

## Summary of the February 2023 SDG Stimulus Policy Brief

### SDG STIMULUS TO DELIVER AGENDA 2030

The global economy is facing multiple shocks that are reversing progress on the Sustainable Development Goals (SDGs). A “great finance divide” has sharply curtailed the ability of many developing countries to respond to shocks and to invest in sustainable development and climate action.

The SDG Stimulus aims to offset the challenging market conditions that many developing countries face. It calls for scaling up financing and investment in the SDGs by at least \$500 billion per year.

It includes three areas for immediate action: tackle the high cost of debt and rising risks of debt distress; massively scale up affordable long-term financing, especially through public development banks (PDBs); and expanding contingency financing to countries in need.

#### I. Tackle the high cost of debt and rising risks of debt distress

Sovereign debt has reached critical levels. More than a dozen countries are either in technical default or at the brink of default, and policy makers in many other countries face stark choices between paying creditors and financing critical domestic needs, such as social protection.

The SDG Stimulus calls for immediate actions. The G20 should:

- *Evaluate existing debt initiatives, including the Common Framework*
- *Develop an improved multilateral debt relief initiative that supports debt payment suspensions, debt*

*exchanges, and/or haircuts, including a clear mechanism to include private creditors.*

It calls on donors to:

- *Scale up debt for climate and SDG swaps, including by preparing a reference framework and through official financial support.*

It calls on all creditors to:

- *Include majority voting provisions in all sovereign bond contracts and syndicated loan agreements.*
- *Make greater use of risk-sharing debt instruments, such as state contingent debt instruments.*

The international community must also continue to work towards structural solutions. IFIs and credit rating agencies should:

- *Prepare ‘solvency-focused’ and longer-term oriented debt sustainability assessments.*

#### II. Massively scale up affordable and long-term financing for development

The SDG Stimulus calls for a massive boost in investment in developing countries. Public development banks (PDBs), including multilateral development banks (MDBs), are uniquely positioned to accelerate this investment. MDBs can raise lending to \$500 billion per year through a variety of measures, such as by increasing capital bases by \$100 billion, including increased hybrid capital, rechannelling SDRs through MDBs, and leveraging private finance.

MDBs and their shareholders should:

- *Sizeably increase MDB capital bases; more efficiently use their balance sheets; and rechannel SDRs through MDBs.*
- *Improve lending terms, including through longer terms (30-50*

*years), lower interest rates, use state-contingent clauses, and increased lending in local currencies.*

- *Better leverage private finance by adopting a new approach focused on development impact rather than bankability, and that uses structures where the public sector can share both risks and rewards fairly.*
- *Strengthen the system of MDBs and PDBs, e.g., through greater use of co-financing.*

Donors should:

- *Meet their ODA commitments.*
- *Consider all dimensions of vulnerability in ODA allocations.*

#### III. Expand contingency financing to countries in need

Developing countries are exposed to highly volatile capital flows and need greater financial assistance to manage liquidity challenges. The SDG Stimulus includes steps to address countries’ liquidity needs.

Countries with unused SDRs should:

- *Rechannel unused SDRs to countries in need, including through MDBs or a new trust to finance climate mitigation projects in developing countries.*

As shocks become more frequent and interconnected, shareholders of the IFIs should also explore:

- *New quick-disbursing financing instruments.*
- *Increase access limits to IMF and World Bank emergency lending windows.*

The international community should automatize provision of financial resources for crisis response:

- *Integrate state-contingent and disaster clauses in all lending.*
- *Issue SDRs countercyclically.*