United Nations | Committee for Development Policy

15 March 2023

Committee for Development Policy (CDP)'s input to the 2023 High-Level Political Forum

The CDP held its 25th plenary session on February 20-24, 2023. The submission below is based on the discussions held at the meeting, the Committee's intersessional work and recent plenary sessions. The CDP's consolidated recommendations to ECOSOC on the annual theme – ***"Accelerating the recovery from the coronavirus disease (COVID-19) and the full implementation of the 2030 Agenda for Sustainable Development at all levels"*** – and on its other areas of work, notably least developed countries (LDCs), will be contained in the report to ECOSOC on the 25th session (forthcoming).

The Committee for Development Policy (CDP), a subsidiary body of the Economic and Social Council (ECOSOC), advises the Council on a wide range of development issues. Among other activities, it submits annual contributions on the Council's themes and is the body in charge of recommending the graduation of countries from the least developed countries (LDC) category. Its 24 members are nominated in their personal capacity by the Secretary-General. Membership is geared to reflect a wide range of development experience as well as geographical and gender balance. More information at https://cdp.un.org.

(a) Progress, experience, lessons learned, <u>challenges</u> and impacts of the COVID-19 pandemic on the implementation of SDGs 6, 7, 9, 11 and 17 from the vantage point of your intergovernmental body, bearing in mind the three dimensions of sustainable development and the interlinkages across the SDGs and targets, including policy implications of their synergies and trade-offs.

<u>Productive capacity, sustainable industrial policy and SDG 9</u>[1]

The CDP has noted that a country's production structure is the strongest determinant of its level of income, its income distribution, the quality of employment, the quality of the environment, the development of its institutions and its prospects for future growth and development. Accordingly, it has emphasized the need to strengthen the importance of productive capacities in the narrative on meeting the SDGs. In this context, meeting the targets of SDG 9 **(including SDG 9.2 – inclusive and sustainable industrialization; 9.b – industrial diversification)** is an end in itself and a means for sustained and sustainable progress towards the SDGs as a whole.

In practice, the CDP has observed, in the context of its work on the least developed countries (LDCs), that experiences of successful diversification and inclusive and sustainable industrialization remain extremely limited. Most LDCs have not advanced significantly towards these targets. Lack of productive capacity is among the main root causes of the underdevelopment of LDCs. Hence, CDP recommended in 2022 that priority attention should be given to those elements of the new Doha Programme of Action that enable LDCs to expand productive capacities for sustainable development. This requires coordinated actions in six policy areas: building development governance capabilities; developing industrial and sectoral policies that promote

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[1] Committee for Development Policy, Report on the twenty-fourth session (21-25 February 2022), Economic and Social Council Official Records, 2022, Supplement No. 13 (E/2022/33)); Committee for Development Policy, Report on the twenty-third session (22-26 February 2021), Economic and Social Council Official Records, 2021, Supplement No. 13 (E/2021/33). CDP reports are available at https://www.un.org/development/desa/dpad/document_cdp/ldc-resources/cdp-report/.

technological upgrading and structural transformation; establishing conducive and macroeconomic and financial frameworks; creating positive synergies between social outcomes and productive capacities; designing environmental policies that reduce climate and other environmental risks and that harness opportunities arising from decarbonization; and providing adequate international support to integrate LDCs into the global economy.

The CDP also addressed, in 2022, the importance of a new generation of industrial policies as a means the simultaneous challenges faced by Governments as they build forward from the COVID-19 crisis as well as the pre-existing crises of climate change and inequality. **Industrial policies have been central to the development trajectory of countries that have managed to advance on a path of structural transformation.**

Future industrial policies will need to be designed to reflect new realities, challenges and priorities such as digitalization, decarbonization, the post-pandemic restructuring of firms and sectors, and the need to build resilience to shocks and adapt to climate change, all under the imperative of leaving no one behind and pushing no one behind. They will also need to be embedded with strategies to develop the green economy, the blue economy and the care economy. Proactive policies and measures need to be put in place to ensure no one is left behind or pushed behind as countries advance in infrastructure, industrialization and innovation.

Just transition at the intersection of SDGs 7, 9, 17[2]

Increasing attention has been given to the concept of a just transition, which refers generally to ensuring no one is left behind or pushed behind in the transition to low-carbon and environmentally sustainable economies and societies. While the concept is not limited to justice in the energy transition, the implications of changing energy paradigms are often at the center of just transition strategies and concerns. Originally, the central concern was to address job losses related to the shift to clean energy, acknowledging that, even if new energy paradigms had the opportunity to create new (and potentially more and better paid) jobs in the long run, there would nevertheless be people left behind in the transition, people without the necessary skills, or geographically distant from the new opportunities. Over time, the scope of the concept has expanded and diversified in terms of the definitions of justice and the range of stakeholders. It should also be concerned with leaving no country behind.

Developing countries face significantly greater challenges and competing demands in securing a just transition. For countries with significant gaps in energy access and a negligible contribution to greenhouse gas emissions, the objectives of ensuring access to affordable, reliable and modern energy services for all **(SDG 7.1)** and ensuring energy supply commensurate with development needs cannot be secondary to the objective of moving away from fossil fuels as energy sources **(SDG 9.1 – infrastructure to support economic development and human wellbeing)**.

A just transition cannot be separated from the broader issues of global climate justice and common but differentiated responsibilities, or from the realities of global inequalities in consumption and emissions patterns and productive and financial capacities. A globally just transition requires countries to meet their climate commitments and ensure that, in doing so, they do not push poorer countries further behind by creating barriers to trade or excluding them from the opportunities associated with the expansion of new product markets. Transition strategies must reflect the structure of global and regional supply chains, with the inclusion of relevant workers and stakeholders throughout the supply chain in dialogue and decision-making. Of relevance to the SDGs under review, it also requires policy space for developing countries to develop their productive capacities, new intellectual property frameworks for clean technologies, and scaled up international cooperation to ensure financing for infrastructure and resilience-building. Furthermore, a globally just transition requires greater financing to meet the needs of climate-vulnerable and marginalized communities, and solutions to lower the cost of capital for sustainable infrastructure investment in developing countries **(SDG 9.1, 9.a)**. Specifically on energy, international mechanisms must be put in place that ensure investments

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[2] CDP's Report to ECOSOC on its 25th session (2023) is forthcoming.

in clean energy and energy security, reflecting the specific challenges of clean energy, including security in supply of critical minerals. International mechanisms that de-risk investments in sustainable energy infrastructure, whether large-scale or distributed, and against physical climate risks in the developing world, are also needed **(SDG 7)**.

The global transition to low-carbon economies can be used strategically as an opportunity to reduce dependency on fossil fuel- and pollution-intensive exports, make production processes more efficient, and advance structural transformation, avoiding the inequality-perpetuating traps of commodity dependence. However, it is necessary to address the constraints developing countries face to be able to take advantage of those opportunities, including in terms of productive and fiscal capacity, and the impacts of transitions in other parts of the world. As countries pick up the pace of their climate change mitigation strategies, it is critical that developed countries do not transfer the burden of the transition onto developing countries **(SDG 7.3 – energy efficiency; SDG 9.2 – inclusive and sustainable industrialization; 9.b – industrial diversification)**. There is a risk that policy measures are designed in ways that push companies from developing countries, particularly small and medium-sized enterprises behind. Increasingly complex standards (including private standards) and reporting requirements can constitute barriers to trade, excluding developing countries from effective participation in emerging value chains; jeopardizing their current exports; and further widening the technological divide **(SDG 9.2, 9.3 – integration of small-scale enterprises into value chains and markets; 9.b; SDG 17.11 – increase exports of developing countries)**.

At the same time, developing countries have critical assets for the development of technologies, products and markets of global relevance in climate action. New systems of technology co-development are needed that acknowledge the contribution of developing country markets in securing commercially viable scale for new technologies and enable the pooling of financial, human, technical and other resources and intellectual property rights, in a system of co-ownership of such intellectual property **(SDG 9.3, 9.5, 9.a, 9.b; SDG 17.6 – access to science, technology and innovation, knowledge sharing, etc.).**

SDG 17 and the growing external debt crisis[3]

Of particular relevance to **SDG 17.4**, the CDP has highlighted the following:

The COVID-19 pandemic has inflicted severe economic damage on the developing world, surpassing the impact of the 2008 global financial crisis. The situation remains fragile and uneven, as many developing countries continue to struggle with increasing debt levels and a rising cost of borrowing. Rising global interest rates; high food and energy prices prompted by the war in Ukraine; the lingering effect of the pandemic; and a steep depreciation of many emerging and developing economy currencies against the US dollar add to this fragile situation. Many low-income and emerging market economies are in or at high risk of debt distress.

Sovereign debt restructuring needs comprehensive reforms, including improvements to the existing "contractual approach" with private creditors, criticized for lack of transparency, in particular in non-bond and collateralized debts. Half of emerging and developing countries' sovereign debts lack enhanced collective-action clauses, exacerbating the problem. Urgent attention is needed to reach a consensus on key parameters of the framework, including cut-off dates and comparability of treatment. The Global Sovereign Debt Roundtable is a positive forum but just a first step towards a more predictable approach to debt restructurings. This could involve new statutory bodies such as an independent panel and an international bankruptcy court. To improve debt relief, stakeholders should agree on a process inclusive of the private sector and based on a macro-fiscal framework for a country, fostering trust and creative solutions, including recovery-based instruments.

To tackle the current debt crisis, it is necessary to prioritize short-term solutions such as multilateral financing and temporary mechanisms for debt renegotiation, while also developing long-term comprehensive solutions.

[3] Idem.

Governments would benefit from a time-bound lifeline of multilateral disbursements to facilitate debt renegotiations. Additional SDR allocations contingent on well-defined economic shocks can be an important instrument to assist vulnerable economies, if there is an effective mechanism in place for their distribution and re-channeling, including through MDBs. Developing economies require abundant low-interest, long-term financing from multilateral lenders, and MDBs are critical in financing development. The lending capacity of MDBs should be strengthened through the implementation of G20 recommendations and general capital increases where headroom is limited. Guarantees should be widely used to fund projects towards achieving SDGs or resilience initiatives.

To address the challenges of increasing debt levels, higher interest rates, and constrained access to financing, it is also crucial to take preventive actions to avoid unsustainable debt in the future. This could concretely translate into countries being incentivized to: (i) increase their debt management capacity, including their capacity to monitor its debt sustainability and run their own simulations (ii) having at hand full legal and financial details of all the obligations contracted by the country, including by state-owned entities, and (iii) knowing and regularly interacting with their creditors. In addition, developing and deepening domestic debt markets, attracting foreign investors, and managing and balancing both domestic and external debt are also important for debt sustainability, financial stability and resilience to economic shocks.

Developing countries, particularly least developed countries (LDCs) and small island developing states (SIDS) face challenging financial situations that severely limit their capacity to ensure economic recovery and invest in climate resilience. Climate-proofing the economy and public finances is necessary to avoid unsustainable debt burdens and increasing climate vulnerability. In this context, there needs to be recognition of the climate debt of developed countries. In addition to delivering on climate finance commitments and compensation for loss and damage, developed countries should compensate for their historical carbon debt owed to developing nations. Comprehensive debt and financing strategies are needed that address existing debt difficulties and enable the necessary investments in climate resilience, including by expanding access to low-cost liquidity facilities and finance, and implementing systematic debt-suspension clauses in loan contracts for natural disasters, as pioneered by Barbados in the Bridgetown initiative.

Lessons from the VNRs

The CDP's analysis of voluntary national reviews (VNRs) in recent years shows that there is a disconnect between the transformative ambition of the 2030 agenda and the reported implementation efforts. The VNRs do not reflect the scale of effort and transformation that would be needed to reach the ambitious aspirations of the 2030 Agenda, including in terms of means of implementation. True transformative action and policy aimed at the root causes of inequality, injustice and degradation of the environment are often absent. Furthermore, many reports neglect the targets and goals that have particularly powerful potential to drive transformative and long-term change including the means of implementation, such as the goals that refer specifically to LDCs or those that refer to cooperation on technology **(SDGs 17.6, 17.7, 17.8)** or measures of progress that complement GDP **(SDG 17.9).**[4]

(b) The key areas where transformative actions for accelerated progress have been successful, and three key areas where support is most urgently needed, with regard to the cluster of SDGs under review in July 2023.

On areas where support is most urgently needed, please see the answer for question (a) and (e).

(c) Examples of specific actions <u>taken</u> to recover from the COVID-19 pandemic that also accelerate progress towards multiple SDG targets, including actions identified by your intergovernmental body, building on interlinkages and transformative pathways for achieving SDGs.

[4] More information here: https://www.un.org/development/desa/dpad/voluntary-national-reviews.html

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(d) Assessment of the situation in the mid-point of the implementation of the 2030 Agenda and the SDGs, against the background of the COVID-19 pandemic and within the respective areas addressed by your intergovernmental body, and policy recommendations, commitments and cooperation measures for promoting a sustainable, resilient and inclusive recovery from the pandemic while advancing the full implementation of the 2030 Agenda.

In 2020, before the extent of the COVID-19 pandemic was understood, the CDP observed that, two challenges that were central to the achievement of the SDGs – inequality and climate change – were not being overcome and were instead being aggravated. Inequalities in income and multiple other dimensions of well-being – including in the security of employment and exposure to violence and crime – were rising. Without adequate policy frameworks, the rapid advances in science, technology and innovation under way carried the risk of pushing vulnerable people further behind rather than acting as instruments for sustainable development. The abundant scientific evidence of the catastrophic potential of climate change contrasted sharply with the weak global response. Failure to address the mutually reinforcing problems of inequality and climate change were threatening to reverse the already insufficient advances on the 2030 Agenda, and in particular the pledge to leave no one behind.[5] It called for a new multilateralism to overcome these challenges.

In 2021, the Committee stated that the COVID-19 pandemic had jeopardized the possibility of countries achieving the SDGs. The pandemic found Governments and the multilateral system unprepared to deliver on the fundamental objectives of protecting people's lives and ensuring their economic safety, which exacerbated already severe inequalities and vulnerabilities. The Committee argued that the aim of the recovery from the unprecedented and multidimensional crisis should not be to return to pre-crisis development patterns but to reframe the development paradigm towards equality, resilience and environmental sustainability. It called for priority action in four critical areas: the public health response; finance and debt relief; climate change; and social protection. It also underscored the need to strengthen the link between production structure and human development in the narrative and policy advice on meeting the SDGs: a country's production structure is the strongest determinant of its level of income, its income distribution, the quality of employment, the quality of the environment, the development of its institutions and its prospects for future growth and development. It was not enough, the Committee argued, for countries to ensure business-friendly environments. They also need to actively promote the development of productive capacities in a way that will ensure flexibility and resilience in a rapidly changing global industrial and technological context.[6] This issue was taken up again when, in 2022, the Committee addressed the importance of a new generation of industrial policies in order to address the simultaneous challenges faced by Governments as they build forward from the COVID-19 crisis as well as the pre-existing crises of climate change and inequality (see above).[7]

Also in 2021, the Committee analyzed the impact of COVID-19 on the LDCs based on a comprehensive study it conducted.[8] While many of the least developed countries had managed to limit the immediate health crisis caused by the pandemic, they had been hit hard by the socioeconomic crisis. Insufficient fiscal space, pre-existing high debt levels and dwindling private external financing severely limited the fiscal response of many LDCs. With economic growth weakened even in the medium term and inequalities rising, achieving the Goals

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[5] Committee for Development Policy, Report on the twenty-second session (24-27 February 2020), Economic and Social Council Official Records, 2020, Supplement No. 13. N2007350.pdf (un.org)

[6] Committee for Development Policy, Report on the twenty-third session (22-26 February 2021), Economic and Social Council Official Records, 2021, Supplement No. 13. N2107041.pdf (un.org)

[7] Committee for Development Policy, Report on the twenty-fourth session (21-25 February 2022), Economic and Social Council Official Records, 2022, Supplement No. 13. N2229515.pdf (un.org)

[8] Committee for Development Policy, Comprehensive Study on the Impact of COVID-19 on the Least Developed Country Category, April 2021.

was becoming even more elusive for many of them than before the pandemic. The Committee also found that because of the pandemic, the countries it recommended for graduation required a longer (five rather than the standard three years) preparatory period as well as enhanced monitoring and additional graduation support.

In 2023, the Committee noted (in addition to the considerations above on debt and the urgency of a globally just transition) the compounded effects of the COVID-19 pandemic and the war in Ukraine on LDCs, and in particular the ones approaching graduation or recently graduated, which it monitors closely. The Committee reviewed the cases of Angola, Bangladesh, Bhutan, the Lao People's Democratic Republic, Nepal, Sao Tome and Principe, Solomon Islands, and Vanuatu, and also consulted with Kiribati and Tuvalu. All countries were significantly affected by the COVID-19 pandemic and by the increase in fuel and food prices due to the war in Ukraine, in addition to disasters such as earthquakes in the Solomon Islands. The macroeconomic consequences are significant, and in some cases debt sustainability is at stake. These countries continue to grapple with the challenges of an undiversified economy, difficulties in moving towards structural transformation and, in some cases, dependency on external assistance. The Committee expressed its concern at the limited national capacity of these countries to address the diverse challenges originating from multiple crises and observed that there had been an overall deterioration of their circumstances since these countries were recommended for graduation.

(e) Key messages for inclusion into the Political Declaration of the September 2023 SDG Summit.

- Urgent, deeper, faster and more ambitious transformative action is needed to achieve the SDGs in the context of multiple global crises.
- In the narrative and policy advice on meeting the SDGs, a stronger **link should be made between production structure and human development, leaving no one behind and environmental sustainability**. Developing countries need resources and policy space to implement proactive industrial policies and productive capacity development strategies that will put them on track to structural transformation, as a means to sustainable, equitable and resilient development.
- As efforts towards climate mitigation and adaptation take off, **ensuring that transitions are just will enable more ambitious action and can provide impetus to meeting the SDGs.** Just transition strategies should be based on structured and inclusive processes of social and political dialogue and transformative and strategic thinking that reflect the specific contexts of each country and their historical responsibility. A globally just transition requires that climate financing commitments are met; loss and damage compensated for; and mitigation undertaken in accordance with the Paris Agreement without shifting the burden to developing countries. It requires transition strategies considering the structure of global and regional supply chains, with the inclusion of relevant workers and stakeholders throughout the supply chain in dialogue and decision-making.
- **The process and speed of debt relief to developing countries must be urgently improved.** The process should begin with establishing a country-owned macro-fiscal framework, including an economic recovery strategy and realistic fiscal inputs. The debt relief process should be clear and agreed upon, and inclusive of all relevant stakeholders, including the private sector, to build trust and foster creative solutions. Action is needed nationally and internationally to prevent future debt crises. An efficient allocation of different financing sources is needed, including of compensation for losses and damages and provision of concessional financing for both climate adaptation and mitigation. This should be in addition to a mechanism for developed countries to transfer resources as payment for historical carbon debt owed to developing countries.
- **It is time for a new generation of Voluntary National Reviews** that makes them fit for purpose as vehicles for exchange of experience and peer learning and accelerators of action towards the SDGs. Reports should

provide evidence-based analysis of progress, lessons learned from implementation, discussions of policy successes and failures, identification of key challenges, and assessment of the core transformative elements of the 2030 Agenda, including the means of implementation. Reports should be framed under the concept of sustainable development as integrated and universal, with commitments to inclusion, human rights and respect for planetary limits. There should be feedback mechanisms that facilitate learning from experience and inform future policy discussion and action. National processes should be inclusive and participatory, creating space for civil society contributions to identifying priorities, obstacles and opportunities. There should be greater space for civil society presentation of shadow reports at the HLPF and more systematic and comprehensive peer review arrangements.