Key messages and recommendations

2019
Financing for Sustainable Development Report

Inter-agency Task Force
on
Financing for Development

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Overview and key messages

Mobilizing sufficient financing remains a major challenge in implementing the 2030 Agenda for Sustainable Development. Despite signs of progress, investments that are critical to achieving the Sustainable Development Goals (SDGs) remain underfunded. Interest in sustainable financing is growing, but the sustainability transition in the financial system is not happening at the required scale. Systemic risks are rising and parts of the multilateral system are under strain.

This 2019 Financing for Sustainable Development Report, produced in collaboration with over 60 agencies of the United Nations system and partner international organizations (the Inter-agency Task Force on Financing for Development), recognizes the scale and urgency of the challenge. But it also sees opportunity for revisiting national and global approaches to sustainable finance.

The international community should make use of this opportunity to reshape both national and international financial systems in line with sustainable development. If we fail to do so, we will fail to deliver the 2030 Agenda.

Global aspirations at risk

The world is being changed by rapid shifts in geopolitics, technology, climate, and other factors. There are some encouraging signs. Extreme poverty continues to decline and inequality between countries has fallen. Investment in some countries and regions has strengthened after a period of slow growth. Carbon prices are slowly recovering and there is growing interest in sustainable investing.

Nonetheless, many of the risks highlighted in last year’s Task Force report have begun to materialize or intensify, putting progress at risk, and raising the urgency of action.

- World economic growth remains steady at around 3 per cent, but has likely peaked.
- More than half a trillion dollars’ worth of goods are subject to trade restrictions, 7 times more than a year ago.
- Debt risks are rising. A number of countries, including around 30 least developed and other vulnerable countries, are either already in or at high risk of debt distress – hampering their ability to invest in the SDGs.
- Several countries have experienced significant capital outflows, with aggregate net outflows of over $200 billion from developing countries expected in 2018.
- Inequality has risen in countries home to most people in the world, and global growth in real wages is only 1.8 per cent, the lowest since 2008.
- Climate change continues apace, with greenhouse gas emissions increasing by 1.3 per cent in 2017, with dire consequences for communities worldwide.

Achieving sustainable development requires: multilateral action to address global challenges; revisiting the global institutional architecture; strengthened regional cooperation; and national action, including adjusting policies to the changing global landscape. It includes countering short-term behaviour on all levels and harnessing the potential of innovation while managing risks.

Recommit to multilateral action...

Multilateral action is needed to address global risks and achieve the 2030 Agenda, including combatting climate change. Governments should recommit to the Addis Ababa Action Agenda, which provides a global framework for financing sustainable development, and strengthen collective action to address global challenges to sustainable development.
... and revisit the global institutional architecture

Globalization and technological change contributed to reducing extreme poverty at the global level, but uneven distribution of the benefits has left many behind and undermined support for the global architecture. The multilateral system is under stress. And yet, in this difficulty may lie opportunity.

For example:

- the crisis of the multilateral trading system is also an opportunity to revamp and make it fit for purpose for sustainable development;
- challenges in sovereign debt restructuring, in part due to new instruments and non-traditional creditors, have sensitized the international community to gaps in the existing architecture;
- increasing vulnerabilities have underscored the importance of strengthening the global financial safety net;
- the digitalisation of the economy has fuelled the debate about the design of the international tax system that could help address inequities;
- growing market concentration, including in the digital economy, has underscored the need to better monitor this trend and manage its socio-economic implications.

To achieve the 2030 Agenda, global solutions need to be complemented by national actions.

Adopt integrated national financing frameworks and adjust policies to new realities

The Addis Agenda notes that “cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart of our efforts.” In response to the 2030 Agenda, many countries have injected new life into their sustainable development strategies. However, most strategies do not have concrete financing plans to fund their implementation.

The Task Force has identified four building blocks to operationalize “integrated national financing frameworks.” All countries should consider developing financing frameworks to support their national development strategies. The international system should continue to support countries in these endeavours.

Financing policies do not work in isolation. Integrated financing frameworks should not only respond to financing challenges, but also to the realities of a changing global landscape. For example, to combat inequality, including gender inequalities, national policies will need to address the falling wage share, growing vulnerabilities, digitalization and increasing market concentration, amongst other issues. Governments should revisit their labour market policies; social protection systems, fiscal policies, competition policies, financial sector regulations and strategies, and trade policies to ensure that these are in line with the new realities.

Counter short-term behaviour

Achieving sustainable development – particularly eradicating poverty, reducing inequality, and combatting climate change – requires a long-term perspective, with governments, the private sector, and civil society working together to tackle global challenges.

Yet, a more uncertain world begets more short-term behaviour. Private businesses, many of whom already face a range of short-term incentives, hesitate to commit funds to long-term investment projects. During periods of financial insecurity, households often focus on their immediate needs. And policymakers are often guided by short-term political cycles.
Actions are needed at all levels. Strengthened collective action can help reduce global uncertainty. Nationally, integrated financing frameworks provide a basis for long-term policymaking beyond political cycles. For private investors and businesses, achieving the SDGs will require a shift towards long-term investment horizons and sustainability as a central concern of investment decisions. This demands aligning private and public incentives with sustainable development, and better measuring the impacts on sustainability.

Harness the potential of innovation while managing risks

Financial innovations can generate significant progress across the 2030 and Addis Agendas. New technologies and innovation can improve the functioning of markets. Financial technology (fintech) can enhance access to finance for millions of people. Big data can contribute to better policymaking. Blended finance, when well-managed, can contribute to strengthening development finance. New instruments, strengthened sustainability reporting, and innovative policy solutions can enable a growing number of investors to pursue financial returns with positive sustainable development impact.

But financial and sustainability risks do not disappear with innovative forms of financial intermediation – credit risk still needs to be managed, and new technologies give rise to new risks.

Non-bank financial institutions and fintech companies are not always well positioned to manage these risks, and neither are regulators who have historically focused on traditional financial services providers. Policymakers and regulators will need to increasingly shift to looking at the underlying risks associated with financial activities from all actors rather than looking at the type of institution. At the same time, they need to strike a balance between managing emerging risks and enabling experimentation and innovation.

About this report

The 2019 Financing for Sustainable Development Report of the Inter-agency Task Force begins its assessment of progress with an analysis of the global macroeconomic context (chapter I), including sustainable growth, inequality and climate change. The thematic chapter (chapter II) presents four building blocks to operationalize implementation of the Addis Agenda at the country level through integrated financing frameworks.

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. Each chapter gives updates on implementation, and lays out challenges and policy options on both the national level, including links to integrated financing frameworks, and for international cooperation.

In Chapter III.A on domestic public resources, main issues include: raising resources and using fiscal systems to combat inequality; aligning fiscal systems with environmental goals; and strengthening international tax cooperation and fighting illicit financial flows. In Chapter III.B on private business and finance, main issues include: leveraging the growing interest in sustainable investing to maximize sustainability impacts; financial sector strategies to develop inclusive and sustainable financial systems, as well as capital market development; and links between financial markets, business concentration and inequality. In Chapter III.C on international development cooperation, main issues include: a deep dive into ODA, along with other forms of development cooperation; international public finance for climate change and strengthening resilience; and development cooperation strategies as an integral part of national financing frameworks. In Chapter III.D on international trade as an engine for development, main issues include: reforms the multilateral trading system; trade policies consistent with the SDGs, including investment treaties; adjustment for the future of work; as well as e-commerce and trade financing gaps. In Chapter III.E on debt and debt sustainability, main issues include: rising risks of debt distress; financing...
the SDGs in the context of rising debt burdens, including through the use of innovative instruments; transparency and debt management; and challenges to creditor coordination in a changing landscape of debt financing. In *Chapter III.F on addressing systemic issues*, main issues include: global systemic risks, including capital flow volatility; financial regulations and sustainable development investment, as well as correspondent banking; and risk management for national development banks. In *Chapter III.G, on science, technology and innovation*, main issues include: the impact of technology on labour markets; fintech and financial inclusion; and access to technology. Finally, in *Chapter IV on data and monitoring*, main issues include: development cooperation in support of statistical systems and the role of big data for the 2030 Agenda.

Chapters III.A to III.G and IV address the eleven requests Member States made to the Task Force in the intergovernmentally agreed conclusions and recommendations of the 2018 ECOSOC Forum on Financing for Development. Table 1 lists the issues and where the related content can be found in this report.

### Table 1

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Member States designated five SDGs to be reviewed in-depth in 2019 at the United Nations High-level Political Forum on Sustainable Development, namely SDGs 4 (quality education), 8 (decent work and economic growth), 10 (reduced inequalities), 13 (climate action) and 16 (peace, justice and strong institutions). These are addressed throughout the report. To guide readers interested in a consolidated picture of the financing issues related to these SDGs, the Task Force also brought together pointers to the relevant content in the boxes following this introduction.

This Task Force is made up of 60 United Nations agencies, programmes and offices, the regional economic commissions and other relevant international institutions. The report and its online annex draws 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 second session in Geneva from 7 to 9 November 2018, on the topics of debt and debt sustainability and interrelated systemic issues.
SDG 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Achieving SDG 4 on quality education for all requires significant additional financing. Annual total spending to achieve the first two—and costliest—education targets, namely universal pre-primary, primary and secondary education, would need to more than triple in low-income countries.5

Three sources of funding are available to fill the gap: Governments, donors and households. Domestic public finance is by far the most important source of funding, accounting for 79 per cent of education spending globally. Poorer countries prioritize education more in their public expenditure, but this still translates into vastly smaller expenditure by student—less than $200 annually per primary school student in low-income countries, compared to around $8,000 in high-income countries.6

In response, households have to contribute a much larger share of education financing directly. In some developing countries, households account for more than half of all expenditure, compared to less than 15 per cent in most developed countries. Overreliance on households raises equity concerns. Chapter III.A presents the case of Chile, which is gradually expanding free access to tertiary education, with a view to increasing inclusion. To this end, it undertook a broad reform of its tax system in 2014, with the explicit objective of permanently increasing public spending on education and other social sectors (box III.A.2).

In developing countries, fiscal and household spending is complemented by aid as a third major source of education funding. Donors account for 12 per cent of education spending in low-income countries. However, over the past decade, education has become less of a priority for development partners, with the share of education falling from 8.8 per cent of total official development assistance in 2010 to 7.1 per cent in 2017. Chapter III.C describes one response to this trend—that is, the use of partnerships and innovative funding mechanisms, such as the Global Partnership for Education and Education Cannot Wait, to support education in crisis settings, and the recently proposed International Finance Facility for Education (box III.C.1).

A share of aid for education is used for the provision of scholarships. –Means of implementation target 4.b calls for a substantial expansion of scholarships available to developing countries. More than $3 billion were disbursed as aid for either scholarships or as costs incurred by donor-country higher education institutions. Chapter III.F notes that scholarships and migration for education purposes are included in the Global Compact for Migration (box III.F.3).

Chapter III.G (section 3) finds that new and emerging technologies are putting additional demands on education systems, as even advanced education is no longer a guarantee for employment due to the automation of cognitive tasks. Continuous and rapid technological change will require provision of opportunities for lifelong learning, but implications of artificial intelligence and related technologies for education systems and practices are only just coming into focus and warrant attention by policymakers (box III.G.1).

Chapter IV reports on capacity development efforts to improve national education data, as availability of reliable and disaggregated data remains a challenge in the education sector (box IV.1).
**SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all**

SDG 8 promotes sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all. It includes higher levels of productivity and technological innovation, encouraging entrepreneurship and decent job creation, access to financial services and protecting labour rights. These issues, which cut across the action areas, are at the heart of the Addis Ababa Action Agenda.

The global context chapter *(chapter I)* provides data on growth and employment. It highlights the lack of sufficient growth in least developed countries, as well as continuing challenges in generating sufficient employment. The chapter notes that hundreds of millions of workers are living in poverty despite being employed, and that youth employment remains a challenge. Gender disparities in workforce participation and pay are stubbornly wide.

The global context chapter also points to a decline in the labour share of income (and a corresponding increase in the profit share) over the last several decades, as a structural factor linked to growing inequality in some countries. Wage growth has lagged labour productivity growth, while the profit share has been rising. Insufficient welfare gains for the broader population risk lowering demand and economic growth.

Informality of businesses undermines the enforcement of labour rights and safe working conditions. Chapter III.A on domestic public resources examines the role fiscal policy can play in addressing labour market challenges, including in the informal economy. Policymakers can use fiscal systems to incentivize the formalization and growth of micro, small and medium-sized enterprises (section 3).

Policymakers can also create an enabling business environment that encourages entrepreneurship and a vibrant business sector, as discussed in chapter III.B (sections 3 and 4). Access to financial services is a key component of this enabling environment. While financial inclusion has improved in recent years, significant gaps remain between developed and developing countries (section 6). Policymakers can encourage a range of tools to strengthen financial inclusion. Financial technology (fintech) has successfully fostered financial inclusion in a number of countries, but has also led to new risks and challenges (chapter III.G, section 4). The regulatory framework for financial institutions, covered in chapter III.F, will need to shift from looking at the type of financial institution providing financial services to the underlying risks associated with the financial activity, with international regulatory standards also needing to adapt to the new landscape (section 3). Financial sector strategies should holistically address financial inclusion, deepening and stability, along with consumer protection.

There is significant uncertainty about the long-term impact of technology and innovation on jobs and decent work. Chapter III.G focuses on the impacts of technologies on labour markets and employment (section 3), addressing the fear that rapid advances in artificial intelligence could make the labour of millions of people redundant. Automation has led to a high concentration of profits among a few companies and locations, contributing to growing income inequality and job polarization. Governments can encourage innovation that creates new jobs and ensures that social protection systems adapt, while investing in lifelong learning that enables upskilling and re-skilling.

Member States of the United Nations have prescribed Aid for Trade as a means of implementation for SDG 8 (target 8.a). Aid for Trade aims to help developing countries, and in particular least developed countries, build the supply-side capacity and trade-related infrastructure they need to implement and benefit from multilateral trade agreements. Chapter III.D describes the progress (section 5.4), which has been steady since 2006, although the most recent year’s data showed a decline. Ensuring Aid for Trade is aligned with country priorities for infrastructure and industrialization, and is incorporated in integrated national financing frameworks, will contribute to implementation of the 2030 Agenda.
SDG 10: Reduce inequality within and among countries

SDG 10 aims to reduce inequality within and among countries. Inequality can erode trust and leave the most marginalized behind. At the same time, reduced inequality is associated with stronger, more sustainable growth. The global context chapter (chapter I) finds that inequality within countries has increased over the past three decades in about half the countries where estimates have been made. Indeed, most people live in countries with increasing inequality, and individuals in the bottom 10 percent of income scales in many countries have seen little or no growth in disposable income over the last decade (section 3).

Many factors have contributed to this trend. Advances in technology are displacing low- and medium-skilled workers while benefiting higher-skilled workers, thus exacerbating inequality, as discussed in chapter III.G (section 3). As highlighted in chapter III.B, market concentration has been rising across a range of industries in some countries, particularly in the digital economy, with a high concentration of profits among a few companies and locations (section 7.2). Such concentration has contributed to a decline in the share of wages in favour of profits, raising inequality. Chapter III.B also explores how the financial sector has impacted inequality. On the one hand, financial development benefits the poor, with better access to financial services helping some people escape poverty (section 7.1). Promoting financial inclusion can thus have a positive impact on inequality when implemented with consumer protection. Financial inclusion can also reduce transaction costs for migrant remittances (SDG means of implementation target 10.c) (section 6.1). On the other hand, excess financialization may contribute to greater income inequality, as the financial sector appropriates a disproportionate share of profits and may lead to some degree of regulatory capture (section 7.1). Excess financialization may also result in an unsustainable build-up of debt, increasing the risk of a financial crisis, which may widen inequality. Policy solutions will require efforts across government, including revisiting competition policy, as well as promoting regulatory and other policies aimed at reducing financial and capital market risks and ensuring that finance benefits the real economy (chapter III.F section 3).

Chapter III.A discusses the role of fiscal systems in reducing inequality. Fiscal systems can incorporate impact analysis on inequality on both taxation and expenditure (section 3). Effective and progressive tax systems can lower inequality, as can public spending, including the provision of public services and social protection. Labour policies, such as minimum wages, and efforts at formalizing businesses, which allows better enforcement of labour rights, also lower inequality.

The benefits from international trade have not been shared equitably and have required costly adjustments from some groups of workers, though recent research shows this effect might be smaller than believed. Chapter III.D underlines that expediting preferential market access for least developed countries (SDG means of implementation target 10.a) should contribute to making trade more inclusive, (section 2.2). Investment in education and training to provide workers with skills in high demand also helps reduce inequality (section 6.2).

Tackling inequality requires partnership–governments, the private sector, and civil society working together to eradicate discrimination against women, design the right labor market reforms, and strengthen education, training and social protection systems. While certain policies can be implemented at the national level, others require international efforts, for example, international tax cooperation (chapter III.A section 5), global governance (chapter III.F, box III.F.2) and the monitoring of global market concentration trends (chapter III.B section 7.2). Key international efforts to reduce inequality also include enhancing official development assistance flows (SDG means of implementation target 10.b), which are covered in detail in chapter III.C.
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**SDG 13: Take urgent action to combat climate change and its impacts**

SDG 13 commits the international community to take urgent action on climate change mitigation and adaptation, noting the need for awareness-raising, capacity-building and financing. Climate risk is the most important systemic risk for the near future, but climate change is proceeding faster than humanity is tackling the problem. There is no country that is not experiencing the drastic effects first-hand.

The global context chapter (chapter I) provides data on growth in emissions and trends in the carbon intensity of the economy. It highlights the urgency of more ambitious actions if the international community wants to avoid the worst impacts of climate change by limiting the average temperature increase to 1.5°C (section 4).

Chapter III.A discusses how national fiscal systems are crucial for transitioning the world to a sustainable, low-carbon economy. Carbon pricing and other environmental taxation can help steer economic activities away from high emissions, while at the same time generating fiscal revenues (section 4). Climate change adaptation can be bolstered by expenditure on disaster resilience and setting incentives for disaster risk reduction (section 4.4).

Chapter III.B highlights that investors are gradually recognizing that the performance of companies on environmental issues may affect their financial performance (section 2). They are thus incorporating these elements into their investment decisions. Policy measures should complement private initiatives, and help build a policy environment that aligns private sector incentives with public goals (for example, through carbon pricing) and strengthens accountability. These measures include promoting more meaningful and harmonized sustainability reporting by corporations and clarifying the fiduciary duties of institutional investors. The impact of climate risks on financial sector returns, risks and stability is also considered in chapter III.F (section 3), which highlights the role that credit rating agencies can play in assessing and publishing these risks.

Chapter III.C reviews progress towards the commitment made by developed-country parties to the United Nations Framework Convention on Climate Change (UNFCCC) to jointly mobilize $100 billion annually by 2020 to support the climate financing needs of developing countries. Climate finance is the SDG means of implementation target 13.a. The report highlights how access to climate finance for the poorest and most vulnerable countries will need to be improved (section 6.2). Lessons on governance and institutional coordination of climate financing are also covered in chapter II (box II.4).

Chapter III.C also highlights the importance of international cooperation for resilience building, to support developing countries’ disaster risk reduction strategies, and the particular relevance of ex ante financial instruments to incentivize risk reduction (section 6.1).

Chapter III.G notes that green technology transfer was meant to be a key element of the UNFCCC Clean Development Mechanism. It reports that the bulk of environmentally sound technologies have been developed in response to explicit and strong government support, providing Governments with leverage to disseminate them more broadly in the larger public interest (section 5).

Promoting planning and management is the SDG means of implementation target 13.b, and chapter II lays out steps for countries to develop institutional coordination mechanisms for more effective planning (section 4.1).

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**SDG 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels**

SDG 16 promotes peaceful and inclusive societies, the provision of access to justice for all, and the building of effective, accountable and inclusive institutions at all levels. In the Addis Ababa Action Agenda, Member States of the United Nations agree to “promote peaceful and inclusive societies,” with an emphasis on institutions as a means of implementation. This report covers both national level institution-building as well as efforts at the international level.

**Chapter II** lays out steps for countries to develop and implement integrated national financing frameworks. Effective, accountable and transparent institutions are a key element of these frameworks. This includes institutional coordination mechanisms, such as national steering committees, which can provide leadership, facilitate a whole-of-government approach and policy coherence, and lead a consultative process that engages all relevant stakeholders, including parliament, civil society, the private sector and other non-state actors. Many examples are presented throughout the report, such as chapter III.A, which notes the importance of the consultative process to generate broad national agreement on medium-term revenue strategies so those strategies can extend across political cycles (section 2.4).

At the international level, the role of global institutions is discussed throughout the report. To achieve the SDGs, international norms and institutions need to be fit for purpose. Rising global economic risks, the rapidly changing international landscape, and insufficient progress on some SDGs (such as combatting climate change) have sensitized more stakeholders to the need for reforms to the current multilateral system. This creates a window of opportunity for reform, which is discussed in relation to the multilateral trading system (chapter III.D section 3), tax (chapter III.A section 5), debt (chapter III.E section 5) and the international financial architecture (chapter III.F section 2).

**Chapter III.F** further notes that the 2030 Agenda makes high demands to maximize synergies and break down silos. Coherence of financial and economic systems with sustainable development is critical (section 5). The deeper coordination that is now needed extends across policy areas and institutions including tax, investment, competition and non-economic issues—which have previously been excluded from the development discourse—such as climate change, disaster risk, human rights, gender and migration.

SDG 16 also makes specific reference to reducing illicit financial flows (IFFs), which are discussed in chapter III.A. While there remains no universally agreed definition of what constitutes IFFs, the report highlights efforts to estimate the volume of different components of IFFs and the policy work needed to tackle money laundering, combat corruption and return stolen assets (section 6). Progress can be enhanced by both greater national enforcement and enhanced international cooperation across the channels and mechanisms that contribute to the problem.

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1 The necessarily concise assessments in the report are complemented by and should be read in conjunction with the comprehensive online annex of the Task Force report, available from [http://developmentfinance.un.org](http://developmentfinance.un.org).
3 For additional information on these workstreams and related technical meetings, please refer to the online annex. Available from [https://developmentfinance.un.org/workstreams](https://developmentfinance.un.org/workstreams).
Chapter I. The global economic context and its implications for sustainable development

Risks to the global economy have begun to materialize, leading to modest downgrades in growth projections by members of the Inter-Agency Task Force on Financing for Development. Global growth remains steady, but is projected to have now peaked, with economic activity expected to continue expanding at about 3 per cent per year. Global growth is projected to remain uneven across regions and countries. There is some good news: investment has gained strength in some countries and regions, particularly in East and South Asia, which also have large populations of poor people; inequality within many developing countries is declining; and prices on carbon markets are slowly recovering due to policy changes. There is also growing interest in sustainable and impact investing (see chapter III.B). Yet, financial markets are volatile, the trade system is in crisis, wage shares are declining which is linked to economic concentration increasing, and risks of debt distress have increased. Carbon emissions have also begun to rise again. At this trajectory, Member States of the United Nations will not be able to meet the aspirations of the 2030 Agenda for Sustainable Development, with many being left behind.

Policymakers face a daunting task of containing rising short-term risks, while advancing long-term development strategies towards economic, social and environmental goals. Both national and global actions are necessary. National Governments can take meaningful steps to build resilient and inclusive economies. Given that many of the challenges are global by nature, strengthening rules-based multilateralism is also necessary to fully achieve the Sustainable Development Goals (SDGs). Waning support for international cooperation, often driven by the uneven distribution of the benefits of economic and financial integration, will not only hamper an effective short-term response to any global economic downturn, but also complicate collaborative efforts to implement the Addis Ababa Action Agenda, address the global challenges, and promote sustainable development.

The chapter also examines how economic performance and non-economic factors impact each other. Economic growth can lead to greater environmental degradation and carbon emissions, while the effects of climate change have enormous economic costs. The human and economic costs of natural disasters fall primarily on low-income and lower-middle-income countries. Yet, policy choices matter. Economic growth and climate goals can be mutually supportive, depending on the policy framework. Similarly, ensuring women’s rights and empowerment can promote gender equality and improve their livelihoods, while also positively impacting economic performance.

Chapter II. Integrated national financing frameworks for sustainable development

The Sustainable Development Goals (SDGs) are comprehensive, complex and interrelated. Because of their synergistic nature, implementation of the 2030 Agenda for Sustainable Development has revived interest in national development strategies. However, most national strategies do not spell out in detail how they will be financed. Mobilizing sufficient resources remains a key challenge.

Member States of the United Nations recognized this challenge in the Addis Ababa Action Agenda. They decided to put in place integrated national financing frameworks to support their sustainable development strategies.\(^1\) Such country-owned financing frameworks bring together financing and related policies most relevant to addressing a country’s financing challenges. They look at the full range of financing sources and non-financial means of implementation that are available to countries, and lay out a financing strategy to raise resources, manage risks, and achieve sustainable development priorities. In short, integrated national financing frameworks are a tool to implement the Addis Agenda at the national level.

There are several benefits to an integrated approach. By connecting financing and related policies with longer-term objectives, integrated financing frameworks can help overcome short-term oriented decision-making. They allow policy makers to exploit synergies and manage possible trade-offs across different policies. And they help countries manage an increasingly complex financing landscape, and help mobilize different types of financing appropriate for country specific characteristics and risks.

Adopting integrated national financing frameworks is a challenging endeavour. In many countries, capacities are limited and policy reform is costly; long “to- do: lists of needed reforms will therefore not be helpful. Existing financing policies may be misaligned due to underlying political constraints, which cannot be ignored. Yet, many elements exist that countries can build on.

All countries have a variety of financing policies in place. If they have already begun implementing a national sustainable development strategy, they should also have governance and coordination mechanisms in place. The integrated financing framework will not need to reinvent the wheel; it is a tool to identify and implement targeted policies and reforms to increase their effectiveness, coherence and alignment with sustainable development. There is clearly scope to do so in both developed and developing countries.

This chapter aims to provide guidance to Member States as they design and implement integrated national financing frameworks. It presents four main building blocks for their operationalization: (i) assessments and diagnostics; (ii) design of the financing strategy; (iii) mechanisms for monitoring, review and accountability; and (iv) governance and coordination mechanisms.

As interest in more integrated and strategic approaches to sustainable development financing is growing, more detailed lessons are emerging for their design and implementation. These lessons inform the analysis put forward in this chapter, and will guide the Inter-Agency Task Force on Financing for Development (Task Force) as it continues to refine its methodology and its work in this area through, for example, further elaborations of policy toolkits most useful for different types of countries.

\(^{1}\) “Cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart of our efforts.” Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda) (United Nations publication, Sales No. E.16.I.7), para. 9.
Chapter III.A. Domestic public resources

Revenue is not an end in itself; it is a means for Governments to finance the expenditure necessary to achieve sustainable development and policy goals. The fiscal system plays several roles. It finances the provision of public goods, sets incentives for the behaviour of private actors, and promotes equity. It also supports macroeconomic stabilization and can be used to stimulate growth during economic slowdowns. While median tax-to-gross-domestic-product (GDP) ratios have increased, there is still a large gap between public resources and financing needs to achieve the Sustainable Development Goals (SDGs).

As noted in the Addis Ababa Action Agenda, domestic resource mobilization is first and foremost generated by economic growth. With global growth projected to have peaked, as discussed in chapter I, the needed further increases in revenue will require application of political will to tax policy and administrative reform, expanding the tax base and improving compliance. Given the long-term nature of the SDGs, Governments will need plans that operate through political and business cycles. Embedding medium-term revenue strategies into long-term planning and developing a national consensus that can see revenue reform through political cycles should allow countries to raise more public resources. A focus on aligning the expenditure side of fiscal policy with sustainable development strategies to deliver public services equitably will create further progress in achieving the SDGs, while stimulating inclusive growth.

States Members of the United Nations can work towards establishment of a new social contract, based on a more equitable and inclusive society with fair contributions by all. The renewed social contract should be reflected in national sustainable development strategies and integrated financing frameworks (see chapter II). Fulfilling the social contract requires that these resources be raised fairly and tied to effective expenditure and the delivery of accountable public services.

Combatting inequality and achieving SDG 10 (reducing inequality) requires careful design of the fiscal system. Placing a priority on effective and progressive tax systems and expenditures can make achievement of inequality goals more likely. Governments can explicitly take account of inequalities, including gender inequalities, in fiscal policy and public financial management. Gender-responsive budgeting is an effective tool for tracking financial commitments to and actual expenditure on gender equality. Countries with large informal sectors can pursue efforts to formalize business in ways that do not harm the poor. Policymakers can use relatively high tax-exempt thresholds to incentivize formalization, encourage greater levels of compliance, and ensure that the poor are not burdened by the tax system. Removing means testing for access to social protection would help remove barriers to participation in the formal economy, while also providing benefits to participation. More effective taxation of large businesses, including multinational enterprises (MNEs), can boost revenue, while contributing to perceptions of fairness in tax systems, as well as reducing inequality.

Incentives set by the fiscal system can be used to effectively target progress on SDG 13 (climate action). Climate change mitigation and adaptation policies, and disaster risk reduction, can be supported by incentives in the fiscal system. Environmental taxation and the reform of energy and other subsidies have a critical role to play in transitioning the world to a low-carbon economy.

The international tax environment looks remarkably different than it did just ten years ago. Norm-setting is more inclusive and more information is now available on financial accounts and corporate activity, although profit shifting remains a challenge. Efforts at strengthening international tax cooperation have brought important benefits in enforcement of tax rules. All countries should aim to participate in international efforts to strengthen tax transparency, at the same time more work needs to be done to enable developing countries to benefit from information-sharing networks, especially the poorest countries. Some of the fundamental tenets of the international tax architecture, such as the arm’s length principle and allocation of taxing rights, are now being questioned, particularly as a result of digitalization of the economy.
The international tax architecture needs to continue to be more inclusive and the voices of all countries need to be part of discussions on setting new tax norms. It is in the global interest to seek a consensus, but it needs to reflect the realities and priorities of different countries. It is critical to pay attention to the potential impact on small and poor countries, who already lag behind in their ability to raise revenue. Putting the needs and capacities of these countries at the forefront of analysis and decision-making would help create a fairer international tax system and advance sustainable development. Official development assistance (ODA) in support of domestic resource mobilization remains small. Donors should continue to increase their contributions to revenue mobilization capacity-building.

A number of international initiatives aim to ensure MNEs pay taxes where economic activity occurs and value is created, with particular importance placed on efforts for country-by-country reporting of MNEs. Greater public availability of aggregate data on offshore financial assets and the taxation of MNEs would contribute to more accurate assessment of the distributional effects of tax norm changes and empower countries to choose tax norms that enhance equity.

The Inter-Agency Task Force recognizes the damage done by illicit financial flows (IFFs) and the interest of Member States’ interest in this issue. While technological advances pose risks related to IFFs, they can also be used in strengthening tax administration, as well as assisting Member States to combat IFFs.
Chapter III.B: Domestic and international private business and finance

The private sector represents the largest part of the economy in most countries. It is thus promising that a growing number of investors have expressed interest in taking social and environmental issues into account in their investment decisions. Yet, the impact of this growing interest in sustainable development is unclear, in part because of confusion regarding what sustainable investment means and a lack of consensus on how to measure its impact. *Through its analytical work, the Inter-Agency Task Force on Financing for Development could help create greater global consensus on the definition of sustainable investment and the measurement of investment impacts, building on both public and private efforts.*

**Policymakers should capitalize on the growing interest in sustainable investing.** Capital markets are a powerful vehicle for promoting alignment with sustainable development, provided the right incentives are in place for all market participants. The Addis Ababa Action Agenda underscores the role of capital markets and calls on Governments to design policies that “promote incentives along the investment chain that are aligned with long-term performance and sustainability indicators, and that reduce excess volatility”.

Many countries are making strides towards building sustainable financial systems; lessons learned can be shared through international platforms to find synergies and strengthen policy frameworks. *Governments can help create incentives to foster greater sustainable investing, including by pricing externalities, requiring more meaningful disclosure by corporations on social and environmental issues, and clarifying fiduciary duty and asset-owner preferences (e.g., through incorporating sustainability preferences into required investor profiles). They can also promote long-term investing by supporting efforts to build longer-term indices or encouraging longer-term investment horizons in credit ratings, as well as through regulatory frameworks.*

The Addis Agenda also recognizes that public policy is needed to create an enabling environment that encourages entrepreneurship and a vibrant domestic business sector. Investments in sustainable and resilient infrastructure can further facilitate private sector development by providing essential services for the functioning of the economy. *Governments should continue to strengthen the enabling environment, including by considering appropriate financing sources, assessing bottlenecks to investment, and prioritizing policy actions* (see chapter II). For example, in infrastructure, this would help identify where private or public delivery and financing of sustainable infrastructure is the most cost-effective solution, and what type of infrastructure is most likely to deliver desired impacts.

The achievement of the Sustainable Development Goals (SDGs) is also dependent on private investments in least developed countries (LDCs) and other vulnerable countries where capital markets are less developed and investment profiles riskier. *Deliberate policy efforts are required to promote and facilitate investments that are linked to sustainable development. This also highlights the importance of international support to spur investment, for instance through carefully structured risk-sharing instruments, or through a greater role for development banks* (see also chapter III.C).

The question of access to finance is central to private sector development. While access to financial services has improved in recent years, significant gaps remain across countries and for specific market segments. *Financial sector strategies are instrumental to addressing financing gaps and tackling market failures in an integrated manner. As a first step, Governments can aim to build inclusive financial systems, for instance by supporting diversified types of financial institutions, depending on national contexts, and making greater use of financial technologies (fintech). They can also seek to further develop capital markets by first ensuring that the right conditions are in place.* In addition, they can consider complementary solutions such as private equity markets, which deserve further research to better understand the associated benefits and risks.
Financial development has, however, its own limits and should not be pursued blindly. Over-financialization can harm growth and contribute to rising inequality. *Policy frameworks can help incentivize finance for productive investments, and effective regulatory environments can help minimize risks of financial volatility and maximize the benefits of financial sector development.*

Policies that promote private sector development also need to take into account impacts on income distribution. Over the last three decades, the share of wages in total income has declined versus the share of capital. Market concentration in certain sectors raises concerns for its role in worsening income distribution and calls for competition policies that reflect the changing global environment and the growing role of technology, both at the national and the international levels, and for better monitoring market concentration trends.

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Chapter III.C International development cooperation

Development cooperation is adjusting to the new demands of the 2030 Agenda for Sustainable Development and the increasingly complex and diverse development landscape. However, stakeholders must do more in order to achieve the 2030 Agenda and its aim to leave no one behind.

While official development assistance (ODA) has grown steadily over the past decade, aggregate growth in real terms was flat in 2017. Flows to least developed countries (LDCs) increased by more than 10 per cent, but this rise mostly reflected humanitarian emergencies in a few countries. ODA providers should continue to strengthen efforts to meet the commitments they have made—including by collectively redoubling their efforts—to ensure that ODA, as a critical source of development finance, can deliver on the transformational ambition of the 2030 Agenda.

There is still limited data on allocation and use of ODA at the national and subnational levels. More detailed reporting and disaggregation would help improve monitoring and guide policy interventions to ensure no one is left behind. In addition, mapping ODA flows to the Sustainable Development Goals (SDGs) can be a helpful monitoring tool and focus attention on areas that can accelerate the achievement of all SDGs.

As humanitarian expenditure and in-donor refugee spending have risen, the share of ODA for country programmable aid (CPA) and budget support has decreased in recent years. There has been progress in untying aid, but informal tying remains. There is an urgent need to address these challenges to the quality of ODA, which, taken together, pose a threat to hard-won gains in country ownership and leadership.

Multilateral development financing has grown in volume, and multilateral development banks (MDBs) have taken steps to strengthen their collaboration. Integrated reporting on the environmental, social and governance impacts of their lending, which some MDBs are already implementing or considering, would further support ongoing efforts to mainstream SDG considerations in all operations and help ensure that no one is left behind. This alignment should continue to be improved and refined to increase impact.

South-South cooperation (SSC) is making a vital contribution to the implementation of the 2030 Agenda, as a complement, not a substitute, to North-South cooperation. As South-South cooperation continues to expand, there is opportunity to further advance both South-South and triangular cooperation as high-impact modalities of international development cooperation, both financial and non-financial.

Bilateral and multilateral providers have scaled up blended finance. To ensure that scarce concessional financing has the greatest development impact, providers of blended finance should engage with host countries at the strategic level, to ensure that priorities in their project portfolios align with national priorities. Integrated national financing frameworks, discussed in chapter II, can guide these discussions. The international community should consider how blended finance principles are aligned with those laid out in the Addis Ababa Action Agenda, such as country ownership.

Climate finance flows increased by 17 per cent from 2013–2014 to 2015–2016, but are still below the commitment by developed countries to jointly mobilize $100 billion a year by 2020 from a wide variety of sources to address developing countries’ climate financing needs. To combat climate change and reduce risks from increasingly devastating and costly natural hazards, efforts should be stepped up to realize existing commitments. Access to climate finance for the poorest and most vulnerable countries must be improved. To strengthen resilience in developing countries, more resources can be allocated to ex ante instruments for disaster risk reduction.

National development cooperation policies (NDCPs) put in place by many developing countries are proving effective in helping mobilize and align development cooperation with national sustainable development plans. Going forward, these policies will need to continue adjusting to an increasingly diverse development
cooperation landscape and strengthening the participation of a broader set of stakeholders, including a more effective citizen participation.
Chapter III.D: International trade as an engine for development

The multilateral trading system has made a significant contribution to economic growth and development. Despite this contribution, the system is facing serious challenges. Following the positive trade momentum over the last two years, 2018 saw growing trade tensions and increasing threats to the functioning of the World Trade Organization (WTO) and its dispute settlement system. Trade growth is expected to slow in 2019 with significant downside risks associated with escalating trade tensions. These challenges present an opportunity to make the system work better, by finding solutions within the multilateral trading system, updating the WTO and revamping the trading system for a new century. In their communiqué at the Group of Twenty (G20) summit in Argentina, G20 leaders recognized the contribution of the multilateral trading system and committed to support the necessary reform of the WTO to improve its functioning. Governments can use appropriate intergovernmental meetings to accelerate progress on WTO reform. In addition, it is hoped that WTO Members will complete long-standing work on the development agenda.

Strengthening trade’s contribution as an engine for inclusive economic growth and poverty reduction is particularly important to least developed countries (LDCs), which remain far below the target of doubling their share of global exports by 2020. With a view to continually improving market access for LDC exports, WTO Members should expeditiously implement the Ministerial Decisions on preferential rules of origin for LDCs and on preferential treatment of LDC services exports.

Trade has income distributional effects, underscoring the importance of trade and supporting policies aimed at reducing inequality and empowering women, in both developed and developing countries. For example, trade patterns and challenges tend to present gender-based differences. New and existing trade and investment agreements are encouraged to address synergistic linkages between trade, investment and socio-economic and environmental policy (e.g., finance, taxation, competition, labour, gender, and technology) in order to enhance trade’s contribution to the Sustainable Development Goals (SDGs).

Actions are also required to allow micro, small and medium-sized enterprises (MSMEs) to better tap trade opportunities and integrate into international value chains. The persisting trade finance gap continues to affect them disproportionally. The increase in multilateral development bank (MDBs) provision of trade financing and guarantees is timely, but would need to be complemented by greater private finance, as well as potentially by national development banks. A greater focus needs to be placed on financial techniques that are less document intensive as well as on digital platforms and fintech that can help strengthen trade financing for MSMEs, including by reversing the decline in correspondent banking, which is partly responsible for the trade finance gap.

E-commerce opens new trade opportunities for MSMEs. However, many developing countries, particularly in Africa, remain relatively under-connected to the internet and thus to e-commerce platforms. This underlines the importance of increasing investment in information and communication technology (ICT). The upcoming plurilateral negotiations on e-commerce at WTO should address the need for resources to enhance e-commerce readiness of MSMEs in developing countries.

Improving trade facilitation, including improving efficiency in customs revenue collection and sustainable and climate-resilient transport, presents immense potential in reducing trade cost and increasing public revenue. International assistance remains critical to making progress in these areas, notably through Aid for Trade.
Chapter III.E. Debt and debt sustainability

Countries face pressing demands for additional public investment in the Sustainable Development Goals (SDGs), but high debt burdens may threaten their ability to raise sufficient financing. Public debt levels have continued to rise since the publication of last year’s Task Force report, with some middle-income countries experiencing debt levels last seen during the debt crises of the 1980s. Debt vulnerabilities in developing countries exist due not only to higher levels of debt, but also because of increased risks from a shift in debt composition. A rise in external debt that carries variable interest rates and greater reliance on commercial debt have increased refinancing risks. A more prominent role of non-traditional creditors and market-based financing also presents new challenges for debt crisis resolution.

The rise in public debt has been accompanied by an increase in corporate debt, particularly in middle-income countries, as many large companies took advantage of the long period of unusually low international interest rates. Further increases in global interest rates could create concerns for financial stability, and in many cases, for public debt sustainability as private liabilities often become public during crises. While debt levels in the majority of developing countries remain sustainable, the rise in the number of countries in or at high-risk of debt distress demands the attention of global policy makers.

To retain fiscal space for SDG investments in this challenging context, multipronged policy action is needed, at both the national and global levels. This includes measures to improve debt management, debt transparency, and debt sustainability assessments. It can include differentiating how debt financing is used, and prioritizing borrowing for productive investments that can create fiscal space (see chapter II).

The international community is stepping up its work to help countries reduce debt vulnerabilities. Updating analytical tools – such as the International Monetary Fund (IMF) and World Bank’s recently revised framework for debt sustainability analysis in low-income countries – can help countries identify risks, make policy corrections, and better understand the relationship between public investment, growth, and debt sustainability. Debtors and creditors are encouraged to use newly available tools to help inform sustainable borrowing and lending.

The rise in floating rate debt issued in a low interest rate environment may indicate that some governments have not adopted a sufficiently risk-informed perspective in their debt management. Governments need to carefully monitor the growth of debt, including contingent liabilities and debt of their private sectors, through a risk-based approach. To address systemic risks posed by private borrowing, governments should aim to adjust regulatory policy frameworks during periods of rising risks. Strengthening debt management through technical assistance and training will help countries deal with existing debt more effectively. At the same time, there is also a need for complementary actions on the global level in other action areas of the Addis Ababa Action Agenda, including strengthening international tax cooperation, providing reliable sources of concessional development finance, and strengthening macroeconomic policy coordination and the global financial safety net.

The full effectiveness of efforts to improve analytical tools and debt management will require greater debt transparency. While the primary responsibility for debt transparency lies with debtors, the international community and creditors also have an important role to play. Creditors share the responsibility for making the terms and conditions of lending public, straightforward, and easy to track. Creditors should also strive for simplified lending terms and avoid onerous conditions on sovereign borrowing. International institutions can update data standards and provide technical support to improve the capacity to record, monitor, and report debt.

Efforts to provide clear guidance for responsible sovereign lending and borrowing should also be reinforced, building on existing efforts such as UNCTAD’s Principles to Promote Responsible Sovereign Lending and Borrowing and the Group of 20 Operational Guidelines for Sustainable Financing. There is merit to exploring how these
approaches can complement each other and to work towards global consensus guidelines for debtor and creditor responsibilities, in line with the mandate in the Addis Agenda.

There continues to be a role for innovative mechanisms to reduce risks to sovereign balance sheets. Although their use so far has been limited, there has been increasing interest over the last year in state-contingent debt instruments, which allow a country’s debt service obligations to be linked to its ability to pay. Following the severe hurricane season of 2017, there has been particular interest in developing climate resilient instruments for Caribbean economies susceptible to disasters. The international community can continue to support these efforts, including through technical work to consider appropriate design options for state-contingent debt instruments. **Official creditors should consider increasing the use of state-contingent instruments in their own lending.** The Economic Commission for Latin America and the Caribbean (ECLAC) has proposed a swap of some of the region’s external debt for debtor country commitments to make annual payments into a new Caribbean Resilience Fund. **Piloting implementation of this or similar proposals in a limited number of countries of the region should be considered.**

While the evolution of private and public cross-border financing modalities and sources of credit have increased the variety and scope of international financing for development, they have also raised concerns that decentralized debt workout processes no longer serve their function well. Changes in the creditor landscape and the increase in collateralized lending have raised new restructuring challenges and brought new salience to the issues of creditor coordination and long-standing challenges in the existing architecture. **It is thus time to revisit existing mechanisms for debt workouts to determine ways to improve their efficiency. Areas ripe for progress may include exploring ways to strengthen creditor coordination, and creditor and debtor dialogue, along with specific elements of debt workouts, such as standstills.**
Chapter III.F. Addressing systemic issues

The global economy is facing heightened risks and financial volatility, with global growth likely to have peaked, as discussed in Chapter 1. Geopolitical factors, trade disputes, financial market volatility and non-economic factors, such as climate change, risk further impeding growth, stability, and development, as well as worsening poverty, inequality and vulnerabilities. There is increased urgency to address the systemic economic and financial risks and architectural gaps that threaten implementation of 2030 Agenda for Sustainable Development.

Weaknesses in the global financial system could pose heightened risks to achievement of the Sustainable Development Goals (SDGs). These risks include: the volatility of international capital flows, resulting from the short-term nature of many elements of international capital markets; persistent global imbalances; debt sustainability challenges in the public and private sector (see chapter III.E); and growing monopoly power and less effective competition policies (see chapter III.B). High debt levels in public and private entities—including through highly leveraged financial market derivatives—raise vulnerabilities and feed boom-bust cycles. The compression of the wage share of income has exacerbated inequality. The rapid pace of technological change, while possibly providing new remedies, can also exacerbate global systemic risks.

To achieve sustainable development, the international community should continuously examine whether its institutions are sufficient and remain fit for purpose. This reflection has begun—for example, within the Group of Twenty (G20)—but the global implications warrant wider, open and inclusive discussions. As noted in the Addis Ababa Action Agenda, this should be complemented by efforts to increase the coherence of the global system and improve the inclusivity of global economic governance.

While implementation of financial sector reforms in the aftermath of the 2008 global financial and economic crisis (hereafter, 2008 crisis) has reduced risks in the regulated financial system, there are growing risks in areas beyond such reforms, including outside of the regulatory framework. Governments can aim to better manage capital flow volatility with policy actions that maintain the benefits of long-term investment in developing countries while reducing the risk of financial crises. The international community should be mindful of spillovers from domestic policy choices including on the volatility of private capital flows to developing countries. Efforts to incentivize long-term investment to facilitate SDG achievement can contribute to this objective. The International Monetary Fund (IMF) has developed an Institutional View on the liberalization and management of capital flows, which guides IMF advice to and assessments of its members. At the national level, countries should incorporate strong macro-prudential regulations—and capital account management techniques when needed—into integrated national financing frameworks, as called for in the Addis Agenda, to ensure coherence across national policies (see chapter II).

In the medium to longer term, shifts in the international monetary system, including those related to external adjustment and global imbalances, could increase financial volatility, particularly in a period of political uncertainty. This underscores the importance of strengthened international cooperation and of ensuring adequate resources and comprehensive coverage in the global financial safety net. Under the current financial architecture, currency risk associated with welcome international financing is often borne by those in developing countries least able to manage it. The international community should develop better mechanisms to help address currency risk in developing countries, including through a greater use of currency risk diversification, as called for in the Addis Agenda. Similar to some other insurance mechanisms, international entities are well placed to manage such risks globally.

Agreed regulatory reforms need to be fully, consistently and transparently implemented, but they alone are not enough to create sustainable and stable financial systems. Outside the traditional regulatory perimeter, technology companies and non-bank financial institutions are intermediating growing shares of credit. Technology
companies often blur the lines between software, settlement, and financial intermediation. There are concerns about increasing risk-taking in credit markets with deteriorating underwriting standards, such as leveraged loans packaged into collateralized loan obligations. To effectively manage risks arising outside the regulatory perimeter, financial regulators will need to increasingly shift to looking at the underlying risks associated with the financial activity rather than the type of financial institution providing financial services, with international regulatory standards also needing to adapt to the new landscape.

Given the complex and ambitious set of transformations needed to deliver on the 2030 Agenda, coherence across policy areas is critical. There is a growing understanding of how financial regulations are impacting incentives for sustainable development investment. There is less understanding of the impacts of social and environmental risks on credit quality and the stability of the financial system. Policies and regulations need to act together in order to create a sustainable financial system. The regulatory system needs to be congruent with the measures to boost the sustainability of the private financial system, such as sustainability reporting and impact measurement (see chapter III.B).

Well-run national development banks (NDBs) can help countries develop financing options for SDG-related investments. NDBs should be aligned with the SDGs in a holistic way and be considered in integrated national financing frameworks. Collaboration of NDBs and multilateral banks, through cofinancing or on-lending arrangements, can enhance SDG-related finance through the complementarity of international resources and local market knowledge. States Members of the United Nations and the international community can work together to strengthen NDB risk management. Research is needed to better understand how the regulatory frameworks applied to NDBs can be tailored to protect their financial sustainability while incentivizing the sustainable development effectiveness of their investment.

Concern remains over the decline in correspondent banking, which is driven by cost—including maintaining important anti-money laundering and related standards—and risk considerations. Well-managed technological solutions have the potential to address the costs and risks of operating correspondent banking relationships. Member States can work together to incentivise or require the adoption of know-your-customer utilities and the Legal Entity Identifier (LEI).

As the 2030 Agenda makes high demands of maximizing synergies and breaking down silos, coherence of financial and economic systems with sustainable development is critical. Member States have aimed for economic, financial and trade policy coherence since the Monterey Consensus. The deeper coordination that is now needed extends across a broader set of international policy areas and institutions including tax, investment, competition and non-economic issues which have previously been excluded, such as climate change, disaster risk, human rights, gender and migration.

Global governance must be enhanced to support the ambitious 2030 Agenda. Throughout this report, there are many calls for deepening international cooperation, strengthening global governance and improving inclusive international norm-setting. Across these areas, more work is needed on broadening and strengthening the voice and participation of developing countries, as was committed in the Addis Agenda.
Chapter III.G. Science, technology, innovation and capacity building

Rapid changes in new and emerging technologies have great potential to support achievement of the Sustainable Development Goals (SDGs), but also raise new challenges. Yet, institutions and policy and regulatory frameworks at the national and international levels have not kept pace with these changes.

Recent developments in automation have raised concerns that rapid advances in artificial intelligence (AI) and other technologies could make the labour of millions in developed and developing countries redundant. While estimates are highly uncertain, there are several actions Governments can take to be better prepared: encourage innovation that uses technologies to create new products, services, and jobs; be sensitive to the differential impact on women and men; ensure social protection and extend social security mechanisms to compensate for loss of working hours and jobs; and invest in people’s capabilities in order to enable them to benefit from new technologies, with attention to the different needs of different groups (young, older, persons with disabilities, women, men and others).

Advances in access to mobile Internet, cryptography and distributed computing have given rise to financial innovations (fintech) that has fostered financial inclusion. However, they also led to new risks and challenges for financial markets. Regulation needs to address these risks without stifling financial innovation. Improved dialogue between policymakers, regulators and new service providers is critical to finding the right balance. Governments should incorporate platforms for dialogue into their policy frameworks. Experimentation and innovative mechanisms, such as regulatory sandboxes, can help policymakers design appropriate regulatory frameworks. Given that new actors involved in fintech are blurring the lines between software, settlement and financial intermediation, financial regulators will need to shift from looking at the type of financial institution providing financial services, to the underlying risks associated with the financial activity.

Developing countries need support from the international community to close technology gaps and address digital divides, keep up with rapid technology change, and make progress towards the SDGs. A variety of factors can constrain diffusion of technology. To improve access, it is important to identify binding constraints – be they absorptive capacities and the digital skills gap, lack of economic incentives, social and cultural factors, or issues related to intellectual property rights (IPRs). International organizations can help in this endeavour and international cooperation can contribute to address obstacles in each of these areas. Because the technology landscape is evolving rapidly, facilitating access to relevant technologies requires policy experimentation. The increasing digitalization and connectivity of the economy exemplifies this continuous change; it makes entirely new innovation approaches possible, but also raising new challenges, especially for the poorest countries.
Chapter IV. Data, monitoring and follow-up

The implementation of the 2030 Agenda for Sustainable Development and the commitment to leave no one behind requires the collection, processing, analysis and dissemination of an unprecedented amount of data, including disaggregated data, for effective policy design and for monitoring and evaluation of progress. To capture data on all population groups, including the most vulnerable, Governments should further strengthen traditional data sources, such as surveys and administrative records, while also embracing new sources of data and continuing to strengthen gender data.

The signatories of the Addis Ababa Action Agenda agreed to provide international cooperation, including through technical and financial support, to further strengthen the capacity of national statistical offices and national statistical systems. Given the increased need for disaggregated data, as well as the opportunities and challenges stemming from non-traditional data sources, providers should step up their support for developing countries’ statistical systems through increased capacity-building. A doubling of funds will be needed to operationalize the six priority areas of the Cape Town Global Action Plan for Sustainable Development Data.

National Strategies for the Development of Statistics (NSDS) provide an overall vision for the development of national statistical systems and addressing issues related to the integration and use of data from different sources, as well as statistical capacity development. To ensure alignment with national priorities, statistical strategies should be closely linked to national sustainable development strategies and incorporated into integrated financing frameworks.

Big data presents an opportunity to complement traditional sources of statistical information to assess progress towards achieving the Sustainable Development Goals (SDGs), as well as to improve targeting of policy interventions; but it also presents new risks and challenges. The international community should work to develop technical standards that adequately address data access, privacy and data security concerns, while continuing to follow existing statistical quality standards.

Continuing efforts are under way to improve the collection and dissemination of data on the financial sector and on financial vulnerabilities. As part of the second phase of the Group of Twenty (G20) Data Gaps Initiative (DGI), progress was achieved regarding the monitoring of shadow banking, reporting of data on global systemically important banks, and improved coverage, timeliness and periodicity of sectoral accounts. It will be important to secure adequate resources to support the necessary infrastructure for data access and sharing, and to ensure future maintenance of newly created DGI datasets.