VOICE
UN DESA

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# Urgent SDG funding needed to bridge 'great finance divide'

Since the Sustainable Development Goals (SDGs) were adopted in 2015, financing has been one of the key sticking points in delivering the goals by 2030 — and the inequalities caused by the COVID-19 crisis have made this challenge even greater.

The pandemic recovery gap between countries is widening. While developed countries borrow and invest to shore up their economies, many developing countries sink deeper into a cycle of unsustainable debt, austerity, slowing growth, and growing poverty and hunger. New conflicts are also contributing to rising commodity prices, interest rates and inflation around the world, with the most vulnerable being hit the hardest.

To reverse this divergence and prevent a lost decade for sustainable development, wealthy countries must do more to overcome this "great finance divide." For example, rich countries spend 3.5 per cent of their public revenue to pay interest on debt, while poor countries spend more than five times that much.

To keep the promise of leaving no one behind, developing countries should be able to invest their money in infrastructure and public services, not have their money tied up in debt. To do so will require improving access to affordable financing, creating a fair and effective international tax system, and reducing sovereign debt burdens.

These critical topics will be addressed this month at several key events organized by UN DESA:

- ECOSOC Special Meeting on International Cooperation in Tax Matters (8 April): Making progress towards a fair and effective international tax system will be in focus at this event. Participants will discuss options for fiscal measures to support more inclusive, resilient, and sustainable economies and societies. Solutions to increase domestic resources and chart a path forward for corporate tax reform would help developing countries increase their fiscal space to recover better. The event will also promote efforts to curb tax-related illicit financial flows.
- Launch of the 2022 Financing for Sustainable Development Report (12 April): The new report will present solutions to help countries find needed resources to close the finance divide and invest in sustainable development —for example, through strengthening the role of international public finance and addressing the high cost of financing on capital markets. It will also address rising risks of debt distress. The report will detail how countries can raise both new financing and align existing investment with combatting climate change and promoting gender equality, including rethinking incentives in the international financial system. The launch will be broadcast live on UN Web TV.
- The Future of Sustainable Development Financing" Global Policy Dialogue (14 April): Experts from around the world will explore how to ensure reliable access to affordable financing as well as how to improve the international system for resolving situations of unsustainable debt. This public dialogue is free, open to all and will examine further the key solutions proposed in the financing report launched on 12 April. To register: bit.ly/dialogue14april
- ECOSOC Forum on Financing for Development (FFD Forum) (25-28 April): The annual Forum brings together heads of State and Government, other high-level government officials, and leaders from international organizations, civil society and the private sector to review progress and make recommendations on financing the SDGs. This year's edition will highlight current issues such as building a sustainable and inclusive recovery and aligning the global debt architecture with the SDGs, drawing from the themes of the new 2022 Financing for Sustainable Development Report. The event will be broadcast on UN Web TV.
- SDG Investment Fair (26-28 April): In parallel with the FFD Forum, thought leaders and entrepreneurs from developing countries will have the opportunity to present high-impact, investment-ready projects to potential private sector investors. A panel of experts will provide feedback on the projects' contribution to the SDGs, ideas to increase the projects' bankability and raise resources, and relevant successful models to learn from. To register: bit.ly/April2022FairRegistration.

Strong action taken by the international community at these events to address the pressing financing challenges and fund climate and SDG action are our best hope to shrink the financing gap and ensure a healthy future for all.

# Credit ratings – why they matter for the global goals

Did you know that much like report cards for students, countries too have "grades" associated with them? One type of these "grades", called credit ratings, affect countries' cost of borrowing money. The ratings are given by just a handful of private companies, known as credit rating agencies (CRAs). To gain more insights on this topic, we talked to Shari Spiegel in UN DESA's Financing for Sustainable Development Office (FSDO).

Ms. Spiegel's team in UN DESA recently launched three new publications (DESA Policy Brief, FSDO Policy Paper and a DESA Working Paper), which explore the relationship of credit rating agencies to the debt challenges of governments and sustainable development progress. They introduce proposals to improve sovereign ratings to better support countries' progress on the Sustainable Development Goals (SDGs).

**Can you explain what the credit rating agencies (CRAs) are? Should we be concerned about their role in relation to the sovereign debt issues?**

"Yes, absolutely. Credit rating agencies are private companies that evaluate the credit worthiness of borrowers, including countries. They provide information to investors to help them assess countries' risks. Much like report cards for students, credit rating agencies assign letter grades to both countries and corporations that issue debt. Ratings between AAA (the highest rating) and BBB- are considered "investment grade", or roughly meaning low to moderate risks. Ratings between BB+ and D (the lowest rating) are commonly referred to as "speculative grade", meaning higher risks. Countries with lower ratings are considered to have a higher probability of defaulting on their sovereign debt, and generally face higher borrowing costs. We should remember that ratings are based on a range of factors that impact a country's risk of default and thus how expensive it is for the country to borrow."

**With the COVID-19 pandemic and the downturn of the global economy, many countries saw increasing debt levels. How has this affected countries and how have their "ratings" been impacted? Can you break it down for us?**

"The pandemic worsened countries' economic outlook. Many countries are now facing challenges to mobilize financial resources to respond to the pandemic and achieve the SDGs, while meeting their debt obligations. This has led credit ratings agencies to downgrade the ratings of many developing countries. Since some investors are not allowed by their rules to lend to "speculative grade" or high-risk countries, these downgrades can lead to what we call "cliff-effects." This means a large-scale sell-off of risky assets, such as developing country government bonds, when the issuer is downgraded to below investment grade status.

In 2020, credit rating agencies disproportionately downgraded the ratings of developing countries, despite their having seen smaller contractions of their economies compared to developed countries. This could be due to a number of factors, such as greater vulnerabilities of these countries, but the *appearance* of bias by credit rating agencies against developing countries hurts both the ratings industry and developing countries. Fear of ratings downgrades also impeded some countries from participating in official

debt relief programs, such as the G20's Debt Service Suspension Initiative (DSSI) – even though these would strengthen a country's ability to repay its debt."

And beyond the pandemic, are there other challenges from credit ratings for countries?

"Beyond the COVID-19 pandemic, credit rating agencies also have challenges in incorporating long-term risk factors such as climate risks in their ratings. The rating agencies have been doing more to incorporate risks from climate change in their assessments, but the relatively short time horizon for ratings, makes it difficult to appropriately reflect countries' long-term investments in resiliency and productive growth. These are all crucial factors to consider a country's path to sustainable development and achieving the SDGs."

How can countries avoid falling off the "cliff" and ensure that credit ratings are more consistent with long-term development goals?

"Here, I would raise four proposals to address these challenges. First, ratings agencies should be more transparent about their decision-making process, so that there would be less appearance of bias. For example, either the rating agencies, or a public entity, could model-based sovereign ratings for all countries, enabling investors to use this as a benchmark to help better distinguish between model-based inputs and value-added judgement inherent in sovereign credit ratings. Second, credit-rating agencies could develop long-term ratings, which incorporate positive effects of SDG investment. The use of scenarios for both economic and non-economic risks could make long-term assessments more manageable to produce. Third, credit rating agencies should increase dialogue with the public sector to gain a deeper understanding of government policies, including international official programs and initiatives related to debt sustainability. Fourth, investors, regulators, and rating agencies should work together to avoid cliff effects and rapid sell-offs of assets, by taking a more graduated approach to rating tiers, instead of the current split between investment grade and speculative grade categories. The UN DESA publications elaborate further on these proposals, so I welcome you all to read them!"

What about the role of the UN? How is UN DESA taking part in efforts?

"There are a variety of stakeholders involved on this issue, including users of credit ratings, the rating agencies, Governments, financial regulatory agencies, and multiple international bodies that work on financial regulation. One of the mandates of the United Nations is to improve coordination of the international economic and financial system, and we are working with partner institutions to discuss potential solutions.
UN DESA is also promoting new thinking on solutions on this issue. For example, in March we held a high-level meeting on the role of credit rating agencies, which can be watched online.

We will continue to engage with the rating agencies, investors, regulators and other actors to try to enhance developing countries abilities to borrow for investment in sustainable development."

Learn more about UN DESA's work in this area here.

# 4 indigenous causes to look out for this month

Every year, thousands of indigenous representatives gather for the UN Permanent Forum on Indigenous Issues. This is one of the main venues to address the challenges facing the world's more than 476 million indigenous peoples. From poverty and health issues to human rights and land rights violations, the hazards they face are many. Ahead of this year's Forum, here are 4 things you need to know.

1. Indigenous languages are at risk of extinction

It is estimated that every two weeks, a language dies with its last speaker. Out of the world's 7,000 languages, around 4,000 are indigenous and at risk of extinction. They are passed down from one generation to another, but they are often not used at school or in the public sphere. The loss of any language means the loss of culture, history and identity. The International Decade of Indigenous Languages 2022-2032 aims to put a stop to this trend and instead preserve, revitalize and promote indigenous languages. See how you can take part!

2. Indigenous resources are capitalized without consent

Business or individuals often profit from the exploitation of natural resources. In many cases, these resources are within the lands and territories of indigenous peoples. The extraction of these resources comes at the expense of these communities exacerbating environmental destruction and climate change. When indigenous communities resist, they frequently face severe risks, such as attacks on indigenous leaders and rights defenders. Follow this year's Forum to learn what must be done to change this.

3. Free, prior and informed consent are guiding principles

The Declaration on the Rights of Indigenous Peoples was adopted on 13 September 2007. It is the most comprehensive international instrument to protect the rights of indigenous peoples. It requires the consultation and cooperation in good faith with indigenous peoples to obtain their free, prior and informed consent before adopting legislative or administrative measures that may affect them. Governments, institutions and business should always make sure that decisions and actions they take do not violate indigenous peoples' rights. To gain further knowledge about this issue, browse this site.

4. The 2022 session of the Permanent Forum brings actors together

This year's Permanent Forum, taking place on 25 April-6 May 2022, will focus on business, autonomy and the human rights principles of due diligence including free, prior and informed consent. It will also continue to promote indigenous languages over the next decade and beyond. Follow the event live via UN Web TV and engage via social media following @UN4Indigenous and @UNDESASocial on Twitter and using the hashtags #UNPFII and #WeAreIndigenous!

For more information: 21st session of the UN Permanent Forum on Indigenous Issues

*Photo credit: Mapu Huni Kuin in Times Square/Ivan Sawyer*

SDG BLOG Mahmoud Mohieldin,
UN Secretary-General's Special Envoy
on Financing the 2030 Agenda

# Financing for the way forward for sustainable development

*By Mr. Mahmoud Mohieldin, UN Secretary-General's Special Envoy on Financing the 2030 Agenda for Sustainable Development*

As we enter the third year of the pandemic, the world faces gross inequalities, a climate crisis and an economic depression not seen in decades. Worse still, the conflict in Ukraine will be a major blow to the global economy. Once again, developing countries least able to cope with the impacts of these interrelated and cascading crises will be hit hardest.

While some parts of the world are picking up the pieces and slowly recovering, many others are being pushed further behind. Developing countries have only 24 COVID-19 vaccine doses per 100 people, versus 148 doses per 100 people in developed countries. By the end of 2023, the size of the economy in one out of five developing countries will still be below pre-pandemic levels, compared to developed countries returning to pre-pandemic growth paths. The war in Ukraine may also push an additional 40 million people into extreme poverty, on top of the approximately 120 million pushed into poverty over the past two years.

Before the war in Ukraine, 44% of the developed economies and 71% of developing economies were experiencing a more than 5% rise in inflation rates. Now, with hikes in energy and food prices and increased shipping and insurance costs, inflation will grow more acute, especially in developing countries that rely heavily on food and fuel imports from the two countries at war.

45 African and least developed countries import at least one-third of their wheat from Russia or Ukraine—while 18 of those countries import at least 50%. In my own country of Egypt, this number reaches over 80%. As occurred at the start of the Arab Spring and the food riots of 2007-2008, this confluence of factors is creating a perfect storm for political instability and unrest, not only in the Arab Region, but across the world.

Faced with the three threats of "food, fuel, and finance", many emerging markets and developing countries now face a dilemma: borrow and risk a debt crisis or choose austerity and risk a development crisis. The "great financing divide" – the inability of poorer countries to borrow affordably for investment – has been a key driver of developing countries being unable to respond to the pandemic. African countries are paying five to eight times the interest cost on their borrowing compared to developed countries. About 60% of LDCs and other low-income countries are now assessed at being in high risk of debt distress or in debt distress, up from 30% in 2015.

To build back better, the United Nations' Secretary-General has put forward an ambitious agenda – Our Common Agenda– with financing for development one of its main pillars for action. Ensuring sustainable and inclusive development for all people and countries, including the poorest, is vital for global economic and social progress. To get there, the world needs to act fast on two fronts: one, ensuring all countries have the immediate fiscal space to survive today's multiple crises, and two, promoting solutions to address the systemic flaws in our global financial architecture that allowed the COVID-19 crisis to spiral into the full-fledged humanitarian crisis it became in the first place.

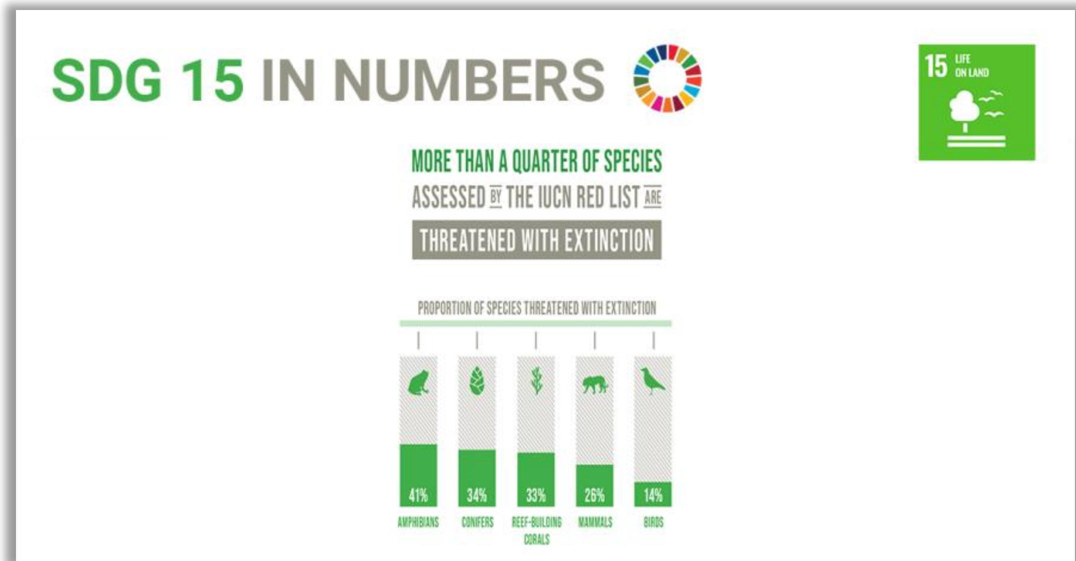
First, an integrated, holistic approach to sustainability of implementation must be taken, with climate action firmly placed within the context of the 2030 Agenda for Sustainable Development. This is embodied in the interconnectivity and indivisibility of the 17 SDGs, on which I had the honor to contribute to in various discussions since the Conference on Sustainable Development was held in Rio de Janeiro in 2012. Now, more than ever, stakeholders need to work together to minimize trade-offs and increase synergies between different, and often competing, sector-focused goals.

Second, SDG-based budgeting should be developed as the starting point at home to mobilize domestic resources and channel them towards achieving the SDGs. Strengthening public financial management and budget execution can help maximize the effectiveness of government expenditure. Integrated national financing frameworks (INFFs) can help to align financing policies, budgets, and strategies with national investment priorities and sustainable development strategies. Effective implementation of SDG budgeting could not only help governments to set priorities and avoid unnecessary overlap or coordination failure, but can be also helpful for international financial institutions, the private sector and other stakeholders in identifying potential areas of cooperation.

Last but not least, data systems for SDG progress, especially in the increasing digitalized world, are needed to guide our policymaking, identify priorities, determine the feasibility of projects and assess their performance. We need investment in data innovation and strengthened systemic statistical capacity to obtain more accurate, timely and comprehensive data to make the SDGs an action-oriented framework that can drive policies and programmes in real time for all people.

The world merits a recovery that lives up to the 2030 Agenda's principle of leaving no one behind. As we call for closing vaccine and fiscal gaps in our economic stimulus packages, and for increasing support to countries' suffering the brunt of the impacts of the war in Ukraine, our focus must be on directing investments to foster inclusive, sustainable, and resilient growth. We need to invest our way out of today's crises, while reducing inequality and increasing resilience against the next one.

** The views expressed in this blog are the author's and do not necessarily reflect the opinion of UN DESA.*



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