debt and liquidity pressures. They will need additional funding to mitigate the social and economic impacts of the pandemic and the resulting external imbalances. A new allocation of special drawing rights would help to meet a global long-term need to supplement the official reserves of countries, help to restore confidence and support a resilient and lasting recovery of the global economy.

67. Countries in strong external positions can voluntarily use their special drawing rights to help countries most in need, for example, by lending them to the IMF Poverty Reduction and Growth Trust. States members of IMF should replenish the Fund's concessional financing and debt relief instruments.

68. At the sixteenth general review of quotas, it should be ensured that IMF remains strong, quota-based and adequately resourced in the medium term, while continuing with the process of governance reform. Any adjustment in quota shares should result in increases in the quota shares of emerging and developing countries, while protecting the voices and representation of the poorest members.

69. The international system should provide additional concessional finance to countries in need and make available longer-term financing for sustainable development taking advantage of the current low-interest environment, including by replenishing the capital of multilateral development banks as necessary.

70. The COVID-19 crisis has once again highlighted the importance of managing the consequences of capital flow volatility. Countries need to consider the full policy toolkit, including monetary, exchange rate, macroprudential, capital flow management and other policies, to address capital flow volatility. Countries should explore coherent integrated policy frameworks that 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, including on the volatility of private capital flows to developing countries. Efforts to incentivize long-term investment to facilitate the achievement of the Sustainable Development Goals can contribute to that objective.

71. The financial market turmoil at the onset of the pandemic also shined a spotlight on financial risks emanating from the non-bank financial sector. These risks had increased over recent years. Large technology companies could also become systemically important in financial markets, which would create new challenges for policymakers. Regulators should continue to move towards regulating financial intermediation based on the function it performs rather than the type of institution involved. Regulators will also need to ensure that so-called "stable coins" comply with financial stability and integrity requirements, including by cooperating across jurisdictions and making sure that the voices of all countries are part of discussions on setting new regulatory standards.

72. The growing threat of non-economic risks to financial and macroeconomic stability has underscored the need for monetary and regulatory authorities to incorporate the impact of climate risks in regulatory and policy frameworks. While there is broad agreement that financial institutions need to better integrate climate risks into their risk management frameworks, there is less consensus around the potential role of monetary authorities in the transition towards a low carbon economy.

73. Climate risk considerations need to be further included in global financial regulation in a timely fashion; policymakers should support climate risk management

undertaken by financial institutions by setting mandatory reporting standards and integrating climate risk scenarios in financial stress tests.

74. Central banks should continue to integrate climate risks into policy frameworks, including protective measures to safeguard financial stability and protect their own balance sheets. They could also explore the impact of “market-neutral” bond purchasing strategies on climate risk, as such strategies tend to reflect market bias towards heavy carbon emitters.

75. To emerge from the COVID-19 crisis and recover better, the international policy response must be inclusive and coherent, taking into account the voices of all countries and addressing interconnected global risks, including non-economic risks such as climate change. The crisis is an opportunity for the international community to build consensus around necessary reforms to the global architecture and align financial, investment, trade, development, environmental and social policies. The United Nations provides a universal platform for high-level political discussions on comprehensive policies for financing for sustainable development. Member States should consider whether governance arrangements at various international institutions need further reform, especially those that have not undertaken reforms in many years.

Science, technology, innovation and capacity-building

76. Science, technology and innovation have been instrumental in the global response to the COVID-19 crisis and can help to build more resilient societies. In an increasingly complex and interrelated risk landscape, science, technology and innovation can help to identify and manage risks, and build more resilient societies.

77. At the same time, the acceleration of digitalization has deepened the digital divide and exacerbated the risk that digital technologies may have other unintended consequences. The digital divide is rapidly becoming a development divide, perpetuating or worsening inequalities. The rapid scaling up of digital services has also aggravated other risks, including new forms of exclusion, the spread of misinformation and market dominance by large digital platforms.

78. Policymakers should make every effort to build an inclusive digital economy, including by ensuring affordable Internet access for all and increasing digital literacy. Public and private cooperation can help to mobilize the estimated \$428 billion needed to achieve universal broadband Internet access by 2030. National financial inclusion strategies should build on the potential of financial technology (fintech), while addressing inequalities and financial stability risks.

79. More transparent algorithms, guidelines for the ethical use of artificial intelligence and the inclusion of more diverse views in the innovation process can help to overcome new forms of exclusion. Content regulation is a complex issue and requires careful consideration of the rights and obligations of platform providers, users, other private and civil society organizations and government institutions. Regulatory frameworks, including enhanced antitrust regulation, are needed to reduce the market power of large digital platforms, including in fintech, and create a more level playing field.

80. Beyond the immediate COVID-19 pandemic, science, technology and innovation can support and advance strategies to reduce the likelihood of shocks and build more resilient societies. The least developed countries and many other developing countries lack the necessary information and resources to manage shocks and build resilience. Development cooperation and support for knowledge-sharing is needed to help countries, especially the least developed countries, to address complex hazards. The recent decline in official development assistance for science, technology and innovation must be reversed. Incentives can help to direct innovation towards specific technological, environmental or social goals. Policymakers, telecommunication providers and other stakeholders need to ensure resilient telecommunications infrastructure so that communications are available for response and recovery during a disaster.

81. Various United Nations entities contribute to strengthening the capacity of Member States in science, technology and innovation; they have joined forces to tackle

the COVID-19 crisis. Member States are called upon to step up their contributions to the Access to COVID 19 Tools Accelerator initiative to close the remaining funding gap of over \$20 billion for 2021. Continued efforts by Member States are also needed to help the Technology Facilitation Mechanism and the Technology Bank to deliver on their mandates to developing countries in their adaptation of new technologies for sustainable development.

Data, monitoring and follow-up

82. National statistical offices are responding to the COVID-19 pandemic but many need assistance to fill major data gaps. Timely, high-quality, open, disaggregated and geospatially enabled data and statistics are needed to understand, manage and mitigate the effects of the pandemic and make progress towards achieving the Sustainable Development Goals.

83. Governments need to view data as a strategic asset in preparing for future risks and disasters and for achieving sustainable development. The global data community should accelerate action to implement the Cape Town Global Action Plan for Sustainable Development Data and the Dubai Declaration supporting the implementation of the Cape Town Global Action Plan, to finance the development of more timely, high-quality, disaggregated, geospatially enabled data that is relevant, well-documented, interoperable and open by default while respecting the right to privacy.

84. National and international efforts are needed to harmonize sustainability reporting by companies and increase the availability of data on the contribution of private companies to the achievement of the Sustainable Development Goals. Governments can use the intergovernmental platforms of the United Nations, in particular the financing for development process, to drive convergence in sustainable reporting metrics that are linked to the global Goals.

85. The COVID-19 pandemic has exacerbated global data inequalities. Global efforts should concentrate on the national statistical offices most in need. Statistical operations in countries with the least resources are facing the greatest challenges. The least developed countries and other low-income developing countries need a step-change in financial support, equipment and infrastructure and technical assistance to strengthen capacities of national statistical offices and fill data gaps. Investments in civil registration and vital statistics systems and in geospatial information sources must be a priority in efforts to prepare for future disasters and make progress towards the Sustainable Development Goals.

86. Open data have played an important role in the global response to the COVID-19 pandemic. Updated data governance frameworks are needed to harness their potential. That 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. National statistical offices, with international support, should update governance frameworks to realize the opportunities of open data for the public good.