This report is a joint product of the members of the Inter-agency Task Force on Financing for Development. The Financing for Sustainable Development Office of the United Nations Department of Economic and Social Affairs serves as the coordinator and substantive editor of the Financing for Sustainable Development report.

The online annex of the Task Force (http://developmentfinance.un.org) comprehensively monitors progress in implementation of the Financing for Development outcomes, including the Addis Ababa Action Agenda and relevant means of implementation targets of the Sustainable Development Goals. It provides the complete evidence base for the Task Force’s annual report on progress in the seven action areas of the Addis Agenda (chapters III.A–III.G). The report is by necessity more concise and selective and should thus be read in conjunction with the online annex.

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Overview and Key Messages

The financing landscape has changed dramatically since the adoption of the Addis Ababa Action Agenda. Digital technology has transformed key aspects of financial systems. There has also been rapidly growing interest in sustainable investing, in part due to greater awareness of the impact of climate and other non-economic risks on financial returns.

Yet, just as we begin the decade of action, global challenges have multiplied. The economic and financial shocks associated with COVID-19—such as disruptions to industrial production, falling commodity prices, financial market volatility, and rising insecurity—are derailing the already tepid economic growth and compounding heightened risks from other factors. These include the retreat from multilateralism, a discontent and distrust of globalization, heightened risk of debt distress, and more frequent and severe climate shocks. Together, these make sustainable finance more difficult—and further undermine the ability to achieve the Sustainable Development Goals (SDGs) by 2030.

Amid these destabilizing trends, the 2020 Financing for Sustainable Development Report of the Inter-Agency Task Force finds that the international economic and financial systems are not only failing to deliver on the SDGs, but that there has been substantial backsliding in key action areas. Governments, businesses and individuals must take action now to arrest these trends and change the trajectory.

Arrest the Backslide

The unfavourable context identified above is exacerbated by the following trends:

- **Growing Financial Risks**: Short-term financial market volatility has increased due to COVID-19. Prior to that, an extended period of low interest rates had incentivized riskier behaviour throughout the financial system. Financial intermediation has steadily migrated to non-bank financial intermediaries (who hold over 30 per cent of global financial assets).

- **High Debt Risk**: Debt risks will likely rise further in the most vulnerable countries. Forty-four per cent of least developed and other low-income developing countries are currently at high risk or in debt distress. That’s a doubling of debt risk in under five years (it was 22 per cent in 2015). This number could rise as COVID-19 and related global economic and commodity price shocks put increasing pressure on some countries, particularly oil exporters.

- **Increasing Trade Restrictions**: Substantial new trade restrictions have been introduced: the trade coverage of import-restrictive measures are almost 10 times larger than two years prior. The World Trade Organization’s Appellate Body, meanwhile, no longer has enough members to rule on trade disputes. The COVID-19 crisis compounds the impact of these restrictions and significantly disrupts trade in goods and services. This crisis also disrupts global value chains, with merchandise exports expected to fall by a minimum of $50 billion.

- **Increasing Environmental Shocks**: Greenhouse gas emissions continue to rise, posing risks to sustainable development. Between 2014–2018, the estimated number of weather-related loss events worldwide increased by over 30 per cent compared to the preceding five years.

In this environment, many countries—and especially least developed countries, small island developing States, and other vulnerable countries—will not be able to achieve the SDGs by 2030.

An urgent priority for the international community is to arrest the backslide.

While many of these issues have deep-rooted causes, there are four immediate actions that can help turn the tide:

- **Slowing economic growth**: Global growth is expected to slow markedly in 2020, to significantly below the decade-low growth of 2.3 per cent in 2019, with high risk of a global recession.

- **Declining Assistance**: Official development assistance (ODA) fell by 4.3 per cent in 2018, and ODA to least developed countries (LDCs) fell by 2.1 per cent.
The global community must come together to enhance cooperation and take concerted, forceful, and swift action to combat the impact of the COVID-19, maintain economic and financial stability, promote trade and stimulate growth. Policy responses need to be designed to help those most in need so that the burden does not fall on those least able to bear it.

Donors should immediately reverse the decline in ODA, particularly to LDCs.

Official bilateral creditors should immediately suspend debt payments from LDCs and other low-income countries that request forbearance, and other creditors should consider similar steps or equivalent ways to provide new finance.

Financial instruments, highlighted throughout this report, should be implemented and utilized to reduce climate risks and raise resources for SDG investments. However, these actions alone will not suffice, and piecemeal approaches will not succeed. Our most intractable challenges — e.g., the increasingly strained multilateral trading system, debt challenges, climate risks and other systemic risks — are global in nature and can only be addressed if all countries come together and work toward common objectives. Collective action remains indispensable.

Accelerate the Transition

As we strive to address these long-standing concerns, the urgency of the 2030 Agenda also demands that we take every opportunity to accelerate progress. The Task Force has identified two key trends that can help accelerate the transition toward sustainable finance: (1) the rapid growth of digital technologies and (2) the growing interest in sustainable investing. Neither of these trends will effectively support the SDGs on their own, but with public leadership, supportive public policies, and private sector engagement, they can help put us on the right trajectory.

First Accelerator: Harness digital technologies in support of sustainable finance

The impact of digital technologies is wide-reaching across all the SDGs and on financing for sustainable development through financial markets, public finance, and development pathways. Yet, existing policy and regulatory frameworks are not suited to the new realities. While there is uncertainty as to how digital economies will evolve over the next ten years, policymakers do not have the luxury to wait. The national and global policy and regulatory frameworks put in place today, and described below, will determine whether digital technologies accelerate or reverse progress, particularly with regard to its distributional impact.

A new approach is needed to ensure that technological change supports implementation of the SDG — one that prioritizes people.

- Prioritize inclusion. Digital technologies can enable inclusion and wider access to products and financial services and increase efficiencies, but their impact on inequality must be managed.
- Many remain excluded from the digital economy, particularly women and girls.
- Algorithms codify existing biases, such as gender biases in credit screenings.
- Digital industries achieve scale and global reach quickly, leading to new forms of concentration. Global platforms are acquiring significant market power as economic activity is increasingly concentrated.
- Prioritize labour. Current social protection systems may no longer be viable in a gig economy where employment relations become more precarious. Development pathways can become more challenging, as new technologies may create fewer jobs. In order to counter these trends, countries should pursue labour-enhancing development pathways by incentivizing investment in industries that feature opportunities for decent work.

Keeping a human-centred perspective at the heart of efforts to regulate digital finance and design of development pathways can ensure that the whole of society benefits from digital adoption. Sustainable markets depend on sustainable livelihoods.

The report recommends to start with the following actions:

1. **Build Basic Digital Access**: including in infrastructure and skills;
2. **Coordinate Regulation Across Sectors**: Regulatory frameworks need to be rewritten and coordinated across sectors — e.g. financial, competition, data security.
3. **Cooperate across borders**: Multilateral cooperation needs to be strengthened to facilitate experience sharing and capacity support, particularly for LDCs.

Second Accelerator: Nurture the growing interest in sustainable investment

The approach to human-centred finance should build on the growing interest in sustainable investment. Increasingly, business leaders are acknowledging that they must take sustainability factors into account in order to achieve long-term financial success and ensure the viability of their business model. Similarly, individual investors are increasingly interested in supporting sustainable finance. However, the tools necessary to make informed choices are not readily available. Investors are not often asked about sustainability preferences by their financial advisors, and reliable sustainability metrics and standards are not in place globally to properly evaluate and vet potential impact. This needs to change. Voluntary actions, which have characterized the sustainable finance industry to date, are insufficient to achieve the scale of change that is required. Policymakers must encourage the growing interest in sustainable investment and help to implement the following three measures.

1. **Adopt Sustainability Risk Disclosures**: Policymakers should adopt global mandatory financial disclosures on climate-related financial risk. Businesses should also be accountable for broader sustainable development impacts and required to include common and comparable sustainability metrics in their reporting to shareholders and stakeholders.
2. **Establish Sustainability Standards**: Regulators should establish minimum standards for sustainability information to provide to investors for investment products, verifying how and where products
can be marketed on the basis of their contribution to sustainable development.

3. **Require Sustainability Preference Solicitation**: Investment advisors should be required to ask clients about their sustainability preferences, along with information already requested.

The United Nations can support policymakers and business in the implementation of the above measures. Specifically, the **UN can help create a clear understanding of what sustainable investment means**, providing the policymakers and financial community with definitional parameters within which to set disclosures, metrics and standards.

Importantly, neither of the previous messages—arresting the backslide and accelerating the transition—are possible without the support of the entire international community.

**Aggregate and Advance, Together**

The international community needs to take immediate concerted actions to respond to COVID-19. Governments should coordinate measures at the global level to ensure maximum impact and signal global resolve to maintain economic and financial stability, promote trade and stimulate growth.

More broadly, implementing sustainable development—whether responding to COVID-19, eradicating poverty, reducing inequality, or combatting climate change—requires every actor, national and subnational, to be on board. As many of these challenges are global, addressing them requires joint, integrated approaches. Siloed and single-country efforts will be insufficient. The current crisis also underlines the need to strengthen investment in crisis prevention, risk reduction and planning. Experience from responses to past disasters and other hazards underline the need to create adequate crisis-responding financing instruments before the crisis arrives, building incentives for risk reduction into their design. Postponing such investments increases the ultimate costs to the society.

International forums to aggregate and align resources and advance collective action exist but remain underutilized. By making use of the ECOSOC Financing for Development Forum, and other UN forums, such as the 15th UNCTAD quadrennial conference, we can ensure that the whole approach to sustainable finance is greater than the sum of its parts. As we work together to creatively solve global challenges, we must continue to pursue inclusive multilateralism to ensure that no country is left behind in this Decade of Action.

**About this report**

The 2020 Financing for Sustainable Development Report of the Inter-agency Task Force provides a comprehensive assessment of progress in all action areas of the Addis Ababa Action Agenda. This assessment is grounded in an analysis of the global enabling environment: Chapter I describes a challenging global macroeconomic context that is hampering progress.

The thematic chapter (chapter II) explores how digital technologies are changing financing—including financial sectors, public finance, and development pathways (trade and investment). The chapter puts forward policy options across the Addis Agenda action areas to make the most of the tremendous opportunities that new technologies create, while carefully managing risks.

The remainder of the report (Chapters III.A to III.G and IV) discusses progress in the seven action areas of the Addis Agenda. Each chapter begins with a summary that highlights key messages and presents policy options. The chapters provide updates on implementation and lay out challenges and policy options on both the national level, including links to integrated financing frameworks (see also Box 1 for an update on the Task Force’s work on integrated financing frameworks), and for international cooperation. They also address the requests made by Member States in the intergovernmentally agreed conclusions and recommendations of the 2019 ECOSOC Forum on Financing for Development. Table 1 lists the issues and where the related content can be found in this report.

**Box 1:**

**Integrated national financing frameworks**

The Task Force has continued its work on integrated national financing frameworks (INFF), the focus of last year’s thematic chapter. Responding to growing interest from countries, the Task Force is further developing the INFF methodology, and preparing guidance material. A first module on an INFF inception phase has been published. Four additional modules (for the building blocks of operationalizing an INFF: (i) assessment and diagnostics, such as costings and financing needs assessments; (ii) a financing strategy; (iii) mechanisms for monitoring and review; and (iv) governance and coordination) will be made available later in the year.

This material provides guidance to more than a dozen ‘pioneer’ countries that have expressed interest in implementing INFFs. These efforts are supported by UNDP and UN Resident Coordinators, as well as other Task Force members and the European Union. Lessons learned from pioneers inform the methodological work at the global level.

**Source:** UN DESA

**Chapter III.A on domestic public resources** assesses progress in national tax policy and administration, focussing on opportunities and challenges created by digitalization, as well as international tax cooperation. Responding to a request by Member States, it dissects the various components of illicit financial flows, putting special emphasis on corruption-related flows. The chapter also discusses how to align fiscal systems and expenditure with sustainable development.

**Chapter III.B on private business and finance** reviews measures to improve the business enabling environment and analyses the use of financial instruments to fill the investment gap in developing countries. The chapter also discusses measures to make the financial system more sustainable and companies more accountable for their environment and social impacts.

**Chapter III.C on international development cooperation** responds to three requests by Member States, including an analysis of trends in concessional finance; the use of public finance instruments in development cooperation, including blended finance; and challenges related to graduation. It concludes with a discussion of progress in the development effectiveness agenda.

In **Chapter III.D on international trade as an engine for development**, main issues include reforms to preserve and strengthen the multilateral
trading system, and measures to share the gains from trade more equitably. This includes support measures to least developed countries, helping small- and medium-sized enterprises participate in e-commerce, and closing trade financing gaps (the latter as requested by Member States in the 2019 FfD Forum).

Chapter III.E on debt and debt sustainability provides an update on key debt trends and addresses three key policy issues: debt sustainability and fiscal space for SDG investments; better prevention of debt crises; and progress in the policy agenda around debt crisis resolution.

In Chapter III.F on addressing systemic issues, the Task Force updates implementation of financial regulatory reform and reviews risks to financial stability from the non-bank sector. The chapter further discusses digital currencies, the interrelations between climate change and financial stability, macroeconomic management and crisis response and institutional and policy coherence for sustainable development.

Chapter III.G, on science, technology and innovation complements this year’s thematic chapter, which discusses digital technologies in depth. It focuses on key quantitative trends in implementing commitments related to science, technology and innovation in the Addis Agenda. The chapter further discusses several key emerging technologies, including updates on fintech, and relevant activities in the UN system.

In Chapter IV on data and monitoring, main issues include the new roles of national statistical systems amid a rapidly changing data ecosystem, and new financing mechanisms for raising resources to meet the data needs of the 2030 Agenda.

This Task Force is made up of more 60 United Nations agencies, programmes and offices, the regional economic commissions and other relevant international institutions. The report and its online annex draw on their combined expertise, analysis and data. The major institutional stakeholders of the financing for development process—the World Bank Group, the International Monetary Fund, the World Trade Organization, the United Nations Conference on Trade and Development, and the United Nations Development Programme—take a central role, jointly with the Financing for Sustainable Development Office of the United Nations Department of Economic and Social Affairs, which also serves as the coordinator of the Task Force and substantive editor of the report.

The Task Force carried out background research, held dedicated technical meetings, and engaged outside experts to inform this analysis. The report further benefited from the work of the Intergovernmental Group of Experts on Financing for Development, which held its third session in Geneva from 25 to 27 November 2019, on the topic of international development cooperation and interrelated systemic issues.