# The UNCTAD Sustainable Development Finance Assessment Framework

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# Sustainable Development Finance Assessment Framework

- Diagnostic tools developed under the rubric of UNCTAD project: *Response and Recovery: Mobilising financial resources for development in the time of COVID-19.*

- The project was co-ordinated by the Debt and Development Finance Branch of UNCTAD and jointly implemented with ECA, ECLAC and ESCAP.

- The project aims to enable member countries to diagnose their fragilities in the global and regional context and identify and design appropriate policy responses leading to recovery and a return to a sustainable development path.

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## Response and Recovery: Mobilising financial resources for development in the time of Covid-19

The COVID-19 pandemic has created a series of simultaneous and reinforcing shocks that has exposed and exacerbated economic, financial and debt vulnerabilities of low- and middle-income developing countries (LICs and MICs). Mobilizing financial resources for response and recovery is essential so that progress towards the Sustainable Development Goals (SDGs) is not undone.

This platform is a resource where member states, experts and policy-makers and students can learn from the experience of others, access global and regional diagnostic tools, and evaluate the policy responses designed to ensure a recovery aligned with a sustainable development path.

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# Sustainable Development Finance Assessment Framework

## Why?

- Our key point of departure is to analyse how developing countries can achieve structural transformation – together with the SDGs – within the bounds of their external position within a financialised world.
- Standard Debt Sustainability Assessments (DSA) traditionally examine the financial needs associated with servicing existing sovereign debt.

- Causality runs from the external account - it's the balance of payment which provides the most relevant constraint
- Full employment assumption – changes in aggregate spending can only have a composition effect

- Long-run solvency, based on ability to service the stock of net external liabilities.

- Heterodox model - Kaldor-Thirlwall, Domar (1944) and Pasinetti (1998) and Bhering et al (2019)

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## Why?

- **UNCTAD SDFA** Causality runs from balance of payment constraint that establishes an upper bound for long-term growth and, hence, for long run sustainability for public sector, and investment into SDGs. Various combinations of macroeconomic and development policies – of which fiscal austerity, is but one.

- Direction of causality – Fiscal austerity to achieve public debt sustainability is the logical conclusion of the model in the case of unsustainable external debt.

## Sustainable Development Finance Assessment

# What is the logic?

- External sustainability depends on the country's repayment capacity (exports plus remittances), we have called these as enhanced exports, free of cost.
- The stock of foreign capital increases the servicing cost, which will demand an increasing proportion of resources from exports, and the more the proportion of these services grows, the less there will be room for importing capital goods with these resources.
- Raúl Prebisch, the first executive secretary of UNCTAD, stressed this in 1949. It remains true today.
- Hence given a trade deficit, for example, the rate of growth of exports will need to be higher than the cost of servicing the net external liabilities (inverse of Net International Investment Position).
- Given this, the *long run sustainability for the public sector and the long run growth rate* can be defined (both of which are constrained by external accounts.)
- Finally, the growth rate is introduced into the public sector sustainability condition – which allows us to determine the policy space for SDG investment in the long run.

# Three components of the UNCTAD SDFA Framework

1. External Financial Sustainability

If the growth in exports plus remittances is faster than the growth in net external liabilities, external financial sustainability will be improving.

2. Public Sector Financial Sustainability

A country’s public sector finances will be moving towards sustainability if the rate of GDP growth is greater than the rate at which public sector net liabilities are increasing.

3. Integrated External & Public Sector Financial Sustainability

Over the longer-term, public sector net liabilities will be sustainable if the rate of growth consistent with external financial sustainability exceeds the average cost of public sector net liabilities.

## Advances of the model?

- Development focus
- Includes the total foreign position
- Expands debt coverage to General Government and includes public sector assets
- Allows for SDGs to be considered explicitly, including its feedback effects.
- Provide more insights into policy alternatives for developing countries.

## Where to from here?

- Currently in the process of the initial applications of the model
- Planning to extend this further in 2022 through a new Development account project to a group of vulnerable SIDS with focus on climate-related SDGs

THANK YOU

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# References


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