

– 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

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."

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

guarantees, and/or collateralization were part of the

debt crisis of the 1980s. Several countries also

ings, such as in debt exchanges for longer maturities

passed laws to limit the ability of non-cooperative creditors to undermine debt relief achieved under

private creditors generally have an incentive to *not*

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.

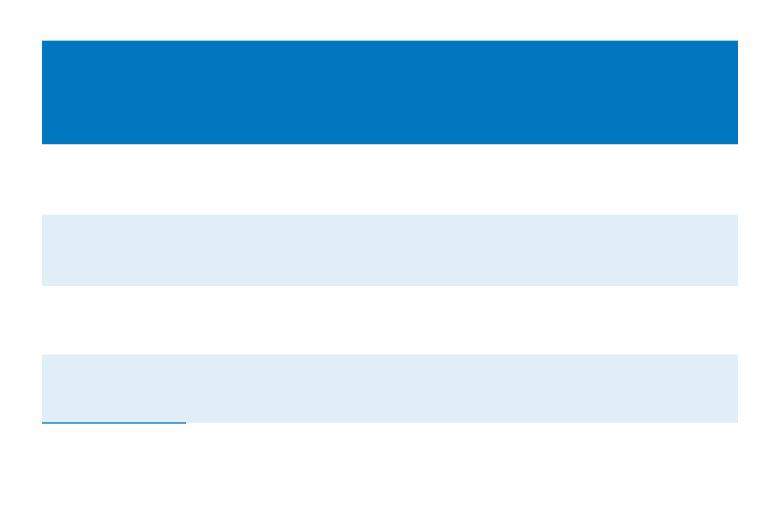
increase recently.

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



ly being developed at the United Nations.

Third, greater use of state-contingent clauses in 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 crease the capital base of national and subnational
are putting their balance sheets to optimal use.
agement and strengthened governance. Regulatory

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 f nancing 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

ate liquidity needs to help countries improve their crisis response.

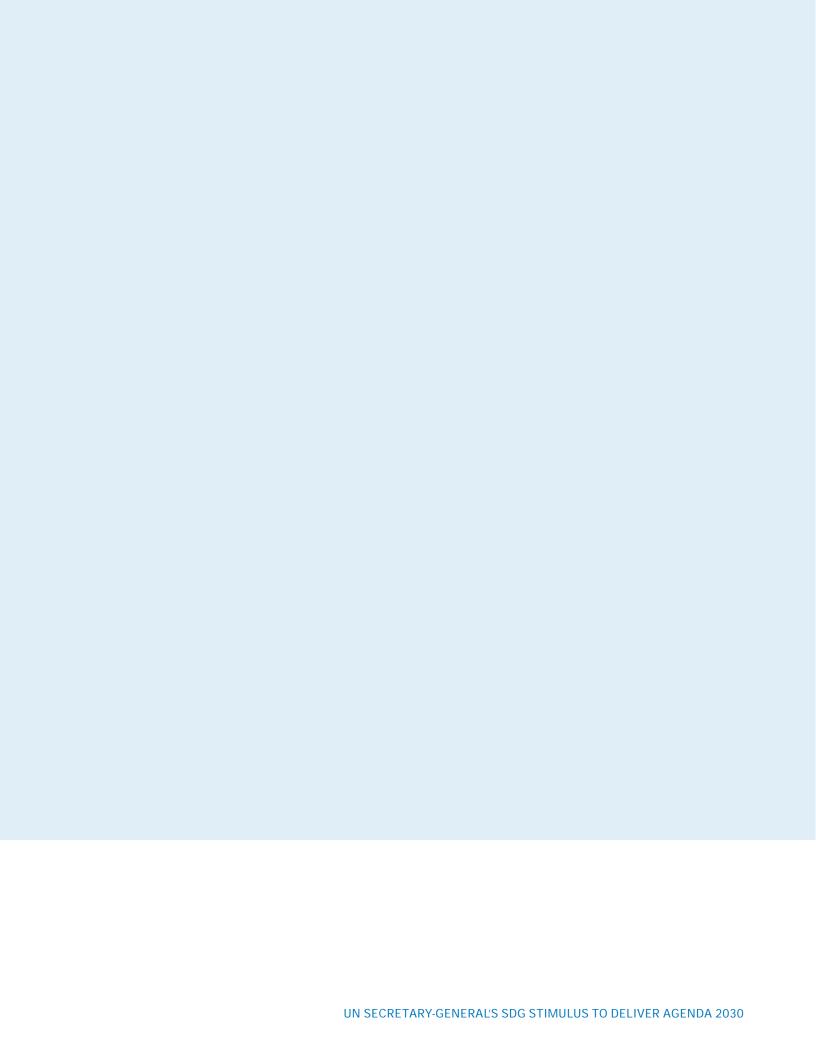
Special drawing rights (SDRs)

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

Financing the Response to Climate Change

Several countries are exploring implementing the SDG Stimulus at the country level through	
Addis Ababa Action Agenda. In October 202 support to INFFs. INFFs help governments chart long-term SD tional priorities, consistent with a sustainab	ly launched INFF Facility brings together interna- and operationalise INFFs. G in At the country-level, INFFs can also help ensure that all investments are aligned with national
trajectory. The INFF methodology puts forw discrete steps countries can take to incorpo	
INFFs provide tools for Governments to asse	decent job creation, and re-skilling and lifelong
and link them to needs; evaluate investment	UN-led initiatives, including the Global Accelerator policy are aiming to support governments in prioritizing and enhancing investments in these areas.
clarity about how international resources ca	n best
INFF Guidance Material	https://developmentf nance.un.org/fsdr2019



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

Massively scale up af ordable long-term f nancing 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 f nance towards public aims with a focus on development impact and country ownership.

Expand contingency f nancing 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 f nance 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