INTERGOVERNMENTAL GROUP OF TWENTY FOUR

G-24

Technical Group Meeting

Abidjan, Cote D'Ivoire

Monday July 17, 2023

Setting the Context: Development and Global Challenges — Implications for Financing

By

Iyabo Masha

Director, G-24

Setting the Context:
Development and Global Challenges —Implications for Financing [1]

1. Background: Global Sustainable Development Agenda and Progress

The adoption of the United Nations Millennium Development Goals (MDGs) in 2000 marked a seminal moment in achieving global consensus on human and societal progress. The eight ambitious goals aimed to combat poverty, hunger, disease, illiteracy, environmental degradation, and discrimination against women. At the expiration of the MDGs in 2015, the international community rallied together to forge a new path towards progress, resulting in the adoption of the Agenda 2030, the Sustainable Development Goals.

The Agenda 2030's 17 goals aim to eradicate poverty, safeguard the planet, and foster shared peace and prosperity. Unlike its precursor, the Sustainable Development Goals (SDGs) embrace a more holistic approach, recognizing that true development must be economically, socially, and environmentally sustainable. Consequently, these goals underscore the importance of equity, inclusivity, and the responsible management of human activities to preserve the environment. In tandem with the SDGs, the Paris Agreement of 2015 emerged as a pivotal agreement centered on combatting climate change. This landmark accord set forth ambitious targets to limit global warming to below 2°C and to pursue efforts to restrict it to 1.5°C. Equally crucial, the agreement aimed to strengthen nations' abilities to mitigate and adapt to the impacts of climate change. Subsequent climate change summits, including CoP 27, have furthered these aspirations, culminating in an agreement to establish a loss and damage fund, specifically designed to aid vulnerable countries affected by climate-related disasters.

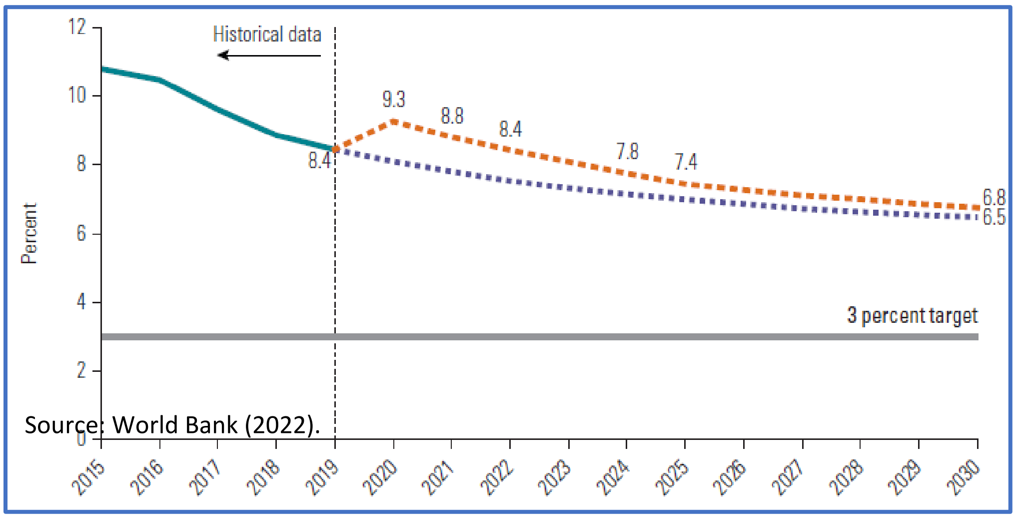
Global agreements offer countries a unified international framework to guide developmental endeavors in the journey towards economic transformation. Empowered by the development goals, nations often devise long-term strategies that articulate their visions for a sustainable, inclusive, and dynamic economy. Prioritizing investments in human capital, physical capital, and also on gender inclusivity has proven instrumental in bolstering countries' capacities to build domestic productive capabilities, foster job creation, alleviate poverty, and achieve economic transformation. The emphasis on sustainability has also incentivized the adoption of climate-friendly policies, effectively addressing environmental challenges arising from climate change and extreme weather conditions. In line with the Monterrey Consensus on Financing Sustainable Development, countries commit to mobilize financing from various sources, including domestic, foreign bilateral and multilateral, private domestic and external, official

[1] By Dr. Iyabo Masha, Director, Intergovernmental Group of Twenty-Four (G-24)

development assistance (ODA), and debt. The Monterrey Consensus also recommended the alignment of policies on international monetary, financial, and trading systems in support of developmental goals.

Human progress has been remarkable since the adoption of the development consensus, but efforts towards poverty eradication have encountered obstacles. The world experienced a steady decline in poverty since the 1990s, liberating over a billion people from extreme poverty. However, during the period between 2015 and 2019, progress slowed, partly attributed to a global economic growth deceleration. The challenges were exacerbated by significant economic upheavals caused by the COVID-19 pandemic beginning 2020, geopolitical conflicts such as the war in Ukraine, and recent macroeconomic instabilities, which resulted in the reversal of some hard-earned gains. Consequently, many countries now find themselves falling behind in their pursuit of the SDG goals. Regrettably, current projections by the World Bank indicate that by 2030, approximately 7 percent of the world's population, will still grapple with extreme poverty (Figure 1). This means that despite the remarkable strides in global sustainable development, the challenges ahead demand urgent and concerted action from the global community to catch up on lost grounds, and make faster progress.

Figure 1. Trends in global poverty ($2.15) | 2015-2030



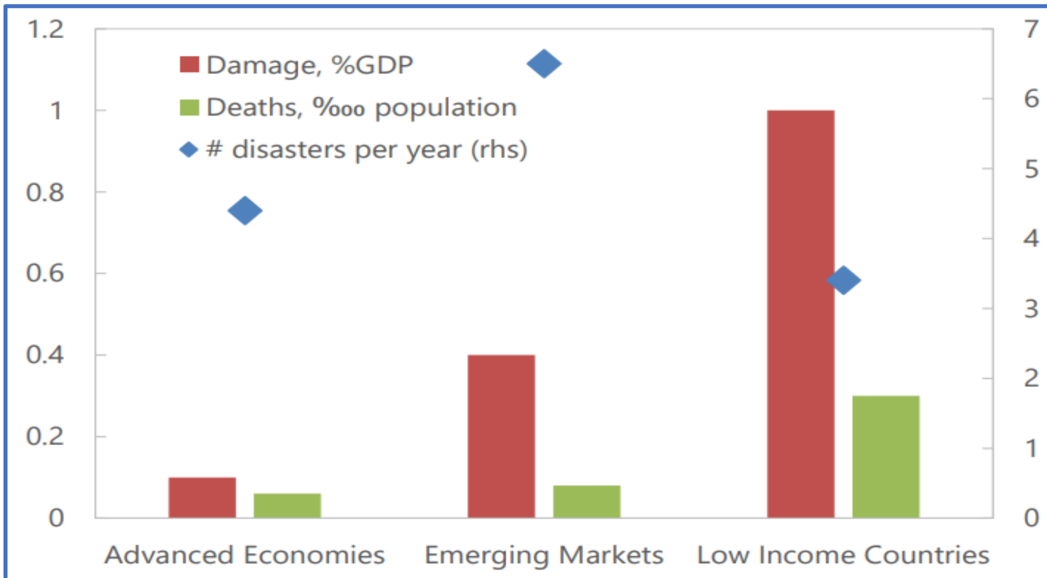
Source: World Bank (2022).

The escalating effects of climate change also presents formidable threats to global development prospects. Climate and weather-related disasters are estimated to be five times more frequent in the past decade compared to 50 years ago (Figure 5).[2] The rise in greenhouse gas concentrations has contributed to the past eight years being the warmest on record, while global carbon emissions have surged, surpassing pre-pandemic levels in 2022. Extreme weather events, such as heat waves, floods, and droughts, have intensified, inflicting significant human and economic costs. Moreover, the agriculture sector has been significantly affected, accounting for 26 percent of climate change-related

[2]World Meteorological Organization https://public.wmo.int/en/media/press-release/weather-related-disasters-increase-over-past-50-years-causing-more-damage-fewer

losses and damages between 2008 and 2018, including in forestry and fisheries. Regrettably, the brunt of these consequences is disproportionately borne by already vulnerable countries, notably the least developed countries (LDCs) and small island developing states (SIDS).

Figure 2 Frequency and Magnitude of Natural Disasters, 1980-2020



Bhattacharya et al, 2021

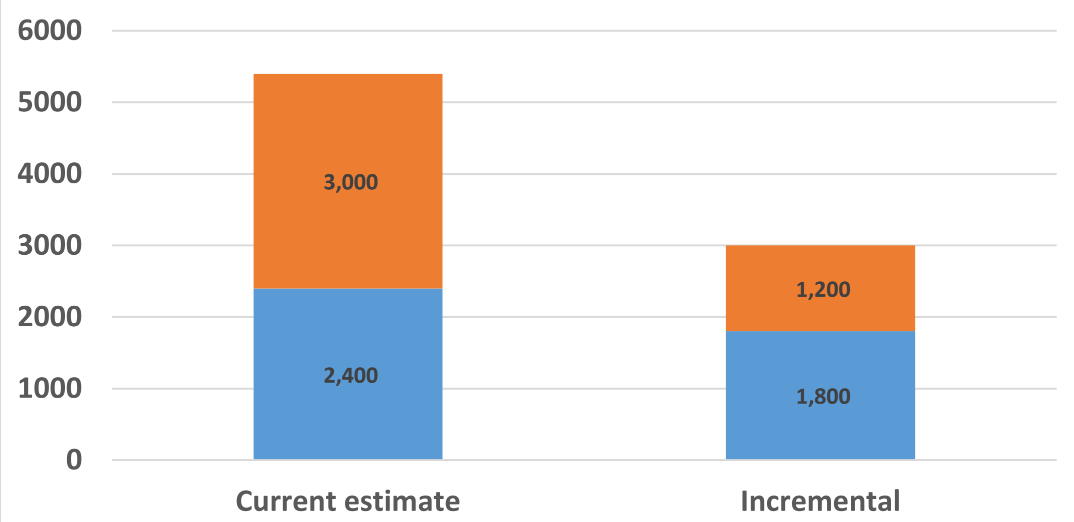
2. Financing Sustainable Development - The Challenges

The journey towards structural transformation, encompassing sustainable economic progress, has encountered multifaceted hurdles, some of which, like the recent pandemic, are exogenous. Financing is however, an important challenge because at its core, sustainable transformation requires significant investments, and the shortfall in financing and investments has impeded development outcomes. At the conception stage of the global agreements, early estimates of investment and financing needs revealed a daunting financing gap, surpassing the capacity of many Emerging Market and Developing Economies (EMDEs) at their level of development. Various estimates of the cost of reaching the SDGs range from \$1.4 Trillion to \$3.9 Trillion.[3] This translated into an additional 4 percent of GDP per annum investment in EMDEs, while Low-Income Countries (LICs) would need a staggering 15 percent of GDP per annum. The estimates presumed that increased domestic resource mobilization, of around 5-7 percentage points, would raise domestic revenue to the point that the remaining financing gap would be filled by external sources, including multilateral, bilateral, Official Development Assistance (ODA), and private investments, in line with the Monterrey Consensus. However, these assumptions have fallen short due to various reasons, resulting in an even larger resource envelope required to address the Sustainable Development Goals (SDGs) and climate change challenges. Recent estimates (Bhattachrya et al, 2023) indicate that overall pre-pandemic development spending was around \$3.0 Trillion, and even this need

[3] See UNCTAD (2014), Schmidt-Traub (2015), Manuel et al (2018), and Gaspar el al (2019)

to increase to approximately $5.3 trillion per year by 2030 (Figure 2). An analysis of the four different financing sources illustrates the specific challenges ahead.

Figure 3 Spending Requirement for SDG and Climate Investments
(Billions of dollars)

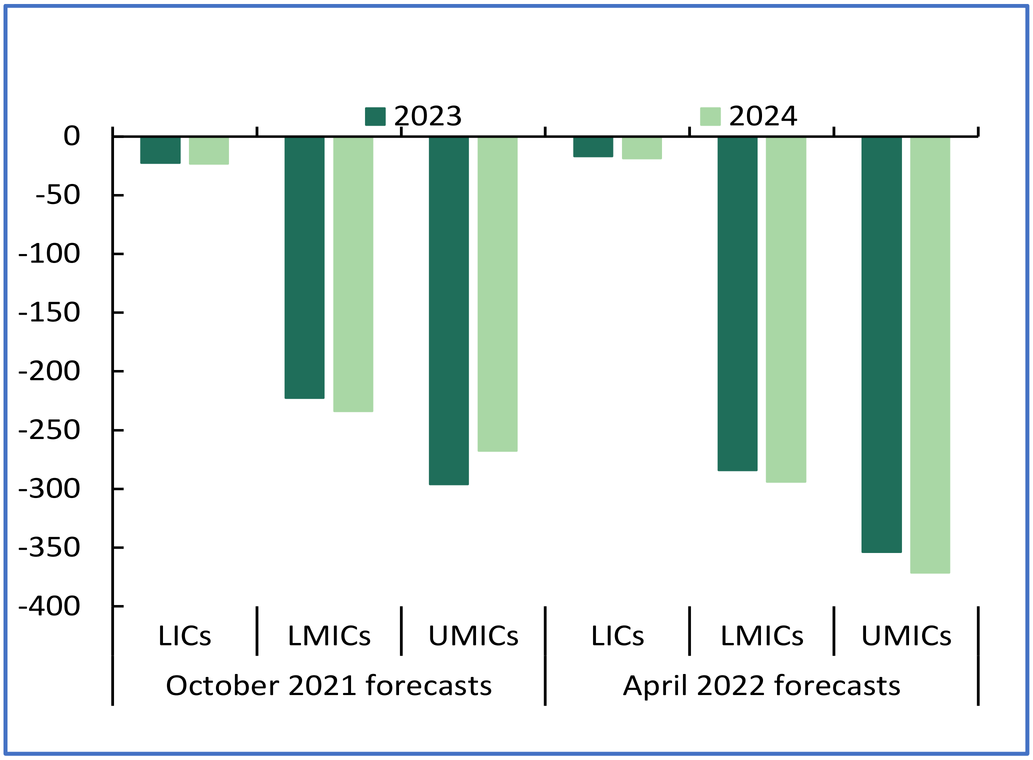


Source Bhattacharya et al (2023).

2a. Domestic Financing

Following a period of decent growth in EMDEs, the earlier progress on domestic revenue mobilization has stalled. EMDEs started off Agenda 2030 with momentum on their side. A virtuous cycle of savings, investment, exports, and growth enabled increased resource mobilization and higher levels of investments. This robust growth performance facilitated faster progress in poverty reduction. However, the decline in global growth from 2015 impacted revenue generation in many countries, hindering their ability to increase both public and private investments. The COVID-19 pandemic further exacerbated the already challenging environment, while the war in Ukraine stalled the recovery of government revenue in many countries, leading to significantly lower projected government revenues in the coming years. As a result, developing countries are facing around 20 percent lower government revenue in 2023, and 30 percent in 2024, relative to pre-pandemic projections (Figure 3). With reduced financing for investment, the disparity between development goals and actual outcomes for many nations is likely to widen.

Figure 4. Estimated change in government revenue relative to pre-COVID projections, (USD billions)

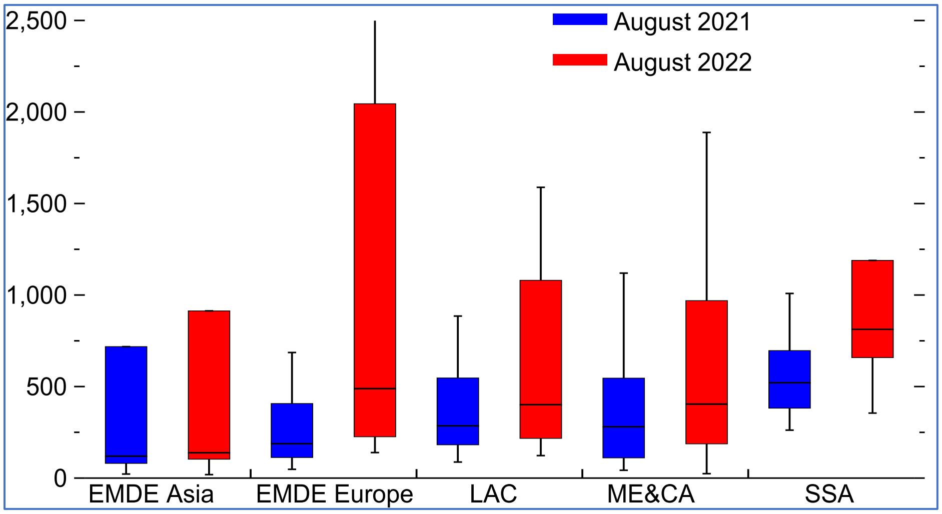


Data source: IMF World Economic Outlook databases, various years

2b. External Financing

Tightening external financing conditions have also added to the financing challenges. Official external financing from multilateral banks has not kept pace with the needs, and efforts to reform the global financial architecture to enhance the ability of Multilateral Development Banks (MDBs) to provide finance have been progressing slowly. Similarly, while ODA flows have been modest, global inflation is diminishing its purchasing power, and new humanitarian and development challenges are competing for attention. Furthermore, limited access to the private market for most Low-Income and Lower Middle-Income Countries (LICs and LMICs) restricts their ability to borrow on favorable terms. Additionally, their vulnerability to liquidity and balance of payments crises hinders the implementation of sustainable long-term investment strategies that could otherwise be supported by external private flows. Not surprisingly therefore, the pandemic-induced decline in external private flows to developing countries is projected to further accelerate, with the tightening of financial conditions due to the normalization of monetary policy in advanced economies (Figure 4). Portfolio investment and other investments are estimated to have declined by 50 percent and 45 percent, respectively, in 2022, while foreign direct investment (FDI) is projected to drop by 23 percent (IMF WEO, 2022).

Figure 5. Sovereign Debt Spreads, 2021 and 2022



Data source: IMF, WEO publications 2022

2c. Climate change and financing

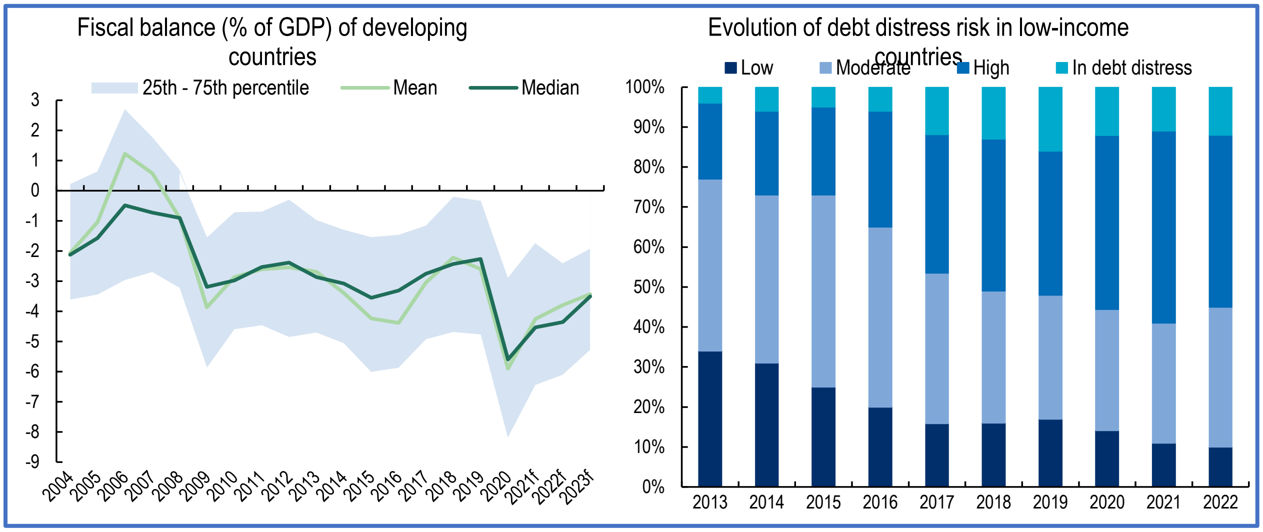
Climate finance has not kept up with the magnitude of the challenge, as major investments are required to ramp up climate action. Transformation of energy systems, investments in green public infrastructure; and reduction of emissions are all required to meet climate goals. Furthermore, the growing vulnerability of developing countries to environmental disasters and more frequent and damaging extreme events all require significant investments to be mitigated. Sadly, financial commitments have not kept pace with the magnitude of the needs. The long-standing inability of developed countries to meet their commitment to provide $100 billion a year for climate action to developing countries creates a huge vacuum in the achievement of sustainable development goals. While the recent introduction of a *Resilience and Sustainability Trust* facility by IMF has improved access to finance for countries with climate challenge, the instrument is not robust enough, and high debt levels keep many potential beneficiaries out. Further reforms of the delivery of climate finance by MDBs, including by the International Development Association (IDA) are needed.

2d. Debt financing

Elevated **debt** levels pose additional limitations on access to financing. Debt is an important component of financing, since whatever gap remains between domestic and official external financing could be filled by debt. Debt relief of the early part of the century provided enhanced fiscal space to take on new debt and invest in sustainable development. However, the economic slowdown since 2020 has pushed many countries into unsustainable debt paths. Currently, eight countries are in debt distress, and sixty-one countries are at risk of debt distress (Figure 6). External debt service in developing countries is projected to reach US$ 375 billion on average by 2025, representing a significant increase from the average of US$ 330 billion between 2015 and

2019. Low-Income Countries (LICs) face heightened rollover risk due to 45 percent of their outstanding debt maturing by 2024, compared to 36 percent for all developing countries, limiting the prospect of securing fresh financing for investment. Under the circumstance, there is limited space to take on new financing.

Figure 6 Fiscal balances and evolution of debt dynamics

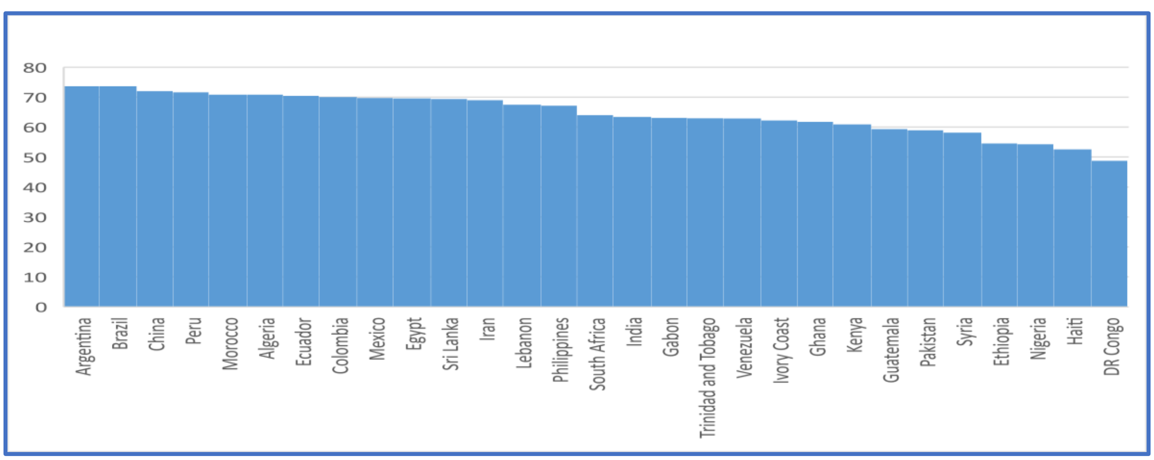


Source: Left side: IMF (2022[5]), World Economic Outlook, April 2022: Right side: IMF (2022[18]), Debt Sustainability Analysis Low-Income Countries (interactive guide), https://www.imf.org/en/Publications/DSA.

3. G-24 Countries – Progress on SDG

Considering these financing challenges, the overall progress for G-24 members on the SDGs is mixed. While some are making strides towards attaining the SDGs, many face inadequate investment levels, perpetuating the development divide. As of 2023, the mid-point year of the SDGs, only around a third of the countries have overall scores of 70 percent or above in a measure of the total progress towards achieving all 17 SDGs.

Figure 7. G-24 Countries - Progress on SDG



Data source: UN SDG progress Report, 2023

Failure to address financing gaps could lead to delayed investments in sustainable transformation, which would further jeopardize the attainment of the 2030 Agenda and climate targets, leading to a permanent divide in the long run. Consequently, there is an urgent need for increased international support to enable countries to recalibrate their efforts and get back on track with the Agenda.

4. Conclusion

The pandemic, geopolitical tensions, and macroeconomic instability, have exacerbated development challenges for many countries, reversing progress on sustainable and inclusive economic transformation. Extreme weather conditions are wreaking havoc, and progress is stalled in climate agreements. Weak growth translates to declining domestic revenue and fiscal constraints. On top of these, many of the poorest and most vulnerable countries face growing debt service burdens and tight financing conditions. At the same time, development needs and financing are growing, resulting in low levels of investment.

In recognition of the above, this meeting will review in more detail the financing challenges faced by countries in their journey towards sustainable economic transformation. Session 1, on Domestic resource mobilization, recognizes that increasing revenue is the starting point of any sustainable financing of public investments. It therefore focuses on domestic revenue administration and reforms of the international taxation. Session 2 appropriately focuses on external official and private financing. In the session, we will hear about the progress on reform of multilateral and regional development banks to help in closing development financing gaps, as well as unlocking private finance. Panel 3 argues that climate finance is not keeping pace with impact of climate change, calling for a significant scaling up of investment, and aligning finance with sustainability and impact. The final session reviews the sovereign debt architecture, new frameworks aimed at resolving sovereign debt distress and providing long-term relief that enhances the financing of sustainable economic transformation.

References

Bhattacharya, Amar, Vera Songwe, Nicholas Stern (2023). *The Paris Summit Agenda to Deliver on a New Global Financing Pact.*

Bhattacharya et al (2021), Ivanyna, Oman, and Stern. (2021). “Climate Action to Unlock the Inclusive Growth Story of the 21st Century.” IMF.

Daniel Gerszon Mahler, Nishant Yonzan, Ruth Hill, Christoph Lakner, Haoyu Wu, Nobuo Yoshida (2022), “Pandemic, prices, and poverty” https://blogs.worldbank.org/opendata/pandemic-prices-and-poverty

IMF (2021), *Macroeconomic Developments and Prospects in Low-Income Countries—2021*, https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/03/30/Macroeconomic-Developments-and-Prospects-In-Low-Income-Countries-2021-50312

Vitor Gaspar, David Amaglobeli, Mercedes Garcia Escribano, Delphine Prady, and Mauricio Soto (2019) *Fiscal Policy and Development: Human, Social, and Physical Investment for the SDGs.* IMF SDN 2019.

Manuel, Marcus, Narsh Desai, Emma Samman, and Martin Evans (2018) “Financing the End of Extreme Poverty.” Overseas Development Institute Report, London. https://www.odi.org/sites/odi.org.uk/files/resource-documents/12411.pdf.

Sachs, Jeffrey D, Guillaume Lafortune, Grayson Fuller and Eamon Drumm (2023) *Sustainable Development Report 2023 Implementing the SDG Stimulus* https://dashboards.sdgindex.org/rankings

Schmidt-Traub, Guido (2015) “Investment Needs to Achieve the Sustainable Development Goals—Understanding the Billions and Trillions.” SDSN Working Paper Version 2. http://unsdsn.org/wp-content/uploads/2015/09/151112-SDG-Financing-Needs.pdf

United Nations Conference on Trade and Development (UNCTAD) (2014) “World Investment Report, Investing in the SDGs: An Action Plan.” New York. https://unctad.org/en/PublicationsLibrary/wir2014_en.pdf

World Bank (2022). Poverty and Shared Prosperity Report: Correcting Course https://openknowledge.worldbank.org/entities/publication/a33782e6-415e-5699-a9a8-4a50dc4ae3bc

IMF WEO, various years https://www.imf.org/en/Publications/SPROLLS/world-economic-outlook-databases#sort=%40imfdate%20descending