

Report of the Inter-agency
Task Force on Financing
for Development

FINANCING FOR DEVELOPMENT: PROGRESS AND PROSPECTS 2018



United Nations

2018 report of the Inter-agency Task Force

Overview

In 2017, most types of development financing flows increased, amid progress across all the action areas of the Addis Ababa Action Agenda (hereafter, Addis Agenda). These advances were underpinned by a broad-based upturn in the world economy, increased investment and supportive financial market conditions. While not evenly distributed—per-capita growth remains negative or insignificant in many countries where poverty rates are high—the positive momentum is expected to continue and provide a platform for further progress in financing for development and implementation of the Sustainable Development Goals (SDGs).

Yet, the cyclical upturn masks significant weaknesses and medium-term risks. A disorderly tightening of financial conditions, the adoption of inward-looking policies and associated increases in interest rates and debt vulnerabilities, or an escalation of geopolitical tensions could derail development progress. Persistently high levels of inequality pose a challenge to robust growth and sustainable development. Declining private investment in infrastructure and a renewed increase in global carbon emissions in 2017 are stark reminders of the inability, so far, to sufficiently align investment with long-term sustainable development.

If left unaddressed, structural impediments will continue to undermine sustainable development prospects. The current cyclical upturn in the global economy provides an opportunity to focus policy-making on addressing long-standing concerns, and to accelerate the pace of progress towards the SDGs. The Addis Agenda offers a framework for individual actions and international cooperation towards this end. This 2018 report of the Inter-agency Task Force on Financing for Development (hereafter, Task Force) assesses progress and gaps, and provides policy options across its seven action areas which, if implemented, would put the world on a sustained

and more sustainable growth and development path. It also examines the financing challenges to the SDGs under in-depth review in 2018 in order to help assess progress in the means of implementation for goals on water and sanitation, affordable and clean energy, sustainable cities and communities, sustainable production and consumption, and terrestrial ecosystems.

Several overarching messages have emerged from the Task Force analysis:

- **Integrated national sustainable development strategies and financing frameworks must inform policies, plans and project pipelines.** Integrated strategies provide a long-term vision that reaches beyond short-term political cycles and overcomes siloed thinking. Strategies should incorporate medium-term policies, plans and regulatory frameworks, as well as domestic and international financing flows and needs. They should incorporate parameters and incentives to better align the financial system and investment flows with sustainable development. This is critically evident for infrastructure plans and pipelines, where today's investment decisions will lock in development paths until 2030 and beyond. National actions also need to be supported by a global enabling environment that can facilitate long-term and quality investments, particularly in developing countries;
- **Incentives of actors in public and private financial institutions need to be aligned with long-term sustainable development.** Without a long-term investment horizon, certain risks, such as those from climate change, will not be incorporated into decision-making. Incentive structures need to

be reviewed across the financial system and aligned with the SDGs;

- **Public, private and blended financing contribute to financing SDG investments.** Innovative instruments and approaches are rapidly changing the development finance landscape and creating opportunities to scale up the contributions of all sources of financing towards the SDGs. Private finance and investment, public and blended financing all remain indispensable. Project and country characteristics and national policy priorities will determine which financing model is best suited for specific investments, and which actors are best positioned to manage investment risks and provide services equitably and cost-effectively;
- **Public policies and actions are at the heart of the 2030 Agenda for Sustainable Development.** While public, private and blended finance all play important roles in financing sustainable development, public leadership is indispensable to set rules, provide guidance, promote coherence, and overcome structural constraints that impede sustainable-development-oriented structural transformation.
Three cross-cutting issues are addressed throughout the chapters of this year's report:
 - **New technologies have the potential to support progress across the SDGs and the action areas of the Addis Agenda.** They open new possibilities to address long-standing development challenges across the SDGs, but their transformative power also raises complex challenges and risks, and puts adaptive pressure on economies and societies, including their labour markets. It is critical to make complementary investments, strengthen social protection and set regulatory frameworks so that benefits are shared broadly, and risks to privacy and data protection, financial stability and integrity are addressed;
 - **Gender equality must be addressed at every point in policymaking and programming.** Gender inequalities persist in

access to finance, technology, public services, decent jobs, unpaid care and domestic work, participation in policymaking processes and many other areas. Such inequality threatens achievement of the 2030 Agenda for Sustainable Development, but also weakens inclusive growth prospects by denying women opportunities to fully participate in the economy. Gender equality needs to be mainstreamed in fiscal policies, business, access to finance, and development cooperation, and all financing policies need to be monitored and assessed consistently for gender impacts. This also requires increased availability of sex-disaggregated data;

- **Focus needs to firmly remain on the poorest and most vulnerable, to ensure no one is left behind.** Financing and capacity gaps are greatest in countries with the least ability to close them—in particular, least developed countries and small island developing States. Yet, international support is not sufficient to effectively help these countries meet the SDGs. International commitments for vulnerable countries need to be met, and their interests and concerns considered in international norm-setting and policymaking.

The seven action areas of the Addis Agenda provide the building blocks for implementation of the 2030 Agenda for Sustainable Development and SDG achievement. Task Force recommendations for each of them are described in detail in subsequent chapters. Key overarching messages include the following:

- **Mobilizing additional domestic public finance and spending it more effectively remains critical.** Effective revenue collection and public service delivery can boost the link between citizen and state, and form the basis of the social contract. The implementation of medium-term revenue strategies can support improved domestic public resource mobilization. International cooperation needs to complement these efforts—by increasing financial support for fiscal capacity-building, and by ensuring developing countries benefit fully from new international standards on

tax transparency. New technologies can both increase efficiency in revenue collection and strengthen the fight against illicit financial flows. Improving the alignment of budgets with the SDGs, especially through greater transparency and disaggregation of fiscal data, will further efforts across the 2030 Agenda for Sustainable Development, such as supporting gender equality and implementing universal social protection systems;

- **Achieving the SDGs will require a shift in the financial sector towards long-term investment horizons and sustainability as a central concern of investment decisions.** The momentum around sustainable investment is growing. Yet, long-term investment in sustainable development, especially in countries most in need, remains insufficient. There are both supply and demand constraints to greater private investment. Countries need to strengthen enabling environments, thus reducing investment risks, and develop project pipelines and investable projects. At the same time, incentives along the investment chain need to be aligned with sustainable development to unlock SDG investments. However, short-term horizons in decision-making remain a major obstacle. New technologies can help channel financing to all segments of the economy, including to women, in an inclusive manner. Effective regulation is necessary to monitor systemic or consumer risks that may arise from digitization of finance;
- **Development cooperation remains central to supporting implementation of the agenda; international public finance is increasing, but critical funding gaps remain.** Official development assistance (ODA) providers should continue to increase aid, in particular to vulnerable countries, with a view to meeting commitments they have made. Multilateral development banks (MDBs), development finance institutions and South-South cooperation providers are also scaling up their contributions to the 2030 Agenda for Sustainable Development. Innovative instruments and approaches, such

as blended finance, are increasingly deployed to catalyse additional sources of finance to achieve the SDGs. As MDBs and other providers are scaling up the use of such modalities, they should ensure their activities are aligned with existing development effectiveness principles and do not eschew challenging country contexts. Countries most in need and investment areas critical to leaving no one behind should not be neglected, even as development cooperation increasingly targets global challenges. The international community should lend greater support to efforts of countries to manage transitions and graduation, and should consider flexibilities that allow countries access to appropriate sources of financing, depending on country needs and vulnerabilities;

- **Trade policies are increasingly focused on the impact of trade on sustainable development in all its dimensions, reinforcing its ability to serve as an engine for inclusive economic and sustainable growth and poverty reduction.** International trade growth picked up substantially in 2017. E-commerce may provide untapped potential for further enhancing inclusive trade growth in developing countries. An open dialogue is warranted on aligning new trade agreements with the SDGs—for example, by including provisions on gender or labour. Trade finance plays a key role in helping developing countries participate in global trade; it can be enhanced by promoting greater standardization in rules, practices and relevant programmes;
- **Debt risks are increasing, raising the spectre of a renewed cycle of debt crises and economic disruption.** Countries face pressing demands for additional public investments in the SDGs at a time when constraints on further debt financing are likely to become more binding. Stronger consideration could be given to the positive impact of investments in infrastructure and productive capacity on debt sustainability, particularly if risks are carefully and transparently managed. The latter requires better and

broader data collection, and improvements in debt management capacities. To lessen the financial stress on countries affected by shocks, the international community should work towards realizing the potential of state-contingent debt instruments. The changing composition of debt in developing countries also calls for a reexamination of creditor coordination mechanisms;

- **To create fit-for-purpose international rules and institutions for sustainable development, greater focus is needed on prevention, risk reduction and crisis response to address financial and economic vulnerabilities and disasters.** Despite preventative measures, the world regularly experiences shocks that set back development progress. The international monetary and financial system should aim to reduce volatility and contain systemic risks while boosting investment, implying continued vigilance on financial regulation. Self-insurance is costly and often inadequate for developing countries to respond to the most severe shocks. Building incentives for risk reduction into financing instruments can boost investment in prevention, while the international community can increase the efficiency and speed of shocks response by shifting resources from ex post response to ex ante instruments, using both insurance-type mechanisms and pooled funds. Expanding the size of risk pools can increase efficiency, but may require the financial support of donors for those unable to pay;
- **More and disaggregated data will allow policymakers to make more informed decisions and help them better implement their policies and programmes, but this will require more capacity-building support.** Significant efforts are required to strengthen national statistical capacities, including investment in integrated national systems for gender statistics and better financial sector data to assess financial vulnerabilities. Throughout the chapters there are calls for more data and greater transparency. These efforts should be coordinated and coher-

ent so that transparency efforts are linked, interoperable, and more efficient in providing actionable information.

The Task Force will continue to deepen its analysis on the harnessing of all financing flows, and integration of all policies and plans towards SDG achievement in 2019. Building on findings from this year's report, the 2019 report will seek to draw an integrated picture of the state of sustainable development financing from a country and a global perspective. The analysis will draw on ongoing efforts within the United Nations system and beyond on development finance assessments and integrated national financing frameworks, on road maps for sustainable financial systems, and related analytical work. This holistic approach can support an initial broader stocktaking of progress in implementation of the Addis Agenda for the 2019 ECOSOC Forum on Financing for Development Follow-up (hereafter ECOSOC Forum) and for the High-level Dialogue on Financing for Development of the General Assembly, which will be held in September 2019. In addition to reporting on progress in all action areas of the Addis Agenda, the thematic analysis of the Task Force will consider the 2019 High-level Political Forum theme of “empowering people and ensuring inclusiveness and equality” and the SDGs under in-depth review in 2019.

About this report

The 2018 report of the Inter-agency Task Force on Financing for Development begins its assessment of progress with an analysis of the global macroeconomic context (chapter I), which sets the economic framework for implementation efforts. The thematic chapter (chapter II) explores financing needs, capital structures and financing options in the SDGs under in-depth review at the 2018 United Nations High-level Political Forum on Sustainable Development, namely SDGs 6 (clean water and sanitation), 7 (affordable and clean energy), 11 (sustainable cities and communities), 12 (responsible consumption and production) and 15 (life on land). The chapter builds on both the 2016 report of the Task Force, which laid out this financing framework and highlighted the different roles and mandates of public and private finance, and the 2017 report, which addressed chal-

lenges in mobilizing long-term public and private quality investments for sustainable infrastructure.

The remainder of the report (chapters III.A to III.G and IV) discusses progress in the seven action areas of the Addis Agenda: domestic resource mobilization, private finance, international development cooperation, trade, debt, systemic issues and science, technology and capacity-building, as well as data issues. Each chapter begins with a summary that highlights key messages and presents policy options. 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.¹ The annex provides data and analysis for each of the more than 100 clusters of commitments and actions across nine areas covered in the Financing for Development outcomes.

Chapters III.A to III.G also address the eight new mandates that Member States gave the Task Force in the conclusions and recommendations of the 2017 ECOSOC Forum, which were agreed at the intergovernmental level.² They called for analysis on social protection and crisis financing; three separate areas of private finance; the catalysing impact of ODA; trade finance; sustainable financial systems; and the impact of new technologies on labour markets. The Task Force carried out background research, held dedicated technical meetings, and

engaged outside experts to inform this analysis.³ The report further benefited from the work of the Intergovernmental Group of Experts on Financing for Development, which was created at the UNCTAD XIV Conference in Nairobi in 2016, and held its first session in Geneva from 8 to 10 November 2017, on the topics of domestic public resource mobilization and international development cooperation.⁴

Member States also invited international regulatory standard-setting bodies to contribute to the work of the Task Force. They join more than 50 United Nations agencies, programmes and offices, the regional economic commissions and other relevant international institutions such as the Organization for Economic Cooperation and Development and the Financial Stability Board. 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 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.

1 Available from <http://developmentfinance.un.org>.

2 United Nations, "Report of the Economic and Social Council forum on financing for development follow-up", 8 June 2017, E/FFDF/2017/3. Available from http://www.un.org/ga/search/view_doc.asp?symbol=E/FFDF/2017/3.

3 For additional information on these workstreams and related technical meetings, please refer to the dedicated section on the online annex. Available from <https://developmentfinance.un.org/workstreams>.

4 United Nations, "Report of the Intergovernmental Group of Experts on Financing for Development on its first session", 21 December 2017, TD/B/EFD/1/3. Available from http://unctad.org/meetings/en/SessionalDocuments/tdb_efd1d3_en.pdf.