



IMPACT OF THE CONFLICT IN THE MIDDLE EAST ON DEVELOPMENT FINANCING

INTRODUCTION

The conflict in the Middle East that broke out on 28 February 2026 is the latest in a series of compounding global shocks. It follows the COVID-19 pandemic, more frequent and severe climate-related disasters, and a broader trend toward geoeconomic fragmentation. Beyond its human toll, the conflict has severely disrupted the global economy, trade and financing flows. Developing countries have been disproportionately affected by these crises. As illustrated in the 2026 Financing for Sustainable Development Report—the poorest and most vulnerable among them are already facing high costs of capital, fiscal pressures from high debt service burdens, sharply declining official development assistance (ODA) and trade and investment disruptions. This financing squeeze, compounded by external shocks, undermines their development prospects and progress in implementation of the 2030 Agenda. While the full-implementation of a peace agreement would mitigate the immediate human, economic and financial impacts, bringing much-needed relief, the crisis is likely to have long-lasting effects on the implementation of the 2030 Agenda and risks reversing hard-won development gains.

The first section of this policy brief highlights the main transmission channels of the current shock. Section II identifies countries most exposed to and least equipped to deal with it, particularly from a financing for development perspective. The brief concludes with a set of policy recommendations in Section III, anchored in the Sevilla Commitment¹ that set out a renewed global framework for financing for sustainable development. The recommendations include both immediate response measures and longer-term domestic and international actions to strengthen resilience to future shocks.

I. Shocks and transmission channels

The Strait of Hormuz is a critical chokepoint for global trade, particularly in fossil fuels and fertilizers. Its closing has caused a massive supply shock to the global economy. The shock threatens the global economy through three main transmission channels:

- **Higher energy and food prices:** before the conflict, the Strait handed 38 per cent of global crude oil production, 19 per cent of liquefied natural gas and 13 per cent of chemicals, including fertilizers. Daily ship traffic has

Key Messages

- » The conflict in the Middle East—the latest in a series of major shocks to the global economy—has hit developing countries the hardest, due to their greater economic and financial exposure and their more limited macroeconomic capacity to respond.
- » Asian countries are most exposed to the energy shock; African countries and LDCs are most exposed to the food price shock, and also have the least capacity to respond.
- » In the short-term, countries can provide targeted, temporary support for vulnerable households that are proportional to the severity of the shock to mitigate its impact.
- » International and domestic reforms can build on the Sevilla Commitment to strengthen resilience against future shocks. Central to this is a more responsive Global Financial Safety Net—one that draws more on pre-arranged instruments, backed by strengthened early warning systems and forecasting tools.

dropped by 95 per cent, from around 100–130 ships per day in February 2026 to an average of less than 20 ships a day between 28th February and 14th June 2026.² The reduction in oil and gas supplies has led to a sharp price increase in March and April (see figure 1, panel A), with Brent crude frequently exceeding \$100 per barrel and driving up natural gas prices in both Asia and Europe to their highest levels since 2023 amid strong volatility. In some countries, these reductions in global supplies risk leading to effective shortages. The [FAO Food Price Index](https://www.fao.org/worldfoodsituation/foodpricesindex/en)³ rose for three consecutive months between February and April, amid higher vegetable oil, meat and cereal prices, before stabilizing in May and June. Fertilizer prices also surged, with global urea prices rising 49 per cent above pre-conflict levels during the first two months of the conflict. Higher food prices raise the risk of food insecurity.

- **Tightened financing conditions:** Bond yields have increased across the board and remain above the pre-conflict levels for many countries. Median yields across developing countries are 45 basis points higher than pre-conflict levels.⁴ Many developing countries also

¹ A/RES/79/323.

² <https://unctad.org/publication/strait-hormuz-disruptions-beyond-reopening-lasting-impacts-vulnerable-economies>.

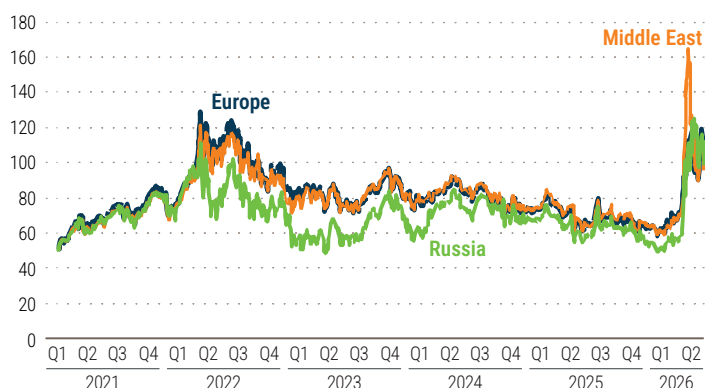
³ <https://www.fao.org/worldfoodsituation/foodpricesindex/en>.

⁴ For countries with available data (49 developing countries in total). Yields represent yields-to-maturity on intermediate-term external (USD) bonds. Data as of 29 July 2026.

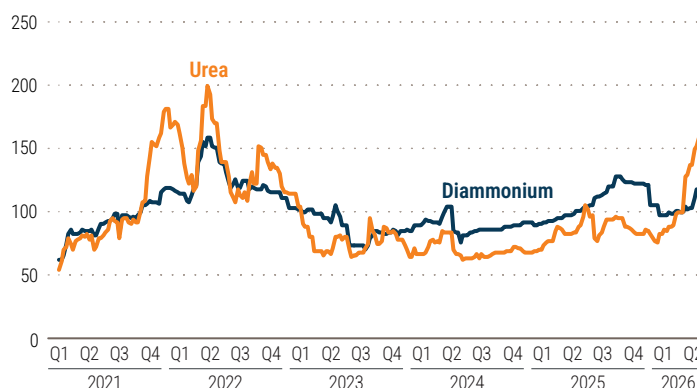
Figure 1

Crude oil and fertilizer prices

a) Daily crude oil prices, in dollars per barrel



b) Fertilizer prices, weekly price index, 27 February 2026=100



Source: UN Trade and Development (UNCTAD), based on LSEG Datastream and LSEG Data & Analytics.

face limited reserves and exchange rate depreciation, leading to increased balance-of-payments pressures. Coupled with higher energy and food prices, these depreciations have added to inflationary pressures: in the 6 months since the beginning of February, at least 13 developing and 5 developed countries' central banks have raised interest rates.⁵

- **Economic fallout from the disruptions in the Gulf:** Higher fuel costs and air traffic disruptions have reduced international tourism. Small island developing States (SIDS) are especially vulnerable to a downturn in tourism. Developing economies with significant remittances from Gulf countries could also face reduced inflows: Kenya—which counts around 500,000 workers in the Gulf region—saw a 10 per cent decrease in global remittances in May 2026 compared to May 2025.⁶
- **These disruptions are already reflected in more pessimistic growth and inflation forecasts, and will hamper SDG progress.** UN DESA's mid-2026 update projected global growth to slow to 2.5 per cent in 2026, before edging up to 2.8 per cent in 2027—a downgrade from January forecasts and well below pre-pandemic norms.⁷ The energy shock has also halted the global disinflation trend, with higher energy prices feeding through to broader costs across the economy. In developing economies, inflation is projected to rise from 4.2 per cent in 2025 to 5.2 per cent in 2026. With developing countries disproportionately affected, the shock risks hampering critical investments in sustainable development and slowing progress toward the achievement of the Sustainable Development Goals (SDGs).

⁵ Among developing economies, these include central banks of Colombia, Ethiopia, Georgia, Indonesia, Mauritius, Moldova, Pakistan, Philippines, Rwanda, South Africa, Sri Lanka, Tanzania, and Ukraine. Among developed economies, these include Bank of Japan, European Central Bank, Norges Bank, Reserve Bank of Australia and Reserve Bank of New-Zealand.

⁶ <https://kenyanwallstreet.com/diaspora-remittances-turn-negative-2026>.

⁷ These are projections reported by UN DESA *World Economic Situation and Prospects as of mid 2026*.

II. Identifying countries most at risk

To better identify the challenges that countries are facing, we constructed a cross-sectional dataset covering 190 countries across 18 indicators, grouped into two main dimensions: **(1) Exposure** and **(2) Capacity to Respond** (See Table 1). The heatmap helps identify which regions and country groups are likely to be more affected by specific transmission channels (food, energy). This also reveals where demand on the GFSN is likely to increase, as countries facing both high shock exposure and limited policy space are more likely to require support from international financial institutions.

We define **exposure** as the degree to which a country's economy is susceptible to shocks transmitted through energy, food and financing channels. We define **capacity to respond** as governments' capacity to implement measures that soften the economic fallout from the conflict, as adopted from World Bank (2026). Table 1 show the list of selected indicators. Tables 2 and 3 detail results for each indicator by region.

Table 1

Exposure and capacity to respond indicators

Exposure to the conflict	Energy-related indicators	Oil and gas net imports; share of oil and gas imports from the Gulf countries; energy import dependency for domestic use; (pre-conflict) fossil fuel subsidies
	Food-related indicators	Cereals and fertilizers net imports; share of fertilizers imports from Gulf countries; cereals imports dependency for domestic consumption
	External financing indicators	Official development assistance; Share of remittances from Gulf
Capacity to respond	External buffers	Current account balance; reserves in months of import; IMF access space; external financing needs
	Fiscal space	Debt service; fiscal position; WB-IMF debt sustainability analysis (DSA) ratings
	Monetary space	CPI as per cent change at end-of-period; Most recent inflation data compared to 3-years benchmark; Exchange rate regime.

II.1. Developing countries are more at risk of being affected economically and financially by the conflict

Developing countries are more exposed to imports from the Gulf for oil, gas and fertilizers. They also rely more on external financial flows such as ODA, as well as remittances from Gulf countries. At the same time, developing countries generally have more limited capacity to respond to the shock. On average across countries in the sample, developing economies record a current account deficit of about 2.5 per cent of GDP, while developed economies exhibit a small average surplus.⁸ Developing economies in the sample exhibit slightly larger fiscal deficits than developed economies and sharper inflationary pressures, narrowing both their fiscal and monetary policy space (see also Figure 2 below).

Tables 2 and 3 (see page 4) detail results for each indicator by region.

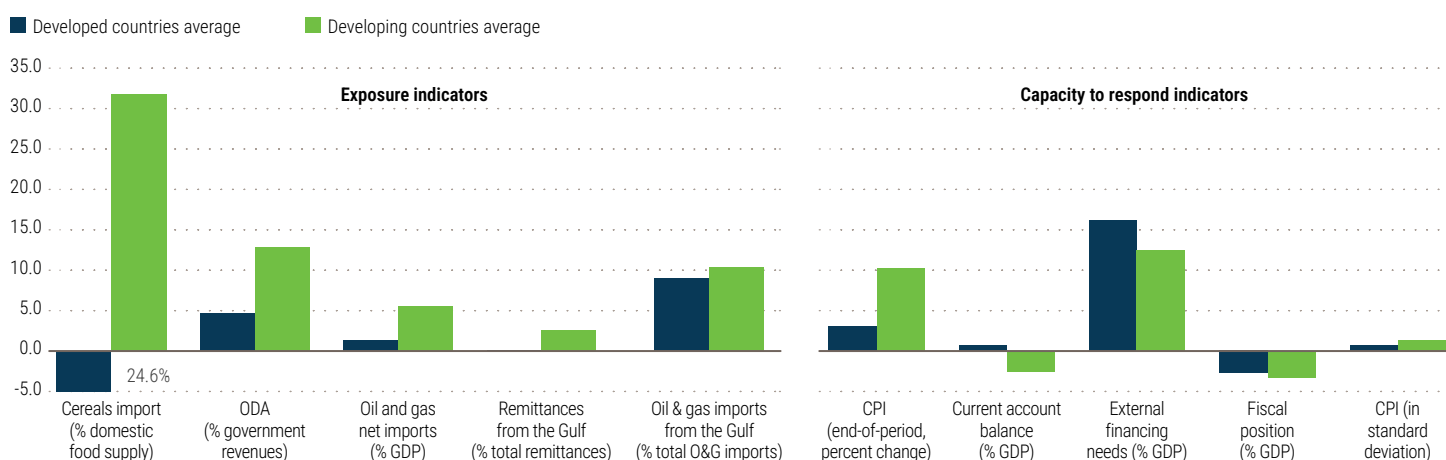
countries across indicators, we focus on geographic regions (Africa, Asia and Latin America and the Caribbean) and countries in special situations (LDCs, LLDCs and SIDS).⁹

Exposure

- Asia stands out as the region most exposed to the energy shock from the conflict.** The region records significant exposure to oil and gas imports from Gulf countries (an average of +19.35 percentile points (pp) relative to the developing country benchmark), alongside high energy import dependency (+7.91pp) and particularly elevated fossil fuel subsidies (+15.08pp). Overall, countries in Asia on average face the greatest exposure to the energy shock (+6.59pp). Out of the 20 countries with the highest energy exposure, 12 are Asian countries. On Figure 3 (page 5), the orange shaded lower-right quadrant highlights countries with relatively low capacity to respond and high energy exposure.

Figure 2

Select exposure and capacity to respond indicators, group average, developed versus developing countries



Source: UN DESA calculations. Data come from the latest year available.

Notes: Country groupings follow the United Nations classification. In each of the two dimensions (exposure and capacity), indicators are ordered by the size of the gap between the developed country average and the developing country average, highlighting where differences are greatest. The average for ODA among developed countries is significantly influenced by one outlier (Ukraine). For the CPI compared to 3-years benchmark indicator, we measure the difference between the most recent CPI and the average over the most recent three-year period in each country, with standard deviation of CPI over the same three years being the measurement unit. It is intended as a proxy of monetary policy space—the more the latest CPI exceeds the 3-year benchmark, the less room a country has to adopt an accommodative monetary policy stance.

II.2. Amongst developing countries, African countries and least developed countries (LDCs) have higher exposure on average, with a lower capacity to respond

To facilitate comparability across indicators expressed in different units and scales, all variables were converted into percentile ranks across the sample of countries. This transforms each indicator into a score ranging from 0 to 100, reflecting a country's position relative to other countries in the sample. For instance, an exposure score of 80 means that the country ranks above 80 per cent of countries in the sample. Using the benchmark averages of developing

- Africa and LDCs are the most vulnerable groups in terms of food security.** Africa is the most exposed region to the food score (+3.15pp), mainly because it records the highest cereals and fertilizers net imports (+12.81pp) among all regions examined in this paper. Among countries in special situations, LDCs, most of which are located in Africa, are the most exposed (+12.71pp). Out of the 20 countries the most exposed to cereals and fertilizers net imports, 14 are African countries, 15 are LDCs.

⁹ Composite scores use equal weights across sub-scores, while indicators within each sub-score are also equally weighted. As a result, charts should be interpreted carefully and only as a broad indication of relative exposure patterns and capacity to absorb the shock.

⁸ These are simple averages, not GDP-weighted.

Table 2

Exposure indicators, by region

	Exposure indicators								
Region	Oil & gas net imports (percent of GDP)	Oil & gas imports from the Gulf (percent of total oil & gas imports)	Cereals & fertilizers net imports (percent of GDP)	Fertilizers from the Gulf (percent of total fertilizers imports)	Energy imports dependency (percent of energy use)	Cereal imports dependency (percent of domestic food consumption)	ODA (percent of government revenues)	Remittances from the Gulf (percent of total remittances)	Fossil fuel subsidies (percent of GDP)
Central Asia	-4.25	0.24	0.31	19.02	-33.1	13.4	2.3		4.4
Eastern Asia	2.09	25.37	0.19	16.16	-6.7	49.8	2.1		0.3
Latin America and the Caribbean	1.10	1.42	0.56	19.95	10.7	-15.3	2.6		0.5
Northern Africa	-11.21	15.44	-0.18	57.47	-32.2	67.9	36.2	12	1.8
South-eastern Asia	0.71	15.55	-0.52	59.67	8.6	13.2	8.2	5	0.7
Southern Asia	3.89	29.30	0.46	36.59	21.9	31.2	3.2	18.2	1.2
Sub-Saharan Africa	0.87	13.02	2.20	24.10	-49.9	43.4	17	0.4	0.1
Western Asia	-13.13	14.60	0.54	57.87	-100.6	79.3	19.6	6.7	2.3

Sources: UN DESA calculations; CEPII BACI bilateral trade database; FAO; World Economic Outlook, International Monetary Fund; International Debt Statistics, World Bank; KNOMAD, World Bank. Data come from the latest year available.

Note: Heatmap thresholds are defined using green for the lowest values, yellow for regions above the 50th percentile of the distribution, red above the 90th percentile. Oil, gas, cereals and fertilizers exports and imports are measured using Harmonized System (HS) codes 2709 (crude oil), 2710 (refined oil), 2711 (petroleum gases and other gaseous hydrocarbons), chapter 10 (cereals) and chapter 31 (fertilizers) from the Database for International Trade Analysis (BACI). The rationale for the ODA indicator is that in the context of falling ODA, the most recent crisis might lead to a further reduction in the provision of such concessional financing for recipient countries, if there is a prioritization of humanitarian responses and/or countries directly affected by the conflict.

Table 3

Capacity to respond indicators, by region

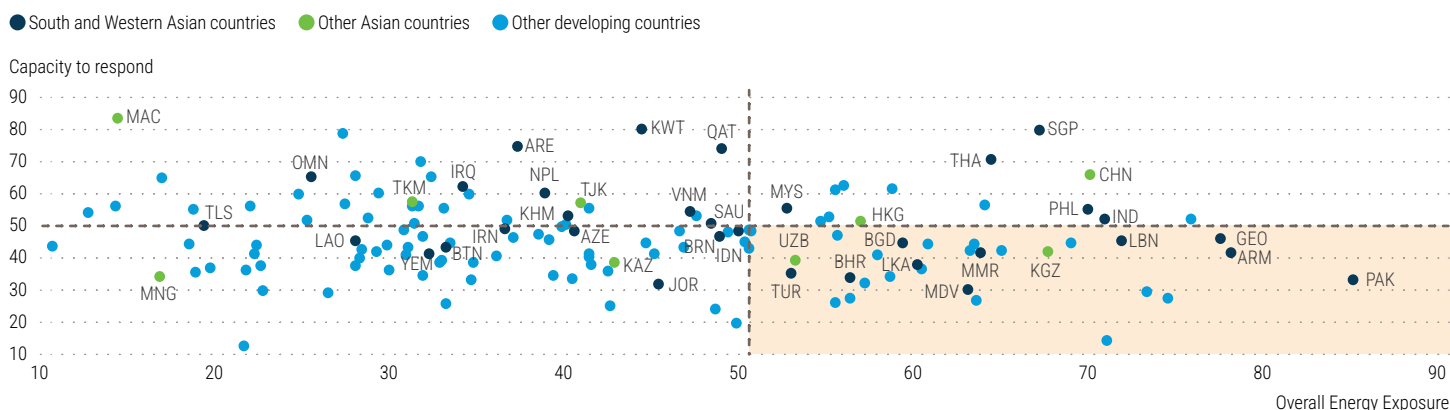
	Capacity to respond indicators									
Region	IMF access space (percent of quota)	Current account balance (percent of GDP)	Reserves (months of imports)	External financing needs (percent of GDP)	Debt service (percent of revenues)	Debt sustainability risk rating (score)	Fiscal position (percent of GDP)	Consumer price index (CPI) (percent change)	Most recent CPI data compared to three years benchmark (standard deviation)	Exchange rate regime (score)
Central Asia	575.8	-1.8	8.6	15.5	9.3	1.8	-2	7.4	1.2	5.6
Eastern Asia	560.9	9.2	11.1	20.2	8.2	2	-2.5	3.3	0.7	5.8
Latin America and the Caribbean	452.8	-3.6	5.7	11.5	12.6	2	-3.5	21.8	0.8	5.0
Northern Africa	483.5	-2.7	5.4	15	18.9	3	-6.7	12.8	3.4	4.7
South-eastern Asia	597.1	0.5	6.3	12.3	10.7	1.6	-7.7	4.6	0.1	6.1
Southern Asia	440.8	-2.5	5.5	6.2	12.9	2.3	-5	8.4	1.2	5.5
Sub-Saharan Africa	384.8	-4.9	5	10.2	12.6	2.6	-3.1	7.1	2.1	5.3
Western Asia	551.8	0.7	5.7	28.7	8.3	1.4	-1	7.4	0.5	5.3

Sources: UN DESA calculations; CEPII BACI bilateral trade database; World Economic Outlook, International Monetary Fund; International Debt Statistics, World Bank. Data come from the latest year available.

Note: Heatmap thresholds are defined using green for the lowest (highest) values, yellow for regions above (below) the 50th percentile of the distribution, red above (below) the 90th percentile. IMF access space is measured as the difference between the total access limit (600 per cent of quota) and IMF borrowing expressed in share of quota. For external financing needs, we follow [World Bank \(2026\)](#) and measure it by the sum of current account deficit, short-term external debt, and debt service payments for long-term external debt. For WB-IMF debt sustainability analysis (DSA) ratings: 1 = low risk; 2 = moderate; 3 = high risk; 4 = debt distress. For the CPI compared to 3-years benchmark indicator, see note under Figure 2. For the exchange rate regime, we use the IMF's AREAER classification, with exchange rate regimes being assigned an ordinal score ranging from the less flexible (1= no separate legal tender) to the most flexible (10= free floating). For countries with a fixed exchange rate, monetary policy is constrained even under low inflation.

Figure 3

Asian countries are on average more exposed to the energy shock

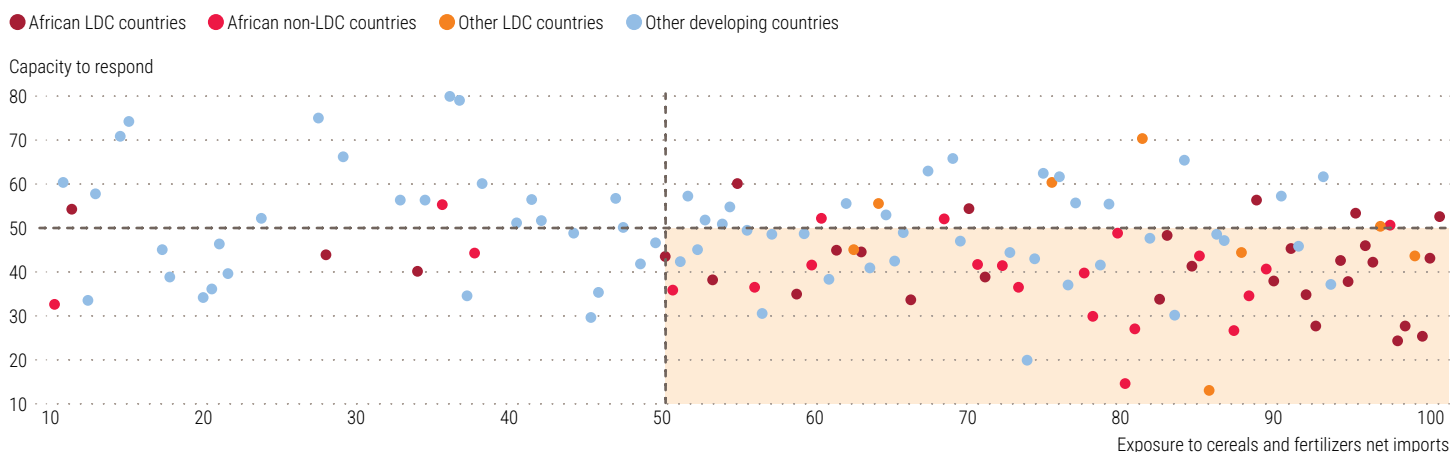


Source: UN DESA calculations.

Note: Exposure should be read upwards: the higher the exposure score, the greater a country's vulnerability to a severe shock. Capacity to respond should be read downwards: the lower the capacity score, the more limited a country's ability to absorb and respond to the shock. Capacity to Respond score combines three sub-scores reflecting countries' macroeconomic and financial resilience: (i) external buffers, (ii) fiscal space, and (iii) monetary policy space, as depicted in Figure 2. High energy exposure indicated greater vulnerability to energy shocks, whereas a lower response capacity indicates more limited ability to absorb shocks. The energy exposure sub-score combines the four related indicators (as depicted in Figure 2), with a simple average: oil and gas net imports, oil and gas imports from Gulf countries, energy import dependency, and fossil fuel subsidies.

Figure 4

Africa and LDCs are on average more exposed to food shock, with a low capacity to respond



Source: UN DESA calculations. Note: the orange shaded lower-right quadrant highlights countries with low capacity to respond and high exposure.

- **Reliance on ODA and remittances is overwhelmingly concentrated among LDCs (+15.66pp).** Remittances from Gulf countries are also strongly above average in Asia (+19.44pp).
- **Overall, exposure scores are slightly higher among LDCs (+3.90pp),** highlighting their broader structural vulnerability to the shock. Geographically, Asia is the most exposed region (+4.47pp).

Capacity to respond

- **African countries have the least capacity to respond,** reflecting more limited external, fiscal and monetary policy space relative to the developing country benchmark. External buffer, fiscal space and monetary space indicators are below average in Africa (respectively

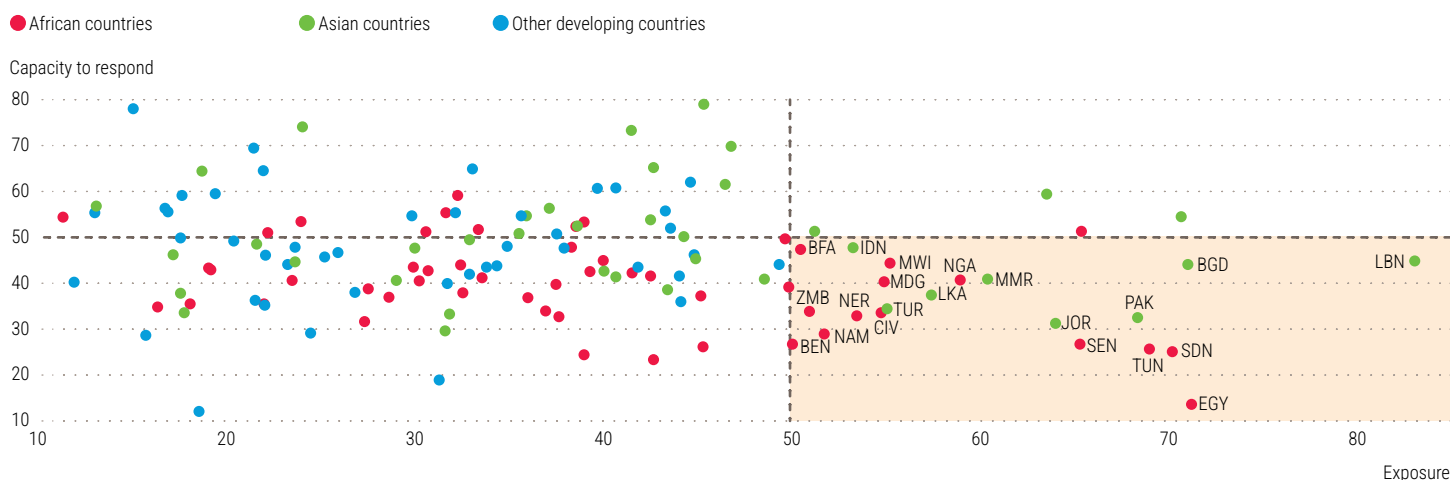
-6.10, -3.34 and -7.51pp). Monetary policy space is particularly constrained among LDCs and LLDCs (-6.71 and -9.12pp), pointing to reduced room for macroeconomic adjustment in the event of a shock.

- **Overall, the capacity to respond score highlights important divergences across country groups.** Asia (+6.07pp) and SIDS (+5.06pp) display the strongest resilience, while Africa (-7.18pp), LDCs (-4.88pp) and LLDCs (-4.89pp) remain below the developing country benchmark.

Figure 5 combines sub-scores to give an overall picture: (i) the energy sub-score, (ii) the food sub-score, and (iii) the reliance on ODA and remittances sub-score. The Capacity to Respond score combines three sub-scores reflecting countries' macroeconomic and financial

Figure 5

Developing countries most vulnerable to the shock are concentrated in Africa and Asia



Source: UN DESA calculations.

Note: the orange shaded lower-right quadrant highlights countries with low capacity to respond and high exposure. The Exposure score combines three sub-scores capturing countries' vulnerability to external shocks: (i) the energy sub-score, (ii) the food sub-score, and (iii) the reliance on ODA and remittances sub-score. Capacity to Respond score combines three sub-scores reflecting countries' macroeconomic and financial resilience: (i) external buffers, (ii) fiscal space, and (iii) monetary policy space.

resilience: (i) external buffers, (ii) fiscal space, and (iii) monetary policy space.

While these composite indicators should be interpreted with caution, as it aggregates different economic and financial dimensions, Figure 5 provides an overview of developing countries that can be considered most at risk (high exposure, low capacity to respond). It confirms that, beyond the countries directly affected by the conflict, countries the most vulnerable to the shock are concentrated in Africa and Asia.

III. Policy recommendations

The International Energy Agency has identified 109 countries that have implemented energy-related measures in response to the crisis, ranging from short-term actions on the demand side to structural policies to strengthen long-term resilience. UNDP estimates that fossil fuel subsidies are on track to reach \$1.1 trillion globally in 2026, \$410 billion more than in 2025, as governments seek to shield consumers and businesses from higher international energy prices.¹⁰

At the international level, the International Energy Agency, International Monetary Fund, and the World Bank Group formed a coordination group to maximize their institutions' response. The World Bank announced that it would make up to \$50–60 billion available through existing instruments and that eligible countries could draw on pre-arranged contingent financing to access an estimated \$20–25 billion. The institution could hence front-load the International Development Association (IDA)'s Crisis Response Window and fast forward the approval of IDA reprogramming for fast-disbursing loans. The International Monetary Fund (IMF) expects

its balance-of-payments support to increase, potentially ranging from \$20 billion to \$50 billion. It highlighted that most countries vulnerable to the crisis are already under IMF programs, while noting that adjustments to existing programs and additional ones are likely.

In the short-term, countries can implement critical policy measures to mitigate the impact of the shock, depending on their exposure and capacity to respond.

Countries can reduce demand for oil and gas by households and businesses (e.g. encourage working from home, reduce highway speed limits, leverage flexibility with petrochemical feedstocks). If countries can afford an active fiscal response, these actions should be complemented by targeted and temporary measures, including financial assistance, proportional to the severity of the shock, with special focus on the poorest households. Cash support, government-backed loans and guarantees or tax payment deferrals can support businesses, including farmers and small- and medium-sized agribusinesses to avoid costly bankruptcies. Governments must also build alternative energy and fertilizer trade routes wherever possible and avoid export restrictions in order not to exacerbate global shortages.

As this most recent shock coincides with large ODA cuts, bilateral donors should focus scarce concessional resources on the most vulnerable countries, particularly LDCs. While this brief has focused on vulnerable countries, some net exporting countries may also experience temporary gains from higher oil, natural gas, or fertilizer prices. In such cases, the resulting windfall revenues should be managed prudently, including by rebuilding fiscal buffers, strengthening macroeconomic stability, and investing in long-term development and resilience, rather than amplifying procyclical spending.

Beyond these immediate crisis-response measures, longer-term efforts are needed at domestic and international levels. Implementing the Sevilla

¹⁰ <https://www.undp.org/publications/military-escalation-middle-east-cushioning-global-shock>.

Commitment—the renewed global financing for development framework adopted at the Fourth International Conference on Financing for Development (FFD4) in June 2025—would help build a more resilient international financing architecture and strengthen countries’ capacity to prevent and absorb external shocks.

The Global Financial Safety Net (GFSN) must become more responsive to shocks.

Financing mechanisms should increasingly rely on pre-arranged instruments, including insurance and contingency financing that can be activated rapidly when crises materialize. Early warning systems, real-time data, and advanced forecasting tools can help identify risks before they escalate, allowing institutions to disburse emergency funding more quickly and effectively. The Financing for Shock-Driven Food Crisis (FSFC) from the FAO is one example of a financing facility that aims to anticipate, prevent, and respond to escalating food emergencies before they escalate.¹¹

The Sevilla Commitment calls for the expanded use of debt pause clauses in official lending and for promoting their uptake in commercial lending, which can help countries temporarily reallocate scarce resources from debt service towards emergency response. Recent proposals, such as the one by the London Coalition on Sustainable Sovereign Debt, emphasize the importance of scalable and standardized approaches, with broad triggers capable of responding to a wide range of shocks. The Spain-led

Debt Pause Clause Alliance, launched under the Sevilla Platform for Action, could serve as an important vehicle for maintaining momentum and promoting standardization across creditors.

Improving system-wide coherence and reducing fragmentation across the international financial architecture remains a central priority. The effectiveness of the system depends not only on the volume of financing available, but also on whether institutions and instruments operate coherently. To strengthen countries’ ability to cope with crises and invest in sustainable development, the Sevilla Commitment calls for greater cooperation, coherence, coordination and complementarity among development, disaster risk reduction, humanitarian action and sustaining peace.

Countries should build resilience to future shocks at home.

Investments in renewable energy should be scaled up to reduce countries’ reliance on fossil fuels exposure to future supply shocks. Windfall taxes could be an important incentive device to support this transition: as the conflict has significantly increased energy prices, oil companies are expected to reap windfall profits, and experience from 2022 shows that such taxes can generate revenues without raising consumer prices. Developing countries should be supported in designing and implementing them. They can also benefit from enhanced international support to attract investment in affordable,

Table 4
Addressing the Impact of Current and Future Shocks: Immediate and Longer-Term Policy Actions

	Domestic actions	International actions
Immediate actions to mitigate the conflict's impact	▪ Limit oil/gas demand (remote work, lower speed limits, flexible feedstocks) ▪ Targeted, temporary support to shield the poorest from energy/food prices ▪ Prevent firm bankruptcies via cash, loans, guarantees, tax deferrals ▪ Build alternative trade routes; avoid export restrictions that further increase global prices	▪ Deploy rapid financing to capacity-constrained countries ▪ Focus concessional resources on most vulnerable countries, such as LDCs ▪ Front-load World Bank IDA Crisis Response Window
Longer-term actions	Reduce exposure to future shocks ▪ Scale up investment in renewable energy ▪ Introduce windfall taxes on fossil fuel ▪ Diversify trading partners to avoid being overly dependent on a small set of energy and fertilizer suppliers Strengthen capacity to respond ▪ Strengthen fiscal resilience (broader tax base, better administration, digitalization) ▪ Build inclusive, forward-looking fiscal systems (social protection, gender-responsive budgeting, green fiscal reform, automatic stabilizers) ▪ Establish strategic fertilizer and grain reserves and warehousing capacity ▪ Strengthen the domestic and local banking systems, notably through supporting local currency lending	Reduce exposure to future shocks ▪ Enhance support to developing countries to attract investment in renewable energy ▪ Strengthen the role of MDBs and IFIs in supporting just and inclusive energy transition via financing, policy engagement, technical advice, etc. Strengthen capacity to respond ▪ Reform GFSN for speed, flexibility, coordination ▪ Complete the IMF's PRGT reform package to ensure its financial soundness ▪ Greater cooperation, coherence, coordination and complementarity among development and humanitarian action ▪ Strengthen resilience of sovereign financing, including greater uptake of debt pause clauses in official and commercial lending ▪ Expand pre-arranged instruments and early warning systems ▪ Strengthen tax cooperation and combat illicit flows to create more policy space

¹¹ For more information, see: <https://www.fao.org/interactive/2025/risk-into-response/en/>.

reliable, sustainable and modern energy for all, as called for in the Sevilla Commitment. This includes strengthening the role of multilateral development banks (MDBs) and international financial institutions in supporting just and inclusive energy transition, through financing, policy engagement, technical advice and knowledge sharing.

Countries should increase efforts to diversify their trading partners in order to avoid being dependent on a small number of energy and fertilizer suppliers. Strategic fertilizer reserves and greater warehousing capacity would strengthen future shock absorption.

Strengthening long-term fiscal resilience remains essential to reduce countries' vulnerability to external shocks and create the policy space needed for sustainable development. This requires broadening tax bases, improving tax administration, and strengthening public financial management. Strengthening international tax cooperation and combatting illicit financial flows would also contribute to increasing fiscal space.

Fiscal systems must also become more inclusive and forward-looking through stronger social protection systems, gender-responsive budgeting, and environmental fiscal reforms. Countries should consider introducing automatic stabilizers that allow rapid scaling up of fiscal spending to support the most vulnerable based on pre-arranged triggers, drawing from nascent experiences in

some countries' ex ante response to droughts and other extreme weather events.¹²

The Sevilla Commitment also puts forward a number of concrete actions to promote financial sector development, including by strengthening the domestic and local banking systems. Supporting local currency lending, for instance through MDB-backed instruments, represents a concrete policy option in this regard. This would also help to expand access to finance for micro, small, and medium-sized enterprises, which are disproportionately affected by rising energy and commodity prices.

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¹² Gentilini, U. 2022. *Cash Transfers in Pandemic Times: Evidence, Practices, and Implications from the Largest Scale Up in History*. Washington, DC, World Bank.