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– facilitating, for example, quantitative easing at massive scale. In contrast, most developing countries are unable to borrow in local currencies, limiting their macroeconomic policy space and exposing them to foreign exchange risks.

The SDG Stimulus
market conditions faced by developing countries and accelerate progress towards the SDGs, in

Debt vulnerabilities further increased in 2022 across many developing countries. For many countries debt-burden indicators are back at levels last seen during past periods of debt crises. It is estimated that in 2022, 25 developing countries paid more than 20 percent of total government revenue in external debt

[i]

Measured based on a combination of credit-ratings, debt-sustainability ratings, and bond spreads, more

problems; 26 of 91 developing countries with credit-ratings are currently rated at either 'substantial risk, extremely speculative or default', up from ten countries at the beginning of 2020.[ii]

Second, the international system needs to develop concrete tools to incentivize or enforce private

-

ings, such as in debt exchanges for longer maturities

private creditors generally have an incentive to *not*

guarantees, and/or collateralization were part of the

debt crisis of the 1980s. Several countries also passed laws to limit the ability of non-cooperative creditors to undermine debt relief achieved under could explore debt issuance that incorporates most-favoured-creditor clauses.

Third, debt for climate and SDG swaps, which have attracted growing interest, can be helpful for countries that do not yet have unsustainable debt

be contributed over time, for example over 5 years. If the resulting lending capacities shown in Table 2 were disbursed over a 6-year time horizon, it would equate to between $80 and $310 billion of additional lending per year.

increase recently.

shareholders need to increase the size of the banks' capital bases. At the same time, the banks need

the use of their balance sheets since the adoption of the Addis Ababa Action Agenda, and recapitalization discussions have been ongoing for years. India, as the 2023 president of the G20, has suggested a

Table 2 presents two scenarios for capital increases, noting that these numbers are indicative and meant to give a range of possible outcomes. In the

capital is set so that paid-in capital as a share of world gross product is equivalent to its highest level

Key Considerations for Supranationals' Lending Capacity and Their Current Capital Endowment *Higher multilateral development bank lending, unchanged capital resources and triple-a rating: A possible trinity after all?,* *Scaling Up for sustainable development: Benefits and costs of expanding and optimizing balance sheet in the multilateral development banks*

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ly being developed at the United Nations.

Third, greater use of state-contingent clauses in

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tries hit by shocks by automatically suspending payments in the case of a disaster, economic or

already done by some bilateral and multilateral

credit quality.

Fourth, providing a greater share of lending to governments in local currencies would contribute to

when lending for projects that are unlikely to generate foreign currency earnings. International

sovereigns to manage currency risk since IFIs can diversify across currencies while sovereigns face a

-

do not take the currency risk on their balance sheet and the extra costs of executing mirroring transactions with private market participants are passed

manage the currency risks on their large balance

as called for in the Addis Ababa Action Agenda.

Strengthening the system of public development banks

Just as there is scope to increase the capitalization

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crease the capital base of national and subnational

are putting their balance sheets to optimal use.

-

agement and strengthened governance. Regulatory

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aligned with the SDGs in a holistic way and could be considered in Integrated National Financing

strengthen the entire development bank system would enable greater impact and potentially higher lending. This can be achieved, for example, through guarantees overcompensate the private partner. It is also important to engage the appropriate private partner for a given transaction. For example, private partners with short to medium investment horizons, who require an exit strategy, should only be engaged in deals where this is likely to be feasible

markets). A strong emphasis on country ownership

projects are aligned with national strategies.

Action area 3: Expand contingency fnancing to countries in need

system exposes developing countries to sudden

-

tries – especially those that are facing intermittent

that is short-term oriented and crisis-prone, to one that is resilient and better able to absorb shocks. The SDG Stimulus includes steps to strengthen

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ate liquidity needs to help countries improve their crisis response.

Special drawing rights (SDRs)

The allocation of SDRs in August 2021 provided countries with liquidity without creating additional debt. Amid the multiple external shocks, developing countries have lost an estimated $379 billion of reserves in 2022, almost double the amount of SDRs they received in the allocation. The SDG Stimulus calls for a new issuance of SDRs.

The SDG Stimulus calls for countries with unused SDRs to urgently re-channel them to countries in

Several countries are exploring implementing the SDG Stimulus at the country level through

Addis Ababa Action Agenda. In October 2021, G20

support to INFFs.

INFFs help governments chart long-term SDG in-

-

tional priorities, consistent with a sustainable debt trajectory. The INFF methodology puts forward discrete steps countries can take to incorporate

INFFs provide tools for Governments to assess

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and link them to needs; evaluate investment policy

clarity about how international resources can best

donors, the IMF, multilateral development banks,

country-led and country-owned INFFs. The recently launched INFF Facility brings together interna-

and operationalise INFFs.

At the country-level, INFFs can also help ensure that all investments are aligned with national priorities and ensure that investments that provide

decent job creation, and re-skilling and lifelong

UN-led initiatives, including the Global Accelerator

are aiming to support governments in prioritizing and enhancing investments in these areas.

INFF Guidance Material

https://developmentfnance.un.org/fsdr2019

Take concrete steps toward a permanent mechanism to address sovereign debt distress.

Massively scale up affordable long-term financing for development

Strengthen the MDBs by increasing their capital bases, better leveraging their balance sheets, and re-channelling SDRs through them.

Improve the terms of lending by MDBs, including longer-terms, lower interest rates, use of state-contingent clauses, and more lending in local currencies.

Strengthen the system of public development banks (PDBs), with increased capacity and more cooperation between national and multilateral banks.

Meet ODA commitments with allocations of grants based on vulnerabilities, not only income.

Combine public and private finance towards public aims with a focus on development impact and country ownership.

Expand contingency financing to countries in need

A new issuance of SDRs; re-channel unused SDRs to those in need more quickly; set up concrete mechanism to re-channel unused SDRs

Create a work programme to explore how SDRs can finance climate mitigation and be automatically issued in times of crisis.

Explore other innovative mechanisms to increase global liquidity, by increasing access limits to existing emergency lending windows

instruments that are quick disbursing, with low