



# General Assembly

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Item 16 of the provisional agenda\*

### Macroeconomic policy questions

## **Follow-up to and implementation of the outcomes of the International Conferences on Financing for Development**

### **Report of the Secretary-General**

#### *Summary*

The present report was prepared in response to General Assembly resolution [76/198](#), entitled “Follow-up to and implementation of the outcomes of the International Conferences on Financing for Development”. The report focuses on emerging challenges and key accelerators for a resilient and sustainable recovery from the economic shocks caused by the coronavirus disease (COVID-19) pandemic, relevant for future discussions under the Economic and Social Council forum on financing for development follow-up.

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\* [A/77/150](#).



## I. Introduction

1. In its resolution [76/198](#), the General Assembly requested the Secretary-General to submit, at its seventy-seventh session, an action-oriented report that presented the emerging challenges and key accelerators for a resilient and sustainable recovery from the economic shocks caused by the coronavirus disease (COVID-19) pandemic. Following this request, in the draft outcome document of the 2022 United Nations Economic and Social Council forum on financing for development follow-up, Member States invited the Assembly to consider the need to convene a Fourth International Conference on Financing for Development (see [E/FFDF/2022/L.1](#)).

2. At the halfway mark of the 2030 Agenda for Sustainable Development, the world is far off track from achieving the Sustainable Development Goals. The COVID-19 pandemic has aggravated poverty and inequalities, while curtailing investments in the Sustainable Development Goals in the poorest countries.

3. Even before accounting for the global rise in food and energy prices, gross domestic product (GDP) per capita of one in five developing countries was projected to remain below 2019 levels by the end of 2023. Hunger and poverty have risen globally. The combined effect of the pandemic and the global rise in food and energy prices is projected to lead to an additional 75 million to 95 million people living in extreme poverty in 2022, compared with pre-pandemic projections (see [E/2022/55](#)).

4. Across developed and developing countries, large pandemic-related fiscal spending and/or declines in revenue have pushed public debt levels up to record highs. Some 60 per cent of least developed and other low-income countries are at high risk of or in debt distress. Tightening global financial conditions will further raise risks of debt distress.

5. Progress towards the Sustainable Development Goals, however, had been faltering prior to these developments. International trade growth was slowing, macroeconomic and debt risks were rising and global systemic risks from non-economic factors (such as the frequency and severity of climate-related shocks) were increasing. The worsening climate crisis disproportionately impacted vulnerable countries, including many least developed countries and small island developing States. Financing for sustainable development – public, private, domestic and international – remained insufficient to achieve the Sustainable Development Goals.

6. Financing for development outcomes (the Monterrey Consensus, the Doha Declaration and the Addis Ababa Action Agenda) present a framework for addressing these challenges. These agreements are based on the premise that financing for development is not just about the quantity of financing flows; it is about their quality, and the domestic and international policies that guide them. The Monterrey Consensus, which launched the financing for development process in 2002, developed the framework for financing for development that continues to inform international discussions on it: that countries have primary responsibility for their social and economic development, that the role of national financing policies is key and that such national efforts need to be supported by an enabling international economic environment. The Consensus, which reflected lessons learned from the emerging market crises of the 1990s and early 2000s, including the Asian financial crisis and disorderly and costly sovereign defaults, was adopted two years after the establishment of the Millennium Development Goals. Follow-up processes since then have coincided with or responded to major global events. The 2008 Doha Declaration on Financing for Development took place during the global financial crisis, while the 2015 Addis Ababa Action Agenda updated financing for development commitments and supported implementation and achievement of the 2030 Agenda for Sustainable Development.

7. The agreements on financing for development, however, have not secured sufficient financing to achieve sustainable development. This is in part due to unmet commitments, weak implementation and remaining gaps or flaws in the international architecture. But the lack of progress is also due to increasing systemic risks and enormous shifts in financial markets since the agreements were made. Technological change has also added new opportunities and challenges. The international financial architecture – the governance arrangements that should safeguard the functioning of the global monetary and financial system and ensure that the system is aligned with global goals – has not kept pace with this changing global landscape. Thus, the report of the Secretary-General entitled “Our Common Agenda” (A/75/982) underscores the need to revisit the existing financial architecture and includes proposals to feed into this discussion.

8. The present report examines progress made since the adoption of the 2015 Addis Ababa Action Agenda and the Sustainable Development Goals. It lays out challenges to implementation, including the impact of a rapidly changing world, and puts forth areas of action to deliver on the Agenda and the Goals in the new era of financing for sustainable development.

## **II. Delivering in the new era of financing for sustainable development**

9. Since 2015, progress has been made across the action areas of the Addis Ababa Action Agenda. Advances include: progress in international tax cooperation and domestic resource mobilization, including through the development of integrated national financing frameworks; growth in sustainable investment and improvements in corporate sustainability disclosure; a growing footprint of multilateral development banks and the network of public development banks; improvements in debt transparency, the Group of 20 Debt Service Suspension Initiative and the launch of the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative (Common Framework); expansion of the global financial safety net, including the historic issuance of International Monetary Fund (IMF) special drawing rights, and the creation of the Resilience and Sustainability Trust; implementation of reforms to banking regulations including recognition of the unintended consequences of financial inclusion, and greater incorporation of climate risks into financial stability assessments; and the exponential growth of digital financial services and financial inclusion. However, these achievements have been insufficient to address growing global challenges. And in many areas, progress has stalled or regressed.

10. Commitments were not met or were insufficient. The lack of resilience in parts of economies and societies that was evident during the pandemic highlighted insufficient investment across the Sustainable Development Goals, including for the over 4 billion people who remained unprotected by any form of social protection, and glaring financing gaps in social protection, health, education and sustainable infrastructure. There is still no fully inclusive and universal international tax cooperation mechanism; efforts to boost foreign direct investment (FDI) and private infrastructure investment have fallen short; official development assistance (ODA) is significantly below commitments; and the multilateral trading system has been beset with unprecedented challenges. Long-standing challenges to resolving sovereign debt crises remain, despite a shared understanding that the architecture has significant gaps and needs reform. Countries most in need often lack access to liquidity in times of crises, and global economic governance reform has also not advanced sufficiently, with developing countries continuing to be underrepresented.

11. The rapidly shifting global economic and financing landscape is creating both opportunities and challenges for the achievement of the Sustainable Development Goals. Digital technology is transforming economic activity and financial systems, with potentially long-lasting implications. However, the acceleration of digitization during the pandemic underlined inequalities in access and use while deepening the digital divide. At the same time, growing systemic risks (including climate and other environmental, social and financial risks) and their deepening interlinkages call for the need to revisit current approaches to sustainable finance.

12. The pandemic has also highlighted underlying vulnerabilities that have accumulated in the global economy over decades, including highly leveraged and short-term-oriented financial markets, which are often disconnected from the real economy and/or perpetuate inequities and environmental degradation.

13. Without both national and multilateral responses to meet existing commitments and address outstanding gaps in financing for development, the world will not be able to adequately address the multifaceted crises that are harming sustainable development prospects and putting achievement of the Sustainable Development Goals at risk.

### **III. Action areas of the Addis Ababa Action Agenda**

#### **A. Domestic public resources**

14. Domestic public finance is essential to finance the Sustainable Development Goals, increase equity and help manage macroeconomic stability. Given the urgency of rescuing the Goals, increased national and international action is needed to boost domestic public resources and their alignment with sustainable development.

15. Since 2015, tax revenues have expanded, and considerable progress has been made in international tax cooperation and transparency. Donor support for capacity-building related to revenue mobilization has more than doubled, in line with the commitment in the Addis Ababa Action Agenda. While digitization has supported tax collection in some areas, it has also made tax collection more challenging. There has also been less progress on ensuring inclusive international tax cooperation that considers the different needs and capacities of developing countries.

16. Before the COVID-19 pandemic, almost 60 per cent of Member States had increased revenue mobilization, measured as the revenue to GDP ratio, compared with the three-year period before agreement on the Addis Ababa Action Agenda, with 13 countries experiencing large growth of more than 3 percentage points. However, the pandemic set many countries back. By 2020, 28 countries recorded losses of more than 3 percentage points (compared with the period 2013–2015).

17. Revenue to GDP ratios of below 15 per cent are widely considered inadequate for investment in public goods and services. After the pandemic, 76 countries remain below this informal benchmark, including two thirds of African countries and 60 per cent of Asian countries. Large gaps remain between revenue mobilization in least developed countries and developed countries, with median revenue to GDP ratios of 11.5 per cent and 24.6 per cent, respectively. While economic growth is essential as a driver of public revenue, more sustainable revenue mobilization requires efforts on tax policy, tax administration and enforcement. Care should be taken to ensure policies to increase revenue are aligned with efforts to reduce inequality, bolster resilience, empower women and support environmental sustainability. However, because profits can be shifted across borders, countries cannot tackle revenue mobilization alone. International tax cooperation is needed.

18. In the Addis Ababa Action Agenda, Member States committed to scaling up international tax cooperation and emphasized that “efforts in international tax cooperation should be universal in approach and scope”. While international tax cooperation has advanced significantly since 2015, more effort is needed to ensure no countries are left behind. Agreements to expand international tax information exchange, including automated exchange, on both financial accounts and corporate activity have improved the ability of tax administrations to detect cross-border tax evasion. Membership in the cooperation arrangements, which are mostly hosted by the Organisation for Economic Co-operation and Development (OECD), has increased over time, but even the forum with the largest membership still leaves out almost 50 States. Only two least developed countries are receiving any automated information exchange.

19. Digitization and globalization of the economy has exacerbated the challenges of corporate profit-shifting. International tax norms, especially treaty provisions limiting taxation of a partner country enterprise that has little or no physical presence in the taxing country, should be better tailored to modern business conditions and the needs and capacities of developing countries.

20. Several international forums (including those convened by the United Nations and OECD) have hosted discussions on how taxation should address digitization. The United Nations Tax Committee has agreed on model bilateral treaty rules to allow domestic taxing rights over digital services to be preserved in bilateral treaties. It is exploring ways to multilateralize these provisions (see [E/2022/45/Add.1](#)), so that they can be applied more quickly among country networks of existing bilateral treaties, where negotiating partners agree – which will be the major challenge. The OECD Inclusive Framework on Base Erosion and Profit Shifting has developed a political framework towards a multilateral treaty providing for market jurisdictions to tax some portion of corporate profits of the largest multinational enterprises regardless of physical presence. Impacts on revenue mobilization may be modest and implementation may run into political, technical and capacity obstacles.

21. Reducing illicit financial flows and returning the proceeds of corruption can provide more resources for investment in the Sustainable Development Goals. In the Addis Ababa Action Agenda, Member States committed to “redouble efforts to substantially reduce illicit financial flows by 2030, with a view to eventually eliminating them, including by combating tax evasion and corruption through strengthened national regulation and increased international cooperation”. Since 2015, technological tools have been used to help identify and combat illicit financial flows, though some, such as cryptoassets, are further facilitating illicit financial flows.

22. To combat illicit financial flows, countries need: new efforts to implement existing international and domestic commitments, strengthened international norms to close gaps and respond to evolving risks, improved enforcement capacity, better use of existing institutional frameworks for cooperation, and innovations in global governance to ensure coherence and coordination of efforts. Transparency must be the foundation of these efforts. To build trust, both national authorities and the public need more and better information. Developing countries should not be excluded from information-sharing mechanisms on tax, as highlighted at the 2022 special meeting of the Economic and Social Council on international cooperation in tax matters. In addition, ensuring that information on ownership of companies and other legal vehicles is available to relevant authorities is a necessary first step, but stronger standards on beneficial ownership are also needed. Ultimately, strengthening financial integrity requires coherent and coordinated international systems.

23. More work is needed to ensure efficient budgeting and spending that fully aligns with the countries’ sustainable development priorities. The Addis Ababa Action

Agenda calls for more transparency, strengthened control mechanisms and rationalizing inefficient fossil fuel subsidies (including by phasing out harmful subsidies). Policymakers can enhance the social contract and boost trust in the Government with greater transparency. Gender budgeting can help ensure that gender equality priorities are adequately financed. As countries move to reduce wasteful expenditures, such as those not aligned with climate goals, they will need to mitigate any regressive effects of policy changes. Using a combination of public finance instruments such as taxes, spending, incentives (including carbon pricing) and regulation can enhance the effectiveness of achieving public policy goals such as climate change mitigation.

24. Given the large financing needs for energy transition, economic diversification and industrial transformation, national development banks can be an important pillar of domestic public finance. Well-run national development banks can help countries develop Sustainable Development Goal financing options, but they should be aligned with the Goals and national sustainable development priorities in a holistic way and have appropriate risk management and governance frameworks.

25. More effective arrangements need to be in place for sustainable financing of subnational governments. Aside from strengthening the interface for national to subnational transfers, countries may wish to consider strengthening the capacity of subnational authorities to raise own-source revenue and foster access to long-term financing.

## **B. Domestic and international private business and finance**

26. Private business activity, as well as investment, is key to supporting economic growth and increasing productivity. It also impacts social and environmental goals, including positive impacts such as decent job creation and negative impacts such as pollution.

27. Since 2015, policymakers have taken numerous actions to promote private sector development, particularly in developing countries, and to strengthen the private sector's contribution to sustainable development. One area of progress involves sustainable investing: sustainability reporting by companies has moved to the mainstream, as called for in the Addis Ababa Action Agenda, and sustainable investing has soared. A second area involves financial inclusion, where digital solutions have led to a considerable expansion of financial services. In addition, many Governments implemented reforms to encourage entrepreneurship and reduce regulatory burdens (though there has been less focus on ensuring such reforms do not negatively impact the social and environmental dimensions of sustainable development).

28. Other areas have seen more limited progress. Expectations of private investment in infrastructure have not materialized and many developing countries continue to be largely bypassed by FDI. This is despite efforts by the international community, such as the creation of blended finance instruments (see sect. III.C, on international development cooperation, below). This underscores the need for new approaches and efforts in these areas.

29. Since the adoption of the Addis Ababa Action Agenda, about 80 countries have taken close to 200 measures to improve corporate sustainability disclosure (60 per cent of them calling for mandatory disclosure).<sup>1</sup> In 2020, 92 per cent of the companies in the Standard and Poor's 500 Index published a sustainability report, compared with only

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<sup>1</sup> Principals for Responsible Investment database, available at [www.unpri.org/policy/regulation-database](http://www.unpri.org/policy/regulation-database) (accessed in September 2021).

20 per cent in 2011. However, the plethora of reporting frameworks has limited their use. The Addis Ababa Action Agenda included a commitment to “work towards harmonizing the various initiatives on sustainable business and financing”. In 2021, the International Financial Reporting Standards Foundation, which puts forward accounting standards that govern how company transactions are reported in financial statements, launched the International Sustainability Standards Board to promote convergence among existing sustainability reporting frameworks. Nonetheless, there is a risk that each jurisdiction continues to adopt its own approach, making comparisons challenging. Only international cooperation can address this risk and establish a common baseline, which will both limit reporting burdens and make the information more meaningful. The Global Investors for Sustainable Development Alliance, convened by the Secretary-General, has also proposed sector-specific impact metrics for measurement of a company’s contributions to the Sustainable Development Goals.<sup>2</sup>

30. In the Addis Ababa Action Agenda, Governments also committed to promoting incentives along the investment chain that are aligned with long-term performance and sustainability indicators. Since then, investors have increasingly incorporated environment, social and governance issues into their investment decision process, and sustainable investment products have mushroomed. For example, issuance of “sustainability labelled” bonds has increased by a factor of 19 between 2015 and 2021, exceeding \$1 trillion. Many surveys have also confirmed investor interest in aligning their investment with sustainability goals. However, concerns over greenwashing have increased as a result of misleading sustainability claims by companies and financial market participants. Regulation has a key role to play to support sustainable investing momentum and maintaining trust. Governments should also consider how sustainable investment practices could translate into greater impact in the real economy. In addition, there is a need to analyse how sustainable investing could benefit developing countries to a greater extent, in particular those with underdeveloped capital markets.

31. Financial inclusion has also expanded considerably since 2015, mainly as a result of mobile banking. In 2021, 76 per cent of adults had an account at a bank or regulated institution, an increase of 25 percentage points compared with 2011, while the gender gap in account ownership across developing economies has fallen from 9 to 6 percentage points.<sup>3</sup> However, the uptake in technology has come with its own challenges (see sect. III.G, on science, technology, innovation and capacity development, below). Access to finance for smaller companies also remains an unfinished agenda. Structural challenges continue to impede financing for these companies. Solutions to address these challenges will depend on local circumstances but could include leveraging the digital footprints of small and medium-sized enterprises to ease credit assessment and enhance public credit guarantee schemes.

32. Technology has also reduced the cost of remittances – albeit not sufficiently to reach the goal of less than 3 per cent of the amount transferred. But the efforts to reduce the cost of remittances have clashed with those to combat illicit financial flows, which require increased transparency with regard to account holders. This creates practical issues for migrants who lack proper identification documents and increases regulatory compliance costs for financial institutions, which may decide to exit less-profitable market segments. Policymakers will need to strike the right balance between promoting innovation and addressing new risks as well as unintended consequences.

<sup>2</sup> See <https://gisdalliance.org/sites/default/files/2021-10/GISD%20Recommendations%20on%20SDG-related%20Disclosure%20Final.pdf>.

<sup>3</sup> World Bank, *The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19* (Washington, D.C., 2022). Available at [www.worldbank.org/en/publication/globalfindex](http://www.worldbank.org/en/publication/globalfindex).

33. To stimulate growth and transform economies, countries need to mobilize investments in productive capacities. In the Monterrey Consensus and Addis Ababa Action Agenda, Member States committed to building transparent, stable and predictable investment climates. Countries have implemented reforms in this area to encourage entrepreneurship and reduce regulatory burden. The fact that the density of newly registered corporations has improved globally since 2015<sup>4</sup> is a testimony that reforms can pay off. Policymakers, however, need to assess regulations in an integrated manner, checking the impact of policy actions on businesses as well as on sustainable development (e.g. labour rights, human rights, gender, environment and health, biodiversity, etc.), as laid out in the integrated national financing framework methodology. The challenges for policymakers in the years to come will be to find a way to stimulate business activities while ensuring they work for everyone.

34. However, despite efforts to strengthen business environments, FDI to least developed countries is lower in 2021 than in 2015, and extractive industries continue to be the main target of these investments. Overall, the investment landscape has considerably changed in recent years owing to both external shocks, such as the pandemic, and structural changes in international production resulting from the adoption of digital technologies. Multinationals are also placing more emphasis on the resilience of their value chains. These considerations influence their investment decisions, including where to locate production. Going forward, countries need to reassess national investment policies, while the international community should scale up its support to countries bypassed by private investors.

35. There has also been no major uptake in private investment in infrastructure since 2015, despite many international initiatives in this area, for instance to build countries' capacity to implement public-private partnerships. This provides a reality check for policymakers on expectations for private investments, which may not be appropriate for all infrastructure sectors, especially after factoring in local circumstances. For the future, governments and development partners need to move away from a narrative that advocates for private investment in infrastructure because of fiscal constraints. Instead, as laid out in the Addis Ababa Action Agenda, they need to focus on incentivizing private investment where it can play a greater positive role, for example in projects with clearly identified revenue streams (e.g. power generation), while recognizing the need to urgently address shortcomings in public infrastructure services delivery, such as weak or inappropriate accountability frameworks.

### **C. International development cooperation**

36. The COVID-19 pandemic and climate crises have highlighted the important role of ODA as a countercyclical flow. While ODA volumes have reached new highs since the adoption of the Addis Ababa Action Agenda, donors continue to fail to meet their ODA commitments. Climate commitments have also not been met and there has been stagnation on development effectiveness. There has been progress though on increased lending by multilateral development banks and growing recognition of the important role of public development banks. Use of innovative finance instruments has also grown since it was first highlighted in the Monterrey Consensus. South-South cooperation initiatives have also expanded, complementing North-South efforts.

37. Since 2015, ODA has increased incrementally, reaching an all-time high of \$179 billion in 2021 due to support for COVID-19 response activities. ODA to least developed countries also reached a historic high of \$31 billion in 2021, meeting the

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<sup>4</sup> Information provided by the Department of Economic and Social Affairs based on World Bank data (number of newly registered corporations per 1,000 working-age people) available for 117 countries between 2015 and 2020.



Addis Ababa Action Agenda commitment to reverse the decline in ODA to least developed countries. However, this historic increase has not kept pace with rising needs and demands from the pandemic. Collectively, donors continue to fail to meet their commitment to provide 0.7 per cent of ODA per gross national income (GNI) and allocate 0.15–0.20 per cent of GNI to least developed countries. In 2021, only four donors met or exceeded both targets: Denmark, Luxembourg, Norway and Sweden.

38. The global rise in energy and food prices has added to pressures, including increased humanitarian needs. To support Ukraine and its refugees, some donors are, however, diverting ODA from support to other countries and/or areas. There are also concerns that ODA measurement rules, including as part of ODA modernization efforts, may inflate “headline numbers”, such as counting donations of COVID-19 vaccines sourced from excess domestic supply, accounting for higher in-donor refugee costs and including rescheduled or forgiven debt. It is critical that ODA providers scale up and meet their ODA commitments with new and additional resources, including for least developed countries.

39. Concessional terms for least developed countries have declined, with the average grant element falling, even though more grants are needed to address immediate social needs. Most developing countries participating in the 2021/22 Development Cooperation Forum Survey also reported no improvement in the concessionality of development cooperation resources during the pandemic.<sup>5</sup>

40. The changing environment and heightened systemic risks since the adoption of the Addis Ababa Action Agenda has underscored the need to incorporate vulnerabilities into access to concessional finance. This was highlighted during the COVID-19 pandemic, where some countries slid back to a lower income category. Eligibility for concessional windows is primarily based on income per capita, although multilateral development banks have increasingly incorporated vulnerability elements. Donors should aim to use vulnerability criteria as a complement to GNI per capita in a consistent and systematic way.

41. Lending by multilateral development banks has increased significantly since 2015 to \$96 billion in 2020, with further growth expected for 2021. While least developed countries benefit from concessional multilateral development bank resources, the non-concessional windows of multilateral development banks provide a vital channel for middle-income countries to access long-term finance at rates that are more attractive than commercial borrowing. Scaling up multilateral development bank resources, including through capital infusions, is critical to meet heightened demands. As called for in the Addis Ababa Action Agenda, balance sheet optimization approaches should be advanced where feasible. Multilateral development banks, which are already prescribed special drawing rights holders, should develop mechanisms to facilitate the channelling of special drawing rights, which could increase their development impact.

42. Public development banks were instrumental in supporting the COVID-19 response. The system of public development banks could be further strengthened, such as through co-financing and by extending capacity support to national institutions. Multilateral development banks can, in turn, benefit from national banks’ detailed knowledge of local markets.

43. As underscored in the financing for development agenda since the Monterrey Consensus, innovative public finance instruments can help enhance development

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<sup>5</sup> United Nations, Department of Economic and Social Affairs, *2022 Development Cooperation Forum (DCF) Survey Study: Navigating COVID-19 recovery and long-term risks*. Available at [www.un.org/development/desa/financing/document/2022-development-cooperation-forum-dcf-survey-study-navigating-covid-19-recovery-and-long](http://www.un.org/development/desa/financing/document/2022-development-cooperation-forum-dcf-survey-study-navigating-covid-19-recovery-and-long).

cooperation efforts. These range from using special drawing rights for developmental purposes, solidarity taxes and pooled funds to innovative debt instruments and blended finance. There has been progress in many areas since the Monterrey Consensus, such as the use of advance market commitments for funding vaccines and the use of special drawing rights, albeit in part in response to the global financial and COVID-19 crises. Solidarity taxes were successful in funding Unitaid (to address HIV/AIDS, tuberculosis and malaria), though proposals for a financial transactions tax have not materialized.

44. Blended finance, which uses public funds to crowd in private finance, has grown steadily in recent years, though it remains below expectations. The amounts mobilized from the private sector by official development finance interventions increased by 16 per cent to \$53.8 billion in 2020. With limited official resources, a differentiated approach based on need and potential for development impact could increase its effectiveness. Different instruments could also be considered, such as guarantees and risk transfer mechanisms. However, it is critical to apply principles of blended finance laid out in the Addis Ababa Action Agenda, such as country ownership and minimal concessionality. Integrated national financing frameworks can also help policymakers consider blended finance versus other options.

45. Development of an initial conceptual framework for South-South cooperation marks a breakthrough in its measurement. South-South cooperation also continues to expand in scope, volume and geographical reach. Southern providers should continue further work on the measurement of South-South cooperation.

46. The COVID-19 crisis has affected the achievement of the \$100 billion climate goal, agreed to in 2015. At the United Nations Climate Change Conference held in 2021, participants agreed to set a new goal on climate finance by 2025, starting from a floor of \$100 billion. Developed countries urgently need to fulfil their climate finance commitments; all providers should meet the new commitment to double adaptation finance by 2025, as well as prioritize grant finance for least developed countries and small island developing States.

47. The Secretary-General has called for a new global deal to protect the global commons and deliver global public goods based on a more networked, inclusive and effective multilateralism. There are ongoing efforts to measure the financing of these efforts. The Working Group on Measurement of Development Support has acknowledged the importance of measuring global and regional efforts.

48. The COVID-19 crisis also highlighted the need for greater risk-informed development cooperation to support developing countries' swift response to future crises and emergencies.<sup>6</sup> International development cooperation should support developing countries in reducing vulnerabilities and building resilience by strengthening their capacities to prepare for, manage and reduce risks where possible.

49. Lessons from the COVID-19 pandemic underscore the importance and relevance of development cooperation effectiveness principles. Emphasis on those principles has waned since the Addis Ababa Action Agenda. Aid transparency has increased somewhat, but there has been no progress on country ownership. While there has been progress in untying aid since 2015, gains have been reversed in recent years. Enhancing development partner coordination is crucial to meeting the rising complexity and interconnectedness of challenges facing developing countries. The eighth biennial high-level meeting of the Development Cooperation Forum in March 2023 will be an opportunity to advance these issues.

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<sup>6</sup> Ibid.

## **D. International trade as an engine for development**

50. The context around international trade has evolved considerably since 2015, calling for actions from policymakers and renewed international collaboration. Countries will need to respond to major challenges, such as keeping international trade open, addressing challenges to multilateralism and making international trade more inclusive. Climate change and digital transformation will also change trade patterns and require adjustments from economic actors. At the same time, countries have already started reforming trade and investment agreements to better align them with sustainable development objectives.

51. Recent crises have triggered protectionist measures, such as export restrictions on medical and food products. As a result, countries are becoming more reluctant to rely on others for important imports and are seeking ways to increase local production. Companies are also rethinking global value chains to make them more resilient to disruptions. This often means shortening value chains and diversifying supply sources. However, achieving self-sufficiency for every country in every domain is neither possible nor desirable. Similarly, it would be detrimental to development if large companies stop extending value chains to less advanced economies. Countries need to restore trust that trade systems will remain open when the next crisis hits.

52. The multilateral trading system under the World Trade Organization (WTO) has suffered unprecedented challenges in recent years. While the system has enabled the lowering of trade barriers for decades, there has recently been a marked increase in trade-restrictive measures, including tariffs, as well as limited progress on multilateral trade negotiations. However, the agreements reached at the Twelfth WTO Ministerial Conference have renewed some faith in the multilateral trading system's capacity to provide solutions to global challenges. WTO members reached agreements on some issues, including a partial patent waiver for COVID-19 vaccines and fisheries subsidies. However, the ability of WTO to resolve trade disputes among members remains weakened by the impasse over its Appellate Body, which no longer has enough members to rule on trade disputes. To preserve and strengthen the multilateral trading system, countries will need to seek compromises at the next Ministerial Conference. Alternatively, the trading systems will become more fragmented and complex, likely reducing the economic growth potential of international trade.

53. Despite international commitments to double the least developed countries' share of global exports by 2020, it has remained relatively stable at around 1 per cent, roughly the same level as in 2011. This lack of progress calls for reassessing the international community's approach to supporting the participation of less advanced countries in international trade. The situation is unlikely to change if the international community applies the same recipes and if no additional actions are taken at the national level. In addition to better integrating all countries, international trade also needs to benefit all segments of the population within a country, such as increasing women's participation in global trade. Making trade more inclusive also requires addressing trade finance gaps that disproportionately affect small businesses and countries not fully integrated into the international financial system.

54. E-commerce and online services flourished during the pandemic. This could open business opportunities for companies in developing countries seeking access to a wider customer base, or those developing digitally delivered services (e.g. computer services). However, this requires addressing the persistent digital divide within and across countries and ensuring that the economic benefits are fairly distributed. For example, dominant players in e-commerce can dictate terms to companies using their platforms, thus capturing a disproportionate share of profits and reducing the benefits

of trading for exporters. To address the negative effects of monopolistic behaviour, countries need to reconsider their policy tools in the area of competition, while the international community needs to address rent-seeking behaviour at the global level.

55. Climate change urgency is likely to impact trade more prominently in the future. Policymakers may want to accelerate the reduction of the carbon footprint associated with freight transport by putting a price on shipping emissions, as recently discussed at the International Maritime Organization. More countries may also try to disincentivize shifting production to countries with more carbon intensive production methods through carbon border price adjustments. This, however, could penalize producers from poor countries that have limited green technology. To maintain trade as an engine for development, the international community should seek to accelerate the transfer of green technology and help developing countries reduce the carbon contents of their exports.

56. Countries have gradually implemented reforms to investment agreements to preserve regulatory space and promote sustainable investment, as called for in the Addis Ababa Action Agenda. This includes adding provisions that safeguard policy space for countries, such as general exceptions for protecting public health or the environment as well as provisions to promote gender equality. Countries have also reformed, or entirely omitted, investor-State dispute settlement procedures in new agreements. The main challenge for countries is to find the right balance between investor protection and regulatory freedom. Reforming the large stock of international investment agreements (currently at 3,288) will take time and may require additional support from the international community for countries that have limited capacity.

## **E. Debt and debt sustainability**

57. Sovereign borrowing is an important tool to finance Sustainable Development Goal investments and enable countercyclical fiscal policy, such as the response to the pandemic in 2020 and 2021. If not used well, debt can constrain policy space and jeopardize fiscal sustainability. Managing sovereign debt and addressing debt crises has been a key item on the financing for development agenda since the Monterrey Consensus, with the Addis Ababa Action Agenda containing commitments to prevent and resolve crises effectively and fairly when they occur. Since 2015, there has been some progress in these areas, such as the Debt Service Suspension Initiative, establishment of the Common Framework and increased debt transparency. However, progress has not kept pace with growing debt challenges and more complex debt markets.

58. Since 2015, debt vulnerabilities of developing countries increased steadily at first, and then rapidly with the impact of the pandemic. Slowing global growth and adverse shocks, high financing costs and sustained primary deficits for many countries drove increases in debt levels across developing countries through 2019. The COVID-19 shock exacerbated these risk drivers and compounded vulnerabilities, with significant additional increases in debt. Public debt as a share of GDP increased from 106 to 125 per cent on average between 2015 and 2021 in developed countries, from 45 to 64 per cent in middle-income countries, from 45 to 57 per cent in least developed countries, and from 80 to 112 per cent in small island developing States. As a result, around 60 per cent of low-income countries are now at high risk of or in debt distress, more than doubling the share compared with 2015. A quarter of middle-income countries are at high risk of a fiscal crisis. These assessments precede the rises in food and energy prices globally in 2022.

59. This extremely challenging global context of repeated external shocks calls for easing of debt repayment obligations and provision of debt relief to countries in need.

International support to ease fiscal pressures from debt burdens during the pandemic focused on providing breathing space for low-income countries, mainly through the Group of 20 and Paris Club Debt Service Suspension Initiative on bilateral official debt. While providing temporary respite, and deferring debt service of around \$13 billion, the Debt Service Suspension Initiative could not prevent a reduction in Sustainable Development Goal-relevant expenditures in the poorest countries; it also excluded many vulnerable developing countries. Interest in debt for climate and Goal investment has grown, but initiatives have yet to reach scale. With the Debt Service Suspension Initiative now expired, debt service resuming and financial conditions tightening – all while unmet Goal financing needs have further increased – additional debt relief, for example in the form of a Goal debt-relief initiative, may need to be explored for countries to avoid costly protracted defaults and provide fiscal space for investments in recovery, climate action and the Goals.

60. The failure of the Common Framework to provide even a single restructuring more than 1.5 years after its introduction sheds light on the shortcomings of the current architecture, and bodes ill for dealing with more widespread distress, should a systemic crisis unfold. There are also questions of private creditor participation. Concrete tools are needed to incentivize or enforce private participation, as without action, private actors will generally have an incentive not to participate in restructurings. Comprehensive restructurings would also need to address debt to multilaterals; multilateral development bank shareholders would need to provide sufficient resources to enable their participation.

61. In addition to addressing the shortcomings of the Common Framework, wider reform of the international debt architecture should be considered urgently to address rising vulnerabilities and deteriorating global financing conditions, drawing on reform options to improve sovereign debt resolution that have long been discussed but have not yet advanced. In the absence of statutory solutions, contractual improvements have dominated efforts to improve the effectiveness of debt crisis resolution. A growing share of sovereign bonds include enhanced collective action clauses that facilitate creditor participation in restructurings. However, enhanced collective action clauses are still absent in 50 per cent of outstanding bonds as well as in non-bonded debt. In an increasingly heterogenous creditor landscape, (official and commercial) creditor coordination remains challenging. Deliberations on this topic could, in the current context, give a fresh impetus to this debate, including specific policy proposals.

62. Any steps taken in response to the current crisis should also be guided by the objective to prevent future debt crises, in line with commitments in the financing for development outcomes. First, enhancing debt transparency has been a major focus of the international community in recent years. However, despite significant progress, debt data coverage and transparency remain a challenge. Additional capacity support, more coordinated data collection and creditors that refrain from confidentiality clauses are needed to further enhance transparency and allow debt management capacity to keep pace with growing complexity.

63. Second, adoption of financial instruments that tie debt service to economic conditions would greatly contribute to debt crisis prevention. To date, such State-contingent clauses have been used only sparingly, both in official and commercial debt. As a first step, such clauses should be incorporated in official lending, including through endorsement of standardized term sheets.

64. Third, taking vulnerabilities and climate and Sustainable Development Goal investment requirements into account more systematically in international financing frameworks would also contribute to reducing debt risks. The current customary practice of international public finance is primarily anchored in per capita income.

Various steps are being taken to better reflect vulnerability and adjust primarily income-based metrics and assessments. A multidimensional vulnerability index, as currently under development by the United Nations, could complement existing efforts and contribute to a more systematic consideration of vulnerabilities, for example in the allocation of concessional financing and in the assessment of debt carrying capacity (and hence concessionality of the financing mix and calibration of restructuring needs).

## F. Addressing systemic issues

65. In the Monterrey Consensus, Member States recognized the importance of complementing national development efforts with an enabling international economic environment – requiring enhanced coherence of the international monetary, financial and trading systems – based on improved global economic governance and a strengthened United Nations leadership role in promoting development. The Addis Ababa Action Agenda broadens the call for coherence to include a wider range of policy areas across the economic/financial, environmental and social dimensions of sustainable development, including investment, development and social policy, and environment institutions and platforms.

66. Some have used the term “non-system”<sup>7</sup> to describe the existing set of international financial frameworks and rules, institutions and markets that has evolved with different phases of economic globalization, often in ad hoc fashion and in response to economic and financial shocks and crises. While there has been progress on several reform commitments – especially regarding financial regulation and some strengthening of the global financial safety net, including the historic 2021 special drawing rights issuance – progress was limited with regard to governance and consistency of the international system. Climate change, global health challenges and the impacts of rapid technological progress pose new systemic challenges. The current conjunction of global crises is a stark reminder of the remaining gaps and inconsistencies in the international financial system, and new areas of concern.

67. IMF is at the centre of the so-called global financial safety net, which also includes bilateral swap arrangements and regional financing arrangements, and, at the national level, countries’ own foreign exchange reserves. Having expanded substantially since the 2008 global financial crisis – including an issuance of \$183 billion in special drawing rights in 2009 – the global financial safety net has provided emergency access to liquidity for many countries during the COVID-19 crisis. Since 2020, IMF has further reformed some of its lending facilities and introduced new instruments. The historic 2021 issuance of \$650 billion in special drawing rights provided IMF member countries with additional liquidity without creating additional debt. Both the Group of Seven and the Group of 20 have called for a voluntary global reallocation of \$100 billion in unused special drawing rights to help countries most in need. IMF has set up a new Resilience and Sustainability Trust for channelling special drawing rights to provide affordable, long-term (up to 20 years) financing to help both low-income countries and vulnerable middle-income countries build economic resilience and sustainability.

68. However, gaps in the global financial safety net remain, as many countries do not have access to one or more of its layers, and there is concern over the sufficiency of resources. Amid sharper tightening of monetary policies and balance of payment challenges, the global financial safety net may be tested again soon. International financial institutions need to be recapitalized and regional financing arrangements

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<sup>7</sup> José Antonio Ocampo, *Resetting the International Monetary (Non)System* (Oxford, Oxford University Press, 2017).

strengthened. Alternative mechanisms for channelling unused special drawing rights, including through multilateral development banks and other prescribed holders, should be pursued, and new mechanisms for automatic/State-contingent issuance of special drawing rights in times of crises could be explored.

69. While cross-border capital flows provide important financing for sustainable development, short-term oriented and volatile flows give rise to macroeconomic and financial stability risks, often impacting the real economy. Policymakers should have the full policy toolkit at their disposal to address the impacts of capital flow volatility. In the Addis Ababa Action Agenda, Member States recognized that necessary macroeconomic policy adjustment could be supported by macroprudential and capital flow management measures. In its recent review of its 2012 Institutional View on the Liberalization and Management of Capital Flows, IMF broadened the circumstances under which it considers pre-emptive measures against capital inflows as appropriate. Source countries can help to reduce negative spillovers by communicating monetary policy shifts in a clear and transparent manner. Efforts to enhance incentives for long-term sustainable investment could also reduce capital flow volatility.

70. Reforms introduced since the 2008 world financial and economic crisis have increased the stability of the regulated financial system. In line with the commitment in the Addis Ababa Action Agenda, regulation has increasingly aimed at avoiding unintended consequences such as making it more difficult for micro-, small and medium-sized enterprises to access financial services. However, risks have been growing in areas beyond such reforms, including in non-bank financial intermediation, innovative financial technologies and from non-economic factors such as climate change. Policymakers need to respond to these challenges, for example by expanding the regulatory umbrella according to the principle of “same activity, same risk, same rules”. They should review and update existing regulations, as needed, to address financial stability and integrity risks from financial technology (fintech) and cryptoassets.

71. Global economic governance reform is more urgent than ever, amid cascading economic and non-economic crises, and with multilateralism under threat. However, while the representation of developing countries in international financial institutions and standard-setting bodies increased slightly between 2005 and 2015, voting shares have remained largely constant since then, and major advanced economies continue to hold de facto veto powers in their decision-making boards.

72. There has been some progress on policy coherence, as IMF, the World Bank and other multilateral development banks continue efforts to align their activities with the Sustainable Development Goals and the Paris Agreement. The United Nations continues to provide an inclusive forum for addressing global challenges, forging multilateral consensus and fostering policy coherence. Since 2016, the Inter-agency Task Force on Financing for Development, convened by the Secretary-General, has been bringing together the views of over 60 institutional members and helping to shape joint analysis and recommendations for its annual *Financing for Sustainable Development Report*. The United Nations will continue to further enhance coordination with other multilateral forums and with international financial institutions, including through its intergovernmental processes.

## **G. Science, technology, innovation and capacity-building**

73. In a major expansion of the Monterrey Consensus, in the Addis Ababa Action Agenda, Member States included science, technology and innovation as a means of implementation for sustainable development. Member States committed to addressing inequities, incentivizing research and innovation for sustainable development and

promoting greater access to technologies. Since 2015, there has been important progress in connectivity, the use of digital technologies (including a vast expansion of financial technology), and international cooperation on science, technology and innovation. However, important gaps remain, with deepening digital divides, insufficient global support for strengthening countries' capacities and large unmet needs for the transfer of environmentally sound technologies.

74. Access to and use of information and communications technology has increased steadily since 2015. In 2021, almost 5 billion people (63 per cent) of the world's population were using the Internet – up from 3 billion (41 per cent) in 2015. The COVID-19 pandemic accelerated the adoption of digital technologies in all areas. However, the rapid digitization has greatly increased the cost of exclusion for those who do not have access or cannot use these technologies (often the most vulnerable groups of society). This has exposed and exacerbated digital gaps between countries – with least developed countries continuing to lag behind. It has also highlighted gaps for women and vulnerable groups, each of whom have different capacities that would benefit from the digital transition.

75. To close digital divides, policymakers need to ensure universal and affordable Internet access, digital skills training and targeted policies, including for women and girls. Well-managed and transparent universal service and access funds can help achieve universal broadband Internet access, including by pooling private-sector contributions with public funds. Regulatory frameworks should be reviewed and strengthened to address issues of data governance (including to avoid concentration of market power), content accountability, discrimination and human rights. A Global Digital Compact could help to ensure coherent global standards.

76. The vast expansion of fintech services has contributed to a rapid increase in financial inclusion. Mobile money, in particular, has enabled greater account ownership and usage in sub-Saharan Africa, especially for women. The expansion of digital financial services during the COVID-19 crisis provided an opportunity to reach vulnerable populations but also created growing risks that policymakers need to address – including new forms of exclusion, cyberincidents and digital fraud. Innovative financial services that pose potential threats to financial stability and/or integrity should be regulated according to the principle of “same activity, same risk, same rules”.

77. Efforts to create a more enabling environment for science, technology and innovation were reflected in growing enrolment in tertiary education and in increased spending on research and development, but disparities persist. Globally, gross enrolment in tertiary education increased from 36.9 per cent to 40.2 per cent between 2015 and 2020. In least developed countries, enrolment grew at a slower pace, from 9.7 to 11.4 per cent, causing them to fall further behind. Women have higher enrolment rates than men overall, but there are large disparities between countries.

78. Knowledge-sharing and international cooperation – including through ODA – must be enhanced to strengthen countries' capacities in science, technology and innovation and ensure that no one is left behind. Providers of development assistance should also reverse the 30 per cent drop in ODA for science, technology and innovation that occurred between 2018 and 2020.<sup>8</sup> The two instruments envisioned in the Addis Ababa Action Agenda, the Technology Facilitation Mechanism and the Technology Bank for the Least Developed Countries, have been fully operationalized, and are facilitating policy dialogue. In addition, other mechanisms, such as the Technology Mechanism adopted at the United Nations Climate Change Conference

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<sup>8</sup> While there is no internationally agreed measure of ODA for science, technology and innovation, estimates show a sharp rise in bilateral commitments from 2016, followed by a sharp decline.



in 2010, were developed specifically to promote green technology transfer. A first periodic assessment of the Technology Mechanism finds growing recognition of its work and potential benefits, as evidenced by the significant increase in the number of technical assistance requests in 2020 and 2021. However, adequate and sufficient financing for these mechanisms remains a challenge (see [FCCC/SBI/2022/INF.8](#)).

## IV. Conclusion

79. At the halfway mark of the 2030 Agenda for Sustainable Development, a series of global shocks have derailed progress on financing for development and exposed longstanding shortcomings in the international financing architecture. Policy options have been put forward across all action areas of the Addis Ababa Action Agenda to address the crisis and finance and enable an inclusive, sustainable and resilient recovery. But too few of them have found international consensus and been implemented to avert a severe setback in sustainable development prospects. Far from building back better, the international community has so far been unable to prevent the emergence of a deeply divided post-pandemic world – which has further undermined support for international cooperation.

80. In this challenging context, policymakers face the daunting task of containing short-term risks while advancing Sustainable Development Goals. Given that many of the current challenges are global by nature, national actions need to be complemented by a commensurate international response, underwritten by a renewed global partnership as envisaged in the financing for development outcomes and highlighted in the report of the Secretary-General entitled “Our Common Agenda”. Revisiting and updating this global partnership is an opportunity to address current challenges and support achievement of the Goals, while also rebuilding trust in multilateralism and the ability of the international community to find common solutions to common challenges.

81. The financing for development process brings together all Member States and other stakeholders to advance economic and financing policies that further sustainable development across economic and financial, social and environmental dimensions. The challenges of the moment, putting the Sustainable Development Goals in peril, merit the attention and focus of policymakers at the highest level.